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Application Proof of

TCMTech Inc. 問 止 中 醫 科 技

(the “**Company**”)

(Incorporated in the Cayman Islands with limited liability)

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IMPORTANT

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TCM**Tech Inc.** 問 止 中 醫 科 技

(Incorporated in the Cayman Islands with limited liability)

[REDACTED]

Number of [REDACTED] under the : [REDACTED] Shares (subject to the
[REDACTED] [REDACTED])
Number of [REDACTED] : [REDACTED] Shares (subject to adjustment)
Number of [REDACTED] : [REDACTED] Shares (subject to adjustment and
the [REDACTED])
Maximum [REDACTED] : [REDACTED] per [REDACTED], plus
brokerage of 1.0%, SFC transaction levy of
0.0027%, Stock Exchange trading fee of
0.00565% and AFRC transaction levy of
0.00015% (payable in full on application in
Hong Kong dollars and subject to refund)
Nominal value : US\$0.0001 per Share
[REDACTED] : [REDACTED]

Sole Sponsor, [REDACTED]



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The [REDACTED] is expected to be determined by agreement between the [REDACTED] (on behalf of the [REDACTED]) and our Company on or about [REDACTED] and, in any event, not later than 12:00 noon on [REDACTED]. The [REDACTED] will be not more than [REDACTED] per [REDACTED] and is currently expected to be not less than [REDACTED] per [REDACTED], unless otherwise announced. Investors applying for the [REDACTED] may be required to pay, on application (subject to application channels), the maximum [REDACTED] of [REDACTED] per [REDACTED], together with brokerage of 1.0%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015%, subject to refund if the [REDACTED] is less than [REDACTED] per [REDACTED]. If, for any reason, the [REDACTED] is not agreed between our Company and the [REDACTED] (on behalf of the [REDACTED]) on or before 12:00 noon on [REDACTED] (Hong Kong time), the [REDACTED] (including the [REDACTED]) will not proceed and will lapse.

The [REDACTED] (on behalf of the [REDACTED]), may, where considered appropriate and with the consent of our Company, reduce the indicative [REDACTED] range below that is stated in this document (being [REDACTED] per [REDACTED] to [REDACTED] per [REDACTED]) and/or reduce the number of [REDACTED] being offered pursuant to the [REDACTED] at any time on or prior to the morning of the last day for lodging applications under the [REDACTED]. In such case, notices of the reduction of the indicative [REDACTED] range and/or the number of [REDACTED] will be published on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.techcm.com as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the [REDACTED]. For further details, please refer to the sections headed “Structure of the [REDACTED]” and “How to Apply for [REDACTED]” in this document.

Prior to making an [REDACTED] decision, prospective [REDACTED] should consider carefully all of the information set out in this document, including the risk factors set out in “Risk Factors.” The obligations of the [REDACTED] under the [REDACTED] are subject to termination by the [REDACTED] (on behalf of the [REDACTED]) if certain events occur prior to 8:00 a.m. on the [REDACTED]. Please refer to the section headed “[REDACTED]” in this document.

The [REDACTED] have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be [REDACTED] or sold in the United States, or to or for the account or benefit of any U.S. person (as defined in [REDACTED]), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The [REDACTED] are being [REDACTED] and sold in the United States and to U.S. persons in reliance on [REDACTED], or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act, only to [REDACTED]. The [REDACTED] may be [REDACTED], sold or delivered outside the United States to non-U.S. persons in offshore transactions in reliance on [REDACTED].

[REDACTED]

[REDACTED]

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EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

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EXPECTED TIMETABLE⁽¹⁾

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EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

CONTENTS

IMPORTANT NOTICE TO [REDACTED]

This document is issued by TCMTech Inc. solely in connection with the [REDACTED] and the [REDACTED] and does not constitute an [REDACTED] to sell or a solicitation of an [REDACTED] to buy any security other than the [REDACTED] by this document pursuant to the [REDACTED]. This document may not be used for the purpose of, and does not constitute, an [REDACTED] or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a [REDACTED] of the [REDACTED] in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this document in any jurisdiction other than Hong Kong. The distribution of this document and the [REDACTED] of the [REDACTED] in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

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SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full document. You should read the whole document before you decide to invest in the [REDACTED].

There are risks associated with any investment. Some of the particular risks in investing in the [REDACTED] are set forth in “Risk Factors.” You should read that section carefully before you decide to invest in the [REDACTED].

OUR MISSION

To innovate TCM through technologies and prioritize curative effect.

OUR VISION

To cure terminal, severe and complex medical conditions through TCM.

OVERVIEW

We are the largest AI-empowered TCM healthcare service provider in mainland China in terms of AI-empowered revenue in 2023, according to the CIC Report. According to the same source, we are the only AI-empowered TCM healthcare service provider that has commercialized its proprietary technologies on a large scale. We have also achieved the highest year-on-year growth in revenue in 2023 among 2023’s top five AI-empowered TCM healthcare service providers in mainland China.

We have independently developed the TCM Brain (中醫大腦), an AI-assisted TCM clinical decision support system, equipped with the largest clinical knowledge graph in the TCM healthcare service industry globally. Our TCM Brain is the first and only AI-assisted TCM clinical decision support system that has passed clinical consistency studies at a Class III Grade A hospital in mainland China as well as the expert assessment of the Institute of Information on Traditional Chinese Medicine under the China Academy of Chinese Medical Sciences as of the Latest Practicable Date, according to the CIC Report. Our TCM Brain is the core of our clinical consultation and prescription process. We specialize in the treatment of cancer and severe conditions as well as difficult and complex conditions while maintaining a strong foundation in general practice. With our proprietary TCM Brain as the technical foundation, we are committed to harnessing AI to improve the outcome of TCM treatment, break through the bottleneck on the treatment of cancer and severe conditions, address difficult and complex conditions, and revitalize TCM.

We founded Jingyi Academy (精一書院), the largest TCM community globally in terms of the cumulative number of registered community members as of September 30, 2024, according to the CIC Report, which has been attracting both TCM practitioners and enthusiasts through the sharing of a wealth of TCM knowledge, including ancient and modern TCM classics and our original TCM content. It not only promotes TCM culture but also enhances our brand awareness and market position.

SUMMARY

OUR BUSINESSES

We have developed a comprehensive TCM business model that addresses our customers’ full range of needs from illness treatments, health maintenance, to learning and practicing TCM. During the Track Record Period, we generated revenue from (i) TCM healthcare services, (ii) TCM lifestyle products, including a variety of TCM healthcare products, online recorded courses and books, and (iii) TCM Brain subscription services.

TCM healthcare services. We primarily generate our revenue from TCM healthcare services, which encompass a full range of TCM consultation, prescription, treatment and follow-up services provided through our online platform and offline clinics. We also offer high-quality decoction services through our self-operated decoction centers. To maintain service quality and management efficiency, all of our physicians are full-time employees. We have strategically structured our TCM healthcare services into three practices, namely (i) cancer and severe conditions, (ii) difficult and complex conditions and (iii) general practice. As of September 30, 2024, we had formulated effective treatment plans for more than 3,000 types of medical conditions and symptoms, and accumulated over one million real-world clinical cases. All of these real-world clinical cases are annotated with data of follow-up queries.

TCM lifestyle products. We offer TCM healthcare products such as edible herbal powder products and herbal personal care products under our Wenzhi Qingyang (問止輕養) brand. We also offer online recorded courses under our “Dr. Lin’s Mini Courses” (大醫小課) channel and a series of TCM publications. Our aim is to attract and engage a broader audience and enhance our market presence through offering compelling and practical TCM-related knowledge. According to the CIC Survey, approximately 70.0% of the respondents had purchased either our TCM healthcare products or our online recorded TCM courses, whereas approximately 25.0% of the respondents had purchased both.

TCM Brain subscription services. We offer a subscription-based version of our proprietary TCM Brain under our Wenzhi AI Alliance (問止AI聯盟) initiative to various customers including individual practitioners, medical institutions and other corporate customers. We believe our TCM Brain subscription services have the potential of encouraging the adoption of AI in the TCM healthcare service industry.

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SUMMARY

The following table sets forth a breakdown of our revenue, in absolute amounts and as percentages of total revenue, for the periods indicated.

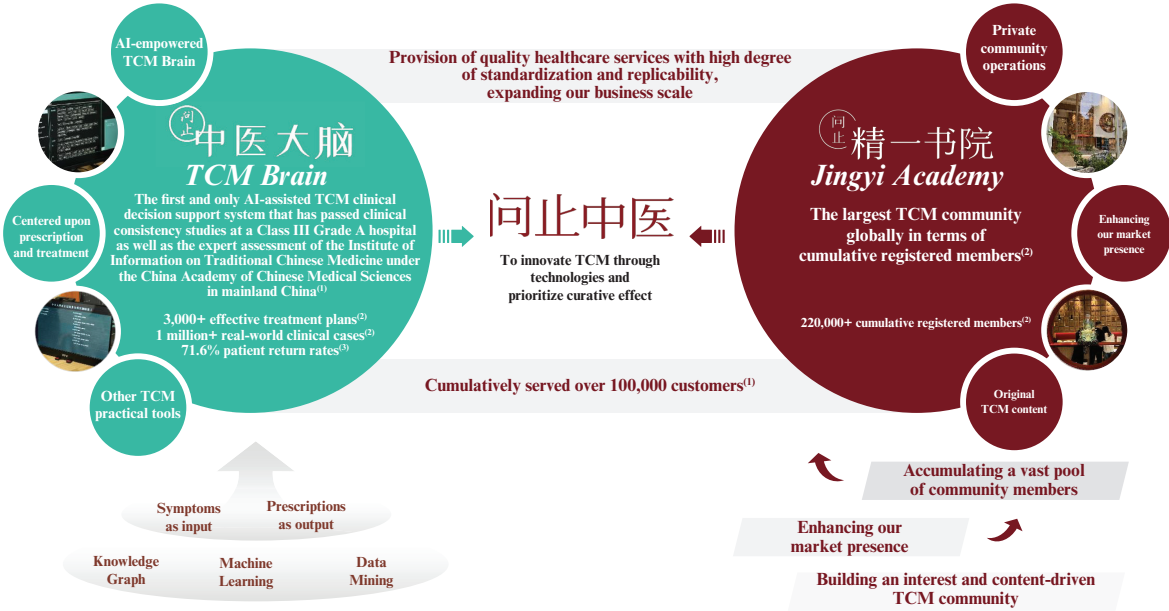
	Year ended December 31,				Nine months ended September 30,			
	2022	2023	2023	2024	2023	2024	2023	2024
	<i>(RMB in thousands, except for percentages)</i>							
					<i>(unaudited)</i>			
TCM healthcare services	50,421	81.1	167,247	88.5	115,413	89.2	154,906	89.4
TCM lifestyle products	6,062	9.8	13,598	7.2	8,259	6.4	10,324	6.0
TCM Brain subscription services	5,686	9.1	8,153	4.3	5,707	4.4	7,908	4.6
Total	62,169	100.0	188,998	100.0	129,380	100.0	173,138	100.0

Our Business Pillars

According to the CIC Report, the TCM healthcare service industry in mainland China is highly fragmented. While there is huge potential for development and integration, there are pain points on both the supply and demand sides. On the supply side, TCM healthcare services highly depend on scarce highly skilled and experienced TCM physicians. According to the CIC Report, there were only approximately 700,000 licensed TCM physicians in mainland China in 2023, amongst whom less than 5% were senior TCM physicians. This is markedly insufficient to meet the massive demand. In addition, the remuneration of TCM physicians generally accounts for a large proportion of total costs of TCM medical institutions. On the demand side, patients are generally geographically dispersed with limited awareness of the benefits of TCM. As a result, TCM healthcare service providers often face high customer acquisition costs and low treatment adherence. Therefore, it is crucial to have a customer acquisition channel centered upon building customers’ awareness and trust towards TCM.

SUMMARY

Our two business pillars, namely TCM Brain and Jingyi Academy, address the pain points on both supply and demand sides as illustrated in the diagram below:



Notes:

- (1) As of the Latest Practicable Date.
- (2) As of September 30, 2024.
- (3) For the nine months ended September 30, 2024.

Our TCM Healthcare Service Network

We have established an extensive TCM healthcare service network integrating both online and offline service channels, which are complementary to each other. The synergies of our online and offline TCM healthcare solutions allow us to deliver high-quality healthcare services and optimal customer experience to a broad customer base. As of the Latest Practicable Date, we operated eight offline physical clinics (including one outpatient department) in Shenzhen, Guangzhou, Xiamen, Chengdu, Zhengzhou, Changsha and Jinan and three decoction centers in Shenzhen, Chengdu and Jinan. Through our integrated online and offline network, we have extended our reach to customers located in 339 cities nationwide as of September 30, 2024. For more details, please see the section headed “Business — Integrated TCM Healthcare Service Network.”

SUMMARY

The following table sets forth a summary of our online and offline TCM healthcare services during the Track Record Period:

	Year ended December 31,		Nine months ended September 30,	
	2022	2023	2023	2024
	%	%	%	%
			<i>(unaudited)</i>	<i>(unaudited)</i>
<i>Revenue (RMB'000)</i>				
Online	47,289	93.8	154,687	92.5
Offline	3,132	6.2	12,560	7.5
Total	<u>50,421</u>	<u>100.0</u>	<u>167,247</u>	<u>100.0</u>
<i>Patient visits</i>				
Online	57,987	94.1	166,687	93.0
Offline	3,659	5.9	12,522	7.0
Total	<u>61,646</u>	<u>100.0</u>	<u>179,209</u>	<u>100.0</u>

Our Financial Performance

We experienced significant revenue growth during the Track Record Period. Our revenue increased by 204.0% from RMB62.2 million in 2022 to RMB189.0 million in 2023, and increased by 33.8% from RMB129.4 million for the nine months ended September 30, 2023 to RMB173.1 million for the nine months ended September 30, 2024. Our adjusted net profit (*non-HKFRS measure*) increased by 735.2% from RMB5.2 million in 2022 to RMB43.0 million in 2023, and increased by 137.4% from RMB20.9 million for the nine months ended September 30, 2023 to RMB49.5 million for the nine months ended September 30, 2024. See “Financial Information — Summary of Results of Operations During the Track Record Period — Non-HKFRS Measure” for details.

OUR STRENGTHS

We believe that the following competitive strengths contribute to our success and differentiate us from our competitors.

- Largest AI-empowered TCM healthcare services provider in mainland China
- Proprietary AI-empowered TCM Brain advancing TCM through technological innovation
- Comprehensive and high-quality TCM healthcare services satisfying customers’ healthcare needs
- Vibrant TCM community bolstering our brand recognition
- High-quality full-time physicians with a reliable physician supply

SUMMARY

- Stringent and standardized quality control procedures
- Visionary and experienced management team and strong shareholder support

OUR STRATEGIES

To achieve our mission, we plan to adopt the following strategies.

- To invest in upgrading and optimizing our AI systems and the recruitment and training of technical talents
- To strengthen the quality of our TCM healthcare services and expand the scope of applicable scenarios
- To further develop Jingyi Academy
- To strengthen our supply chain, expand our decoction centers and explore the development of in-house preparations
- To raise our brand awareness and industry influence
- To expand into high-value overseas markets

OUR SUPPLIERS AND CUSTOMERS

Our suppliers primarily comprise suppliers of decocting pieces, logistics and delivery services, advertisements, and software services. For the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2024, respectively, purchases from our five largest suppliers amounted to RMB11.3 million, RMB38.6 million and RMB34.8 million, respectively, representing 48.6%, 60.0% and 56.9%, respectively, of our total purchases for the respective periods. For the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2024, purchases from our largest supplier amounted to RMB3.1 million, RMB14.0 million and RMB10.8 million, respectively, representing 13.2%, 21.8% and 17.7%, respectively, of our total purchases for the respective periods.

We have a broad base of customers, and we believe that we do not have customer concentration risks. Our five largest customers, which include patients of our TCM healthcare services and customers of our TCM Brain subscription services, accounted for 0.5%, 0.2%, and 0.3% of our total revenue for 2022, 2023, and the nine months ended September 30, 2024, respectively.

PRICING AND PAYMENT

During the Track Record Period, we generated the majority of our revenue from TCM healthcare services.

SUMMARY

Since our clinics are private for-profit medical institutions and none are Medical Insurance Designated Medical Institutions, we are generally entitled to set the prices of our healthcare solutions and products at our own discretion. We price our TCM healthcare services based on a number of factors, including the severity of the patient’s condition, the complexity of the treatment, the operating costs, the costs of decocting pieces, and the pricing of similar services from our competitors. For details, see “Business — Pricing and payment.”

RISK FACTORS

Our operations and the [REDACTED] involve certain risks and uncertainties, which are set out in the section headed “Risk Factors.” You should read that section in its entirety carefully before you decide to [REDACTED] in our Shares. Some of the major risks we face include:

- We operate in a heavily regulated industry and are subject to extensive regulatory requirements
- Changes in the regulatory regime for the healthcare service industry in mainland China, particularly changes in healthcare reform policies, could materially affect our business operations and future expansion
- Our business is closely tied to the acceptance of TCM healthcare offerings in mainland China, which may fluctuate overtime, and our business, results of operations and financial condition may be materially affected as a result
- Any negative publicity about us, our clinics or the healthcare service industry could harm the reputation of us or our clinics and trust in the services provided by us, which could result in a material and adverse impact on our business and prospects

OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders include Mr. Cui and his wholly-owned company TCMTech Holdings.

As of the Latest Practicable Date, Mr. Cui, through his wholly-owned company TCMTech Holdings, held approximately 43.41% of the issued share capital of our Company. In addition, pursuant to an agreement dated September 7, 2018 and a supplemental clarification agreement dated November 19, 2024 entered into between Mr. Cui and Dr. Chang Nan-Hsig, Mr. Cui and TCMTech Holdings were entitled to control the exercise of the voting rights of the Shares held by TCMInnov (an investment holding vehicle wholly owned by Dr. Chang Nan-Hsig), representing approximately 0.19% of the issued share capital of our Company as of the Latest Practicable Date. For details, see “History, Reorganization and Corporate Structure — History and Development of Our Company and Our Major Subsidiaries — Voting Proxy Arrangement.” As such, as of the Latest Practicable Date, Mr. Cui, through TCMTech Holdings, was entitled to control the exercise of approximately 43.60% of the voting rights at the general meeting in our Company.

SUMMARY

Immediately following the completion of the [REDACTED] (without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED]), Mr. Cui, through TCMTech Holdings, will be entitled to control the exercise in general meetings voting rights attached to Shares representing approximately [REDACTED] of the enlarged share capital of our Company. Accordingly, Mr. Cui and TCMTech Holdings will continue to be our Controlling Shareholders under the Listing Rules.

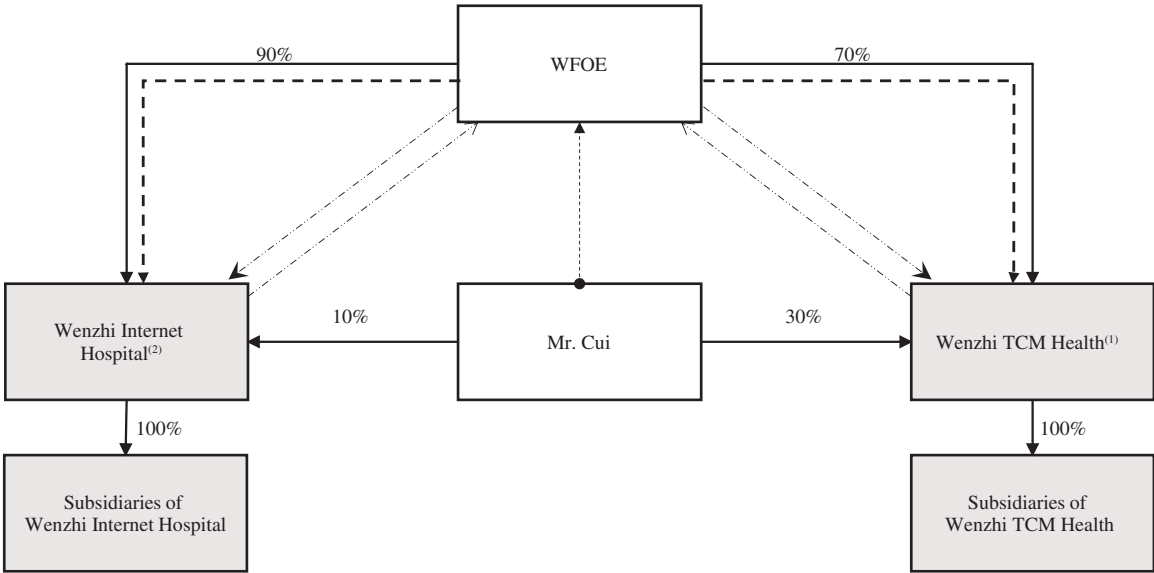
For details of Mr. Cui, see “Directors and Senior Management — Directors.”

[REDACTED] INVESTMENTS

Since our incorporation, we have obtained several rounds of investments from certain [REDACTED] Investors to raise funds for our business development. For details on the principal terms of the [REDACTED] Investments and the background of our [REDACTED] Investors, see “History, Reorganization and Corporate Structure — [REDACTED] Investments.”

CONTRACTUAL ARRANGEMENTS

We have entered into a series of Contractual Arrangements with Wenzhi Internet Hospital, Wenzhi TCM Health and Mr. Cui. Through our shareholdings and the Contractual Arrangements, our Company is able to obtain substantially all economic benefits of the business and operations of the Medical Institution Subsidiaries. The following simplified diagram illustrates the flow of economic benefits from our Medical Institution Subsidiaries to our Group stipulated under the Contractual Arrangements:



Notes:

- (1) As of the Latest Practicable Date, WFOE and Mr. Cui held 70% and 30% equity interest in Wenzhi TCM Health, respectively. Mr. Cui is our Controlling Shareholder, the chairman of our Board, an executive Director and the chief executive officer of our Company.

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SUMMARY

- (2) As of the Latest Practicable Date, WFOE and Mr. Cui held 90% and 10% equity interest in Wenzhi Internet Hospital, respectively. Mr. Cui is our Controlling Shareholder, the chairman of our Board, an executive Director and the chief executive officer of our Company.
- (3) “ \longrightarrow ” denotes direct legal and beneficial ownership in the equity interest.
- (4) “ \dashrightarrow ” denotes contractual relationship.
- (5) “ \dashrightarrow ” denotes provision of operation services.
- (6) “ \dashrightarrow ” denotes payment of service fees.
- (7) “ $\bullet\rightarrow$ ” denotes granting control over Wenzhi TCM and Wenzhi Internet Hospital to WFOE.
- (8) “ \square ” denotes the Medical Institution Subsidiaries.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth summary financial data from our consolidated financial information for the Track Record Period, extracted from the Accountants’ Report as set out in Appendix IA and the unaudited interim condensed consolidated financial information for nine months ended September 30, 2024 as set out in Appendix IB.

Summary of Consolidated Statements of Profit or Loss and Other Comprehensive Income Items

	<u>Year ended December 31,</u>		<u>Nine months ended</u>	
	<u>2022</u>	<u>2023</u>	<u>2023</u>	<u>2024</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			<i>(unaudited)</i>	<i>(unaudited)</i>
Revenue	62,169	188,998	129,380	173,138
Cost of sales	<u>(27,190)</u>	<u>(76,035)</u>	<u>(54,511)</u>	<u>(68,023)</u>
Gross profit	34,979	112,963	74,869	105,115
Other income and gains	1,501	2,286	1,412	2,574
Selling expenses	(8,725)	(25,140)	(24,255)	(18,523)
Administrative expenses	(20,176)	(26,132)	(18,435)	(24,139)
Research and development expenses	(5,394)	(9,037)	(7,249)	(8,399)
Fair value changes of convertible redeemable preference shares	(159,573)	(236,944)	(235,872)	(98,926)
Other expenses	(267)	(340)	(40)	(6,407)
Finance costs	<u>(488)</u>	<u>(1,192)</u>	<u>(876)</u>	<u>(1,072)</u>
Loss before tax	(158,143)	(183,536)	(210,446)	(49,777)
Income tax credit/(expense)	<u>3,722</u>	<u>(10,378)</u>	<u>(4,568)</u>	<u>(5,944)</u>
Loss for the year/period	(154,421)	(193,914)	(215,014)	(55,721)
Loss attributable to:				
Owners of the Company	<u>(154,421)</u>	<u>(193,914)</u>	<u>(215,014)</u>	<u>(55,721)</u>

SUMMARY

Non-HKFRS Measure

To supplement our historical financial information which are presented in accordance with HKFRS, we also use adjusted net profit (*non-HKFRS measure*) as an additional financial measure, which is unaudited in nature and is not required by, or presented in accordance with, HKFRS. We believe that this non-HKFRS measure facilitates comparison of operating performance from period to period by eliminating potential impacts of items that our management does not consider to be recurring in nature and indicative of our operating performance. We believe that this non-HKFRS measure provides useful information to investors in understanding and evaluating our results of operations in the same manner as it helps our management. However, our presentation of adjusted net profit (*non-HKFRS measure*) may not be comparable to similarly titled measures presented by other companies. The use of this non-HKFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under HKFRS.

We define adjusted net profit (*non-HKFRS measure*) as loss for the year/period adjusted by adding back (i) fair value changes of convertible redeemable preference shares and (ii) [REDACTED] expenses. We eliminate the potential impacts of these items that our management does not consider to be indicative of our core operating performance, as they are either non-operating or non-recurring expenses in accordance with the Listing Guide.

The following table sets forth the reconciliation of our loss for the year/period to our adjusted net profit (*non-HKFRS measure*) for the periods indicated:

	Year ended December 31,		Nine months ended	
	2022	2023	September 30,	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			<i>(unaudited)</i>	<i>(unaudited)</i>
Loss for the year/period	<u>(154,421)</u>	<u>(193,914)</u>	<u>(215,014)</u>	<u>(55,721)</u>
Add:				
Fair value changes of convertible redeemable preference shares	159,573	236,944	235,872	98,926
[REDACTED] expenses	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,302</u>
Adjusted net profit (<i>non-HKFRS measure</i>)	<u>5,152</u>	<u>43,030</u>	<u>20,858</u>	<u>49,507</u>

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SUMMARY

Gross Profit and Gross Profit Margin

The following table sets forth a breakdown of our gross profit and gross profit margins by business line for the periods indicated:

	Year ended December 31,				Nine months ended September 30,			
	2022		2023		2023		2024	
	Gross profit	Gross profit	Gross profit	Gross profit	Gross profit	Gross profit	Gross profit	
	margin	margin	margin	margin	margin	margin	margin	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
					<i>(unaudited)</i>		<i>(unaudited)</i>	
TCM healthcare services	25,533	50.6	97,236	58.1	64,735	56.1	91,998	59.4
TCM lifestyle products	4,714	77.8	8,860	65.2	5,327	64.5	6,453	62.5
TCM Brain subscription services	4,732	83.2	6,867	84.2	4,807	84.2	6,664	84.3
Total	34,979	56.3	112,963	59.8	74,869	57.9	105,115	60.7

Summary of Consolidated Statements of Financial Position

	As of December 31,		As of
	2022	2023	September 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			<i>(unaudited)</i>
Total current assets	56,410	111,488	155,318
Total non-current assets	17,500	32,888	37,142
Total current liabilities	282,658	541,752	636,589
Total non-current liabilities	6,686	17,355	19,629
Total assets	73,910	144,376	192,460
Net current liabilities	(226,248)	(430,264)	(481,271)

We recorded net current liabilities as of December 31, 2022 and 2023 and September 30, 2024. For details, see “Financial Information — Net Current Liabilities” and “Risk Factors — Risks Relating to Our Industry and Business — We recorded net liabilities and net current liabilities during the Track Record Period.”

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SUMMARY

Summary of Consolidated Statements of Cash Flows

The following table sets forth a summary of our cash flows for the periods indicated:

	Year ended December 31,		Nine months ended	
	2022	2023	September 30,	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			<i>(unaudited)</i>	<i>(unaudited)</i>
Net cash flows from operating activities	5,387	62,049	34,465	48,977
Net cash flows (used in)/from investing activities	(5,439)	(77,208)	(46,290)	41,489
Net cash flows from/(used in) financing activities	<u>26,209</u>	<u>(7,360)</u>	<u>(5,078)</u>	<u>(7,880)</u>
Net increase/(decrease) in cash and cash equivalents	26,157	(22,519)	(16,903)	82,586
Cash and cash equivalents at beginning of the year/period	10,467	36,767	36,767	14,286
Effect of foreign exchange rate changes, net	<u>143</u>	<u>38</u>	<u>70</u>	<u>1</u>
Cash and cash equivalents at end of year/period	<u>36,767</u>	<u>14,286</u>	<u>19,934</u>	<u>96,873</u>

Please see “Financial Information — Liquidity and Capital Resources” for details of our cash flows.

SUMMARY

Key Financial Ratios

The following table sets forth our key financial ratios as of the dates indicated:

	<u>Year ended/As of December 31,</u>		<u>Nine months ended/As of September 30,</u>
	<u>2022</u>	<u>2023</u>	<u>2024</u>
Profitability ratios			
Revenue growth rate (%)	N/A	204.0	33.8
Return on assets (%)	N/A	N/A	N/A
Adjusted return on assets (%)	N/A	39.4	39.7
Liquidity ratios			
Current ratio (times)	0.2	0.2	0.2
Quick ratio (times)	0.2	0.2	0.2
Capital adequacy ratio			
Gearing ratio (%)	N/A	N/A	N/A

Please see “Financial Information — Key Financial Ratios” for descriptions of the calculation of the above ratios.

COMPETITION

We believe that our business model is distinctive and our TCM healthcare services empowered by the TCM Brain are pioneering in the TCM healthcare service industry in mainland China. According to the CIC Report, the AI-empowered TCM healthcare service market is highly fragmented and rapidly evolving with the top five market participants accounting for 5.4% market share in 2023. According to the CIC Report, as of December 31, 2023, there were in total over 12.6 thousand AI-empowered TCM healthcare service providers in mainland China and we ranked first in terms of AI-empowered revenue with a market share of 1.5%. We primarily compete with public and private TCM hospitals, TCM outpatient departments, TCM clinics and other TCM healthcare service providers. See “Industry Overview” for a more detailed discussion regarding the industry and markets where we operate.

LEGAL PROCEEDINGS AND COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, we had not been and were not a party to any material legal, arbitral or administrative proceedings, and we were not aware of any pending or threatened legal, arbitral or administrative proceedings against us or our Directors that could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

Due to the subjective nature of healthcare services, we occasionally encounter medical disputes brought by our patients against us. During the Track Record Period, we did not experience any medical disputes that could cause a material adverse effect on our business, financial condition or results of operations. See “Business — Legal Proceedings and Compliance — Medical Disputes.”

SUMMARY

During the Track Record Period and up to the Latest Practicable Date, none of our physicians were involved in any disciplinary proceedings or otherwise determined to be liable for medical incidents. As of the Latest Practicable Date, we did not have any unsolved medical dispute that could have a material and adverse effect on our business, financial condition or result of operations.

During the Track Record Period and up to the Latest Practicable Date, we had not been and were not involved in any material non-compliance incidents that have led to fines, enforcement actions or other penalties that could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

DIVIDENDS

No dividend had been paid or declared by our Company during the Track Record Period. Going forward, we may distribute dividends by way of cash or by other means that we consider appropriate.

Under Cayman Islands law, our Company may pay a dividend out of either our profits (realized or unrealized) or out of our share premium account, provided that this would not result in our Company being unable to pay our debts as they fall due in the ordinary course of business. The declaration and payment of any dividends in the future will be determined by our Board and subject to our Articles of Association and the Cayman Companies Act, and will depend on a number of factors, including our earnings, capital requirements, financial condition, statutory and contractual restrictions applying to the payment of dividends, future business development strategies and estimates and other factors that our Board deems relevant. In addition, any final dividends for a financial year will be subject to the Shareholders' approval. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distributions.

As of the Latest Practicable Date, we did not have any specific dividend policy nor any pre-determined dividend payout ratio.

[REDACTED]

We estimate that we will receive net [REDACTED] from the [REDACTED] of approximately [REDACTED], after deducting [REDACTED] fees and commissions and other estimated expenses paid and payable by us in relation to the [REDACTED], assuming an [REDACTED] of [REDACTED] per Share, being the mid-point of the [REDACTED] range from [REDACTED] to [REDACTED] per Share, and that the [REDACTED] is not exercised.

SUMMARY

We currently intend to use these net [REDACTED] for the purposes and in the amounts set forth below:

Approximately HK\$ in [REDACTED]	Percentage of Net [REDACTED]	Future Plans
[REDACTED]	[REDACTED]	For expanding our online and offline TCM healthcare service network, and expanding the scope of applicable scenarios
[REDACTED]	[REDACTED]	For strengthening our supply chain capabilities, expanding our decoction centers and exploring the development of in-house preparations
[REDACTED]	[REDACTED]	For advancing our existing AI-empowered TCM software as well as strengthening our technological capabilities
[REDACTED]	[REDACTED]	For the continuous development of Jingyi Academy
[REDACTED]	[REDACTED]	For raising our brand awareness and industry influence
[REDACTED]	[REDACTED]	For expanding our business into overseas markets
[REDACTED]	[REDACTED]	For working capital and general corporate purposes

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Recent Development

On December 1, 2024, we expanded our offline presence by opening our eighth clinic in Jinan, Shandong Province.

In October 2024, we were shortlisted in the 2024 Software Industry Quality Development Support Program (First Batch) Proposed Funding Project (2024年軟件產業高質量發展扶持計劃(第一批)擬資助項目) and awarded approximately RMB1.0 million by the Industry and Information Technology Bureau of Shenzhen Municipality. Furthermore, we were recognized in the ninth “Guangdong Famous Brands” selected brands (第九批「廣東知名品牌」入選品牌) by the Guangdong Enterprise Brand Construction Promotion Association, Guangdong Famous Brand Evaluation Committee (廣東省企業品牌建設促進會廣東知名品牌評價專業委員會) on December 28, 2024. Our subsidiaries, Wenzhi TCM Health and Wenzhi Technology, were shortlisted as Specialized and Innovative Small and Medium-sized Enterprises in Shenzhen (深圳市專精特新中小企業) on December 30, 2024.

No Material Adverse Change

After due and careful consideration, our Directors confirm that, as of the date of this document, there has been [no] material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since September 30, 2024, being the end of the Track Record Period, and there is no event since

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SUMMARY

September 30, 2024 which would materially affect the information shown in the Accountants’ Report as set out in Appendix IA and the unaudited interim condensed consolidated financial information for nine months ended September 30, 2024 as set out in Appendix IB.

[REDACTED] STATISTICS

	Based on the [REDACTED] of [REDACTED] per Share	Based on an [REDACTED] of [REDACTED] per Share
Market capitalization of our Shares immediately after completion of the [REDACTED] ⁽¹⁾	[REDACTED]	[REDACTED]
Unaudited [REDACTED] adjusted consolidated net tangible assets per Share ⁽²⁾	[REDACTED]	[REDACTED]

Notes:

- (1) The calculation of market capitalization is based on [REDACTED] Shares expected to be in issue immediately upon completion of the [REDACTED] (assuming the [REDACTED] is not exercised).
- (2) The unaudited [REDACTED] adjusted consolidated net tangible assets per Share is calculated after making the adjustments referred to in the section headed “Appendix II — Unaudited [REDACTED] Financial Information” in this document.

[REDACTED] EXPENSES

[REDACTED] expenses to be borne by us are estimated to be approximately [REDACTED] or [REDACTED] of the gross [REDACTED] of the [REDACTED] (assuming an [REDACTED] of [REDACTED] per Share, being the mid-point of the indicative [REDACTED] range, without taking into account the [REDACTED]), including (i) [REDACTED] commission of approximately [REDACTED], and (ii) non-[REDACTED] related expenses of approximately [REDACTED] which consist of (a) fees and expenses of legal advisors and the Reporting Accountants of approximately [REDACTED] and (b) other fees and expenses of approximately [REDACTED]. Approximately [REDACTED] of our [REDACTED] expenses is expected to be charged to our consolidated statements of profit or loss and other comprehensive income and approximately [REDACTED] is expected to be accounted for as a deduction from equity upon [REDACTED] under the relevant accounting standard. The [REDACTED] expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

DEFINITIONS

In this document, unless the context otherwise requires, the following terms shall have the meanings set out below.

“2018 ESOP”	the employee stock option plan adopted by our Company on September 7, 2018
“AFRC”	Accounting and Financial Reporting Council of Hong Kong
“Articles of Association”	the amended and restated memorandum and articles of association to be adopted by our Company, with effect upon [REDACTED] and as amended from time to time, a summary of which is set out in the section headed “Appendix III — Summary of the Constitution of Our Company and Cayman Islands Company Law” to this document
“Beijing TECHTCM” or “WFOE”	Beijing TECHTCM Information Technology Co. Ltd. (北京小成岐黃信息技術有限公司), a limited liability company established in the PRC on August 16, 2018 and a wholly owned subsidiary of our Company
“Board”	our board of Directors
“Bozhou Wenzhi”	Bozhou Wenzhi TCM Clinic Co., Ltd. (亳州問止中醫診所有限公司), a limited liability company established in the PRC on September 3, 2024 and one of our subsidiaries
“Business Day”	a day on which banks in Hong Kong are generally open for normal business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	the British Virgin Islands
[REDACTED]	[REDACTED]
“Cayman Companies Act” or “Companies Act”	the Companies Act (Revised) of the Cayman Islands, as amended, supplemented or re-enacted from time to time
[REDACTED]	[REDACTED]
“Changsha Wenzhi”	Changsha Furong District Wenzhi Traditional Chinese Medicine Clinic Co., Ltd. (長沙芙蓉區問止中醫門診有限公司), a limited liability company established in the PRC on November 8, 2023 and one of our subsidiaries

DEFINITIONS

“China” or “PRC”	the People’s Republic of China
“CIC Report”	the independent industry report prepared by China Insights Industry Consultancy Limited
“CIC Survey”	a commissioned customer survey conducted by China Insights Industry Consultancy Limited, to better understand, among other things, patient satisfaction and the user friendliness of TCM Brain. For details on the respondents to the survey, see “Industry Overview.”
“co-founders”	co-founders of our Group, namely, Mr. Cui, Dr. Lin and Dr. Chang Nan-Hsig (張南雄)
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	TCMTech Inc. (問止中醫科技), an exempted company incorporated in the Cayman Islands with limited liability on June 19, 2018
“Contractual Arrangements”	the two series of contractual arrangements entered into by and among WFOE, Mr. Cui, each of Wenzhi TCM Health and Wenzhi Internet Hospital, respectively, details of which are described in the section headed “Contractual Arrangements”
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and, unless the context otherwise requires, refers to Mr. Cui and TCMTech Holdings
“COVID-19”	an infectious disease caused by the SARS-CoV-2 virus
“CSRC”	the China Securities Regulatory Commission of the PRC (中國證券監督管理委員會)
“Dayi Xiaoke”	Shenzhen Dayi Xiaoke Culture Communication Co., Ltd. (深圳大醫小課文化傳播有限公司), a limited liability company established in the PRC on January 23, 2024 and one of our subsidiaries
“Director(s)”	the director(s) of our Company
“Dr. Lin”	Dr. Lin Ta-Tung (林大棟), our co-founder and the chief medical officer of our Group
“EIT”	enterprise income tax

DEFINITIONS

“EIT Law”	the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法)
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“Group”, “our Group”, “we”, “our” or “us”	our Company and its subsidiaries from time to time, or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time or the business operated by such subsidiaries or their predecessors (as the case may be)
“Guangzhou Wenzhi”	Guangzhou Wenzhi TCM Outpatient Department Co., Ltd. (廣州問止中醫門診部有限公司), a limited liability company established in the PRC on March 27, 2020 and one of our subsidiaries
“HK” or “Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“HK\$” or “HKD” or “Hong Kong Dollars”	Hong Kong dollars, the lawful currency of Hong Kong
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

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DEFINITIONS

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“Independent Third Party(ies)”	person(s) or company(ies), who/which, to the best of our Directors’ knowledge, information and belief, having made all reasonable enquiries, is/are not our connected persons within the meaning of the Listing Rules
[REDACTED]	[REDACTED]

DEFINITIONS

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“Jinan Wenzhi”	Jinan Wenzhi Chuyue Traditional Chinese Medicine Clinic Co., Ltd. (濟南問止初月中醫診所有限公司), a limited liability company established in the PRC on April 8, 2024 and one of our subsidiaries
“Juli Fund”	Juli Limited Partnership Fund (聚利有限合夥基金), a limited partnership fund registered in Hong Kong on September 13, 2024 and one of our [REDACTED] Investors
“Lanchi Ventures”	BRV Aster Fund II, L.P., an exempted limited partnership registered in the Cayman Islands on February 29, 2016 and one of our [REDACTED] Investors
“Latest Practicable Date”	January 1, 2025, being the date before the publication of this document for the purpose of ascertaining certain information contained in this document
“LCV Pioneer Fund”	LCV Pioneer Fund, L.P., an exempted limited partnership registered in the Cayman Islands on May 2, 2024 and one of our [REDACTED] Investors
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented or otherwise modified from time to time
“Main Board”	the stock market (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with the GEM of the Hong Kong Stock Exchange
“mainland China”	the People’s Republic of China excluding Hong Kong, Macau Special Administrative Region and Taiwan
[REDACTED]	[REDACTED]
“Medical Institution Subsidiaries”	Wenzhi TCM Health, Wenzhi Internet Hospital and their respective wholly owned subsidiaries and/or branch companies
[REDACTED]	[REDACTED]
“MHRSS”	Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Cui”	Mr. Cui Xiangrui (崔祥瑞), our co-founder, executive Director, chairman of our Board, chief executive officer and one of our Controlling Shareholders
“NATCM”	National Administration of Traditional Chinese Medicine (國家中醫藥管理局)
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Negative List”	the Special Management Measures (Negative List) for the Access of Foreign Investment (2024 Version) (外商投資准入特別管理措施(負面清單)(2024年版)), which was jointly promulgated by the NDRC and the MOFCOM on September 6, 2024 and came into effect on November 1, 2024
“NHC”	National Health Commission of the PRC (中華人民共和國國家衛生健康委員會)
“NHFPC”	National Health and Family Planning Commission of the PRC (中華人民共和國國家衛生和計劃生育委員會)

DEFINITIONS

“NMPA”	National Medical Products Administration (國家藥品監督管理局), formerly known as China Food and Drug Administration (“CFDA”) (國家食品藥品監督管理總局) or State Food and Drug Administration (“SFDA”) (國家食品藥品監督管理局) or China’s Drug Administration (“CDA”) (國家藥品監督管理局); references to NMPA include CFDA, SFDA and CDA
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“Ordinary Share(s)”	ordinary share(s) in the capital of our Company with a par value of US\$0.0001 each
[REDACTED]	[REDACTED]
“ParmaWay”	ParmaWay Investment Ltd., a BVI business company incorporated in the BVI with limited liability on November 21, 2016 and one of our [REDACTED] Investors
“PRC Company Law”	the Company Law of the People’s Republic of China (中華人民共和國公司法), as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“PRC Government”	the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them
“PRC Law”	the laws and regulations of the PRC, without reference to the laws and regulations of Hong Kong and Macao Special Administrative Region and the relevant regulations of Taiwan
“PRC Legal Advisor”	Han Kun Law Offices, our legal advisors as to PRC Law
“Preference Shares”	preference shares in the capital of our Company with a par value of US\$0.0001 each, including the Series A-1 Preference Shares, the Series A-2 Preference Shares, the Series A-3 Preference Shares, the Series A-4 Preference Shares and the Series [REDACTED] Preference Shares
“[REDACTED] Investments”	the investments in our Company undertaken by the [REDACTED] Investors, the details of which are set out in “History, Reorganization and Corporate Structure — [REDACTED] Investments”
“[REDACTED] Investor(s)”	holder(s) of Shares pursuant to the [REDACTED] Investments, the details of which are set out in “History, Reorganization and Corporation Structure — [REDACTED] Investments”
“Previous Contractual Arrangements”	the contractual arrangements entered into by and among Beijing TECHTCM, Xiaocheng Suwen and the registered shareholders of Xiaocheng Suwen, which were terminated on November 21, 2024 pursuant to the Reorganization
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“Reorganization”	the reorganization of our Group in preparation for the [REDACTED], details of which are set out in “History, Reorganization and Corporate Structure — Reorganization”

DEFINITIONS

“RMB” or “Renminbi”	the lawful currency of the PRC
[“Rule 144A”	Rule 144A under the U.S. Securities Act]
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAMR”, or formerly known as “SAIC”	the State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局), and formerly known as State Administration of Industry and Commerce of the PRC (中華人民共和國工商行政管理局)
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“Series A-1 Preference Shares”	series A-1 preference shares of par value of US\$0.0001 each in the capital of our Company
“Series A-2 Preference Shares”	series A-2 preference shares of par value of US\$0.0001 each in the capital of our Company
“Series A-3 Preference Shares”	series A-3 preference shares of par value of US\$0.0001 each in the capital of our Company
“Series A-4 Preference Shares”	series A-4 preference shares of par value of US\$0.0001 each in the capital of our Company
“Series [REDACTED] Preference Shares”	series [REDACTED] preference shares of par value of US\$0.0001 each in the capital of our Company
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
“Shareholder(s)”	holder(s) of Shares
“Shares”	Ordinary Shares and Preference Shares of our Company
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

DEFINITIONS

“Sole Sponsor”	the sole sponsor as named in the section headed “Directors and Parties Involved in the [REDACTED]” in this document
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“State Council”	the State Council of the PRC (中華人民共和國國務院)
[REDACTED]	[REDACTED]
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“TCMAI”	TCMAI Holdings Limited, a BVI business company incorporated in the BVI on May 16, 2024 and wholly owned by Dr. Lin
“TCMAlly”	TCMAlly Holdings Limited, a BVI business company incorporated in the BVI on May 29, 2024 and owned as to 97.24%, 1.38% and 1.38% by Mr. Chang Tsan-Hung (張燦宏), Mr. Wang Jen Ching (王人慶) and Mr. Yao Peng (姚鵬), our employees, respectively as of the Latest Practicable Date
“TCMInnov”	TCMInnov Holdings Limited, a BVI business company incorporated in the BVI on July 18, 2018 and wholly owned by Dr. Chang Nan-Hsig (張南雄), our co-founder and non-executive Director
“TCMTech HK”	TCMTech Limited, a company incorporated in Hong Kong with limited liability on July 10, 2018 and a wholly owned subsidiary of our Company
“TCMTech Holdings”	TCMTech Holdings Limited, a BVI business company incorporated in the BVI on June 12, 2018, which is wholly owned by Mr. Cui and one of our Controlling Shareholders
“Track Record Period”	the two financial years ended December 31, 2022 and 2023 and the nine months ended September 30, 2024
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, supplemented or otherwise modified from time to time, and the rules and regulations promulgated thereunder

DEFINITIONS

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“United States” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$”, “USD” or “U.S. dollars”	United States dollars, the lawful currency of the United States
“VAT”	value-added tax
“Wenzhi Baizhi”	Chengdu Jinniu Wenzhi Baizhi TCM Clinic Co., Ltd. (成都金牛問止白芷中醫診所有限公司), a limited liability company established in the PRC on July 11, 2023 and one of our subsidiaries
“Wenzhi Chuhui”	Shenzhen Wenzhi Chuhui TCM Clinic (深圳問止初慧中醫診所), a limited liability company established in the PRC on October 14, 2024 and one of our subsidiaries
“Wenzhi Internet Hospital”	Chengdu Wenjiang Wenzhi Internet Hospital Co., Ltd. (成都溫江問止互聯網醫院有限公司), a limited liability company established in the PRC on August 27, 2021 and one of our subsidiaries
“Wenzhi Qiuwei”	Chengdu Wenjiang Wenzhi Qiuwei TCM Clinic Co., Ltd. (成都溫江問止秋葦中醫診所有限公司), a limited liability company established in the PRC on March 12, 2024 and one of our subsidiaries
“Wenzhi TCM Health”	Shenzhen Wenzhi TCM Health Technology Co., Ltd. (深圳問止中醫健康科技有限公司), a limited liability company established in the PRC on March 21, 2019 and one of our subsidiaries
“Wenzhi Technology”	Shenzhen Wenzhi Technology Co., Ltd. (深圳問止科技有限公司), a limited liability company established in the PRC on September 26, 2021 and a wholly owned subsidiary of our Company
“Wenzhi Xinglin”	Chengdu Wenjiang Wenzhi Xinglin Chinese Medicinal Materials Processing Co., Ltd. (成都溫江問止杏林中藥材加工有限公司), a limited liability company established in the PRC on May 16, 2024 and one of our subsidiaries
“Xiamen Wenzhi”	Xiamen Siming Wenzhi Xuelian Traditional Chinese Medicine Clinic Co., Ltd. (廈門思明問止雪蓮中醫診所有限公司), a limited liability company established in the PRC on December 12, 2022 and one of our subsidiaries

DEFINITIONS

“Xianyang Wenzhi”	Xianyang Wenzhi Hecao Intelligent Technology Co., Ltd. (咸陽問止鶴草智能科技有限公司), a limited liability company established in the PRC on December 5, 2023 and one of our subsidiaries
“Xiaocheng Suwen”	Beijing Xiaocheng Suwen Information Technology Co., Ltd. (北京小成素問信息技術有限公司), a limited liability company established in the PRC on May 29, 2018 and was controlled by our Company through the Previous Contractual Arrangements until November 21, 2024
“ZhenFund”	Zhen Partners Fund V, L.P., an exempted limited partnership registered in the Cayman Islands on January 15, 2018 and one of our [REDACTED] Investors
“Zhengzhou Wenzhi”	Zhengzhou Wenzhi Traditional Chinese Medicine Clinic Co., Ltd. (鄭州問止中醫診所有限公司), a limited liability company established in the PRC on July 13, 2023 and one of our subsidiaries

In this document, the terms “associate”, “close associate”, “connected person”, “connected transaction”, “core connected person”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

If there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC mentioned in this document and their English translations, the Chinese names shall prevail. The English translations of the Chinese names of such PRC entities or enterprises are provided for identification purposes only.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this document in connection with us. These terms and their meanings may not correspond to standard industry meanings or usages of these terms.

“acupuncture”	a clinical method and technique that uses small needles to stick into patients’ meridian points to prevent and treat diseases
“AI”	artificial intelligence
“AI-assisted TCM clinical decision support system”	the system that integrates artificial intelligence technologies to enhance clinical decision-making in TCM practices
“ALS”	amyotrophic lateral sclerosis is a nervous system disease that affects nerve cells in the brain and spinal cord. ALS causes loss of muscle control
“CAGR”	compound annual growth rate
“Class III Grade A hospitals”	the highest tier of Class III hospitals which are largest regional hospitals in the PRC designated under the NHFPC hospital classification system. These facilities typically have more than 500 beds as general hospitals, providing high-quality professional healthcare services covering a wide geographic area and undertaking higher academic and scientific research initiatives. Class III hospitals are divided into A, B, and C grades, with Grade A representing the highest level of quality, management, and service delivery within this classification
“cerebral palsy”	a neurological disorder caused by a non-progressive brain injury or malformation that occurs while a child’s brain is under development. It primarily affects body movement and muscle coordination
“decocting pieces”	processed Chinese medicinal slices which can be used in prescribed formulas for preparing Chinese patent medicines or for making soups as a means of diet therapy
“decoction”	a method of extraction by boiling herbal or plant material to dissolve the chemicals of the medicinal materials, such as stems, roots, bark and rhizomes
“GFA”	gross floor area
“HIS”	hospital information system, a comprehensive, information system designed to manage a medical institution’s operation, such as patient information, patient visits, prescriptions, physicians’ notes and fee collections

GLOSSARY OF TECHNICAL TERMS

“in-house preparations”	pharmaceutical preparations of medical institutions (醫療機構製劑), which are fixed prescription preparations confected by medical institutions for their own use in light of the clinical needs after obtaining the registration number approval from local Medical Products Administration (藥品監督管理局). Such preparations are not commercialized in the market and can only be prescribed by medical institutions with the relevant registration and approval
“moxibustion”	a traditional Chinese medicine therapy which consists of burning a cone or stick made of ground mugwort leaves on particular points of the body to improve body condition
“National Senior TCM Expert Academic Experience Inheritance Instructor (全國老中醫藥專家學術經驗繼承工作指導老師)”	an honorary title certified by NATCM to TCM practitioners to promote TCM academic experience inheritance
“National TCM Great Master (國醫大師)”	experienced famous TCM physicians selected by MHRSS, NHFPC and NATCM
“patient return rate”	the proportion of the number of patients who attended our consultation for two or more times in a given period over the total number of patients in the same period
“senior TCM physician”	a physician who practices TCM and has the title of chief physician (主任醫師). For details, see “Industry Overview — TCM Healthcare Services: Long-run Growth Potential — Challenges in the TCM Healthcare Service Market”
“SKU(s)”	stock keeping unit(s), which is a unique code consisting of letters and numbers that identify each product and is used to identify and track inventory or stock
“sq.m.”	square meter
“TCM”	traditional Chinese medicine
“TCM Brain”	our proprietary AI-assisted clinical decision support system that combines AI-empowered knowledge graph, data mining and machine learning technologies
“Wenzhi AI Alliance”	our initiative that promotes the common use of AI technology across the TCM community
“Wenzhi Herbal Alliance”	our initiative for establishing stringent procurement standards and fostering closer relationships with upstream TCM decocting pieces suppliers and TCM herb farmers
“Jingyi Academy”	our online TCM community, where the public can study and explore TCM-related publications
“Wenzhi Qingyang”	our brand which primarily provides a wide selection of TCM healthcare products

FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements and information relating to our Company and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this document, the words “aim”, “anticipate”, “believe”, “could”, “estimate”, “expect”, “going forward”, “intend”, “may”, “might”, “ought to”, “plan”, “potential”, “predict”, “project”, “seek”, “should”, “will”, “would” and the negative of these words and other similar expressions, as they relate to our Group or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this document. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our operations and business prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our business strategies and plans to achieve these strategies;
- general economic, political and business conditions in the markets in which we operate;
- changes to the regulatory environment and general outlook in the industry and markets in which we operate;
- the effects of the global financial markets and economic crisis;
- our ability to control or reduce costs;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors;
- certain statements in the sections headed “Business” and “Financial Information” in this document with respect to trends in prices, operations, margins, overall market trends, and risk management; and
- change or volatility in interest rates, foreign exchange rates, equity prices, volumes, operations, margins, risk management and overall market trends.

THIS DOCUMENT IS IN DRAFT FORM. THE INFORMATION CONTAINED HEREIN IS INCOMPLETE AND IS SUBJECT TO CHANGE. THIS DOCUMENT MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

FORWARD-LOOKING STATEMENTS

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect or at all. Accordingly, you should not place undue reliance on any forward-looking information.

In this document, statements of or references to our intentions or those of our Directors are made as of the date of this document. Any such information may change in light of future developments.

All forward-looking statements contained in this document are qualified by reference to the cautionary statements set out in this section.

RISK FACTORS

An [REDACTED] in our Shares involves various risks. You should carefully consider all of the information set out in this document before making an [REDACTED] in our Shares, including the risks and uncertainties described below.

Any of the following risks could have a material adverse effect on our business, financial condition and results of operations. If any of these events occur, the [REDACTED] of our Shares could decline and you may lose all or part of your [REDACTED]. You should seek professional advice from your relevant advisors regarding your prospective [REDACTED] in the context of your particular circumstances.

RISKS RELATING TO OUR INDUSTRY AND BUSINESS

We operate in a heavily regulated industry and are subject to extensive regulatory requirements.

We are subject to extensive and evolving legal and regulatory requirements applicable to multiple industries in mainland China, including, healthcare, pharmaceuticals, prescription medicines, internet and internet healthcare industries. The relevant laws and regulations mainly relate to (i) the quality of healthcare services and products; (ii) the licensing of medical professionals; (iii) procurement, use and storage of medicines, medical equipment and medical consumables; (iv) use of AI in connection with healthcare services; (v) medical waste management; (vi) confidentiality and safekeeping of medical records; (vii) data privacy and protection; (viii) anti-corruption and anti-bribery; and (ix) foreign investment related regulations. The above list of certain regulated areas is not exhaustive. For details, see “Regulatory Overview — Regulations relating to TCM and TCM medical institutions”. Various regulatory authorities of the PRC government are empowered to promulgate and implement regulations governing broad aspects of the relevant industries. Any violation of the relevant laws, rules and regulations may result in penalties and, under certain circumstances, lead to criminal prosecution.

There can be no assurance that there will not be additional laws or regulations on healthcare services. We cannot assure you that we will always be able to meet all of the regulatory obligations, including any additional requirements imposed in the future on us.

In particular, the regulations of the internet industry in mainland China and its online healthcare service sector are relatively new and evolving, and their interpretation and enforcement involve significant uncertainty. As a result, it may be hard to predict whether certain actions or omissions could be deemed to be in violation of applicable laws and regulations, which may materially and adversely affect our business prospects. Due to the uncertainty and complexity of the regulatory environment, we cannot assure you that future laws and regulations will not render our operations non-compliant or that we will always be in full compliance with applicable laws and regulations. Compliance with future laws and regulations may require us to incur significant costs and may have a material adverse effect on our business, financial condition and results of operations.

For instance, online medical consultation and diagnosis is subject to governmental supervision and regulation relating to both general medical institutions and online hospitals. According to the relevant laws and regulations, online medical consultation and diagnosis

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service may only provide re-diagnosis service after confirming that the patients have been diagnosed with one or more types of common or chronic diseases in physical medical institutions, and medical institutions including internet clinics must carry out diagnosis and treatment activities according to the approved and registered medical subjects. On February 8, 2022, the NHC and the National Administration of Traditional Chinese Medicine (the “NATCM”) published the Rules on the Regulation of Online Medical Consultation (for Trial Implementation) (《互聯網診療監管細則(試行)》) (the “**Trial Implementation**”), which provide that medical institutions must authenticate the identities of physicians engaged in providing online medical treatment to ensure the legitimacy of their qualifications before practicing on an online platform, and that other personnel or AI software may not replace those authenticated physicians. In addition, patients must provide medical records with clear diagnostic information, and physicians must determine whether a patient meets the conditions for re-examination. As the Trial Implementation is still relatively new and evolving, it remains uncertain whether our online medical consultation and healthcare services are and will be in full compliance with the relevant laws and regulations, which are evolving and subject to changes. In addition, we cannot assure you that our physicians and patients will follow the relevant requirements in practice. Any failure to comply with such laws and regulations or any misconduct or even fraud of our physicians and patients could result in administrative penalties against us which could materially and adversely affect our business, results of operations, financial condition and prospects.

Any failure to maintain or renew any of our major licenses, permits, approvals or certificates, any failure to comply with any applicable laws or regulations with a determination of regulatory non-compliance, any failure to receive a satisfactory rating from relevant regulators, or any failure to rectify any material deficiencies could, result in reputational damage, financial losses, judicial and administrative penalties, conditions being placed on our licenses, permits, approvals or certificates, revocation or suspension of our licenses, permits, approvals or certificates, or downsizing or cessation of the existing services provided by us. In each case, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Changes in the regulatory regime for the healthcare service industry in mainland China could materially affect our business operations and future expansion.

The regulatory regime for the healthcare service industry in mainland China is developing, which may affect the way we operate our business. The current applicable laws and regulations may be amended or replaced to implement additional supervision and management requirements. In addition, the laws and regulations may also be subject to further interpretation and enforcement and are evolving. Further amendments and changes or further interpretation and enforcement of laws and regulations could require us to obtain additional licenses, permits or approvals, broaden the scope of liabilities relating to medical incidents, increase our operating costs and expenses, or even result in the invalidation of our existing licenses, permits or approvals. Moreover, our business operations and future expansion could be materially affected by governmental policies, which may be subject to further amendments and changes. If we are found to be non-compliant with any of the applicable rules, laws, or

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regulations, we may face administrative penalties, including suspension of operations and even revocation of operating licenses, depending on the nature of the findings, any of which could materially and adversely affect our business, results of operations and financial condition.

With the development in the regulatory regime in mainland China for the healthcare service industry, there may be strengthened supervision over medical institutions and more stringent requirements on the provision of healthcare services, sale of healthcare products and use of medical consumables and medical devices. We will closely monitor the legislative progress to ensure our compliance.

If we are unable to recruit, train and retain sufficient qualified physicians and other medical professionals, our business and results of operations could be affected.

Our business is largely dependent on our ability to identify, recruit and retain a sufficient number of qualified TCM physicians. The recruitment of qualified TCM physicians is highly competitive in mainland China and near-term supply of TCM physicians is limited due to the length of training required, including academic study and clinical training.

We believe that physicians and physician candidates generally consider the following key factors when selecting medical institutions to work at, including the institution’s reputation and culture, compensation, training programs and career development opportunities, efficacy of clinic management, quality of facilities and supporting staff, number of patient visits, and locations. We may not compete favorably with other healthcare service providers in respect of one or more of these factors. Consequently, we may not be able to attract or retain the physicians we desire, particularly considering that we only employ our physicians on a full-time and exclusive basis while many competitors may accept part-time physicians. If we are unable to successfully recruit or retain seasoned and qualified physicians, our business, financial condition and results of operations may be adversely affected.

Our success is also dependent on our ability to recruit and retain other qualified medical professionals apart from physicians. It has become increasingly costly to recruit and retain such medical professionals in recent years and there is no guarantee that we will be able to recruit and retain sufficient medical professionals in the future. If we fail to do so, we may not be able to maintain the quality of our services, and the number of patient visits that opt for our TCM healthcare services may decrease, which may materially and adversely affect our business, financial condition and results of operations.

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If we fail to properly manage the employment and practice of our TCM physicians and other medical professionals, we may be subject to penalties against us, which could materially and adversely affect our business and results of operations.

The practicing activities of TCM physicians and certain medical professionals are strictly regulated under the PRC Law. TCM physicians and such medical professionals who practice at medical institutions and decoction centers must hold practicing licenses and may only practice within the scope of their licenses and at the specific sites at which their licenses are registered. For details, see “Regulatory Overview — Regulations relating to medical practitioners of medical institutions.” We cannot assure you that our medical professionals will complete the related procedures to register timely or at all. In addition, we cannot assure you that medical professionals at our clinics will always strictly follow the requirements and will not practice outside the permitted scope of their respective licenses. Any failure by us to properly manage the employment and service of our medical professionals may subject us to administrative penalties against us, which could materially and adversely affect our business. Moreover, failure by our employees to strictly follow our internal policies may also subject us to administrative penalties. Any such administrative penalties in the future may adversely affect our business and results of operations.

If we are unable to continue to attract and retain patients, provide superior patient experience and maintain patients’ trust in us, our business, financial condition and results of operations may be materially and adversely affected.

The operational performance of our online and offline TCM healthcare service network is highly dependent on our ability to attract and retain patients. For the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2023 and 2024, the total number of patients who received services through our network was approximately 21,200, 50,500, 38,400 and 39,900, respectively. Growth in our patient base is a key driver of our revenue growth. Our ability to continue to attract and retain patients depends on several factors including our brand image and reputation, our ability to provide superior patient experience, and patient perception as a quality and reliable TCM healthcare service provider. In order to maintain and enhance these factors, we need to continuously deliver high-quality healthcare solutions, explore services that are responsive to patients’ evolving demands and ensure consistent high service quality across our network. However, there is no guarantee that our efforts in these respects will succeed in achieving the desired results. Any failure to maintain and enhance, or any damage to, our brand image, reputation or patient perception in relation to the services provided by us may adversely affect our patients’ receptiveness of, and willingness to purchase the healthcare services provided by us. Each of the foregoing events may cause patient loss and in turn materially and adversely affect our business, financial condition and results of operations.

We operate in a competitive industry and may not be able to compete successfully against existing or future competitors.

As a TCM healthcare service provider, we compete with other public and private healthcare service providers in mainland China, regardless of whether they focus on TCM practices or employ AI-assisted TCM clinical decision support systems as we do. Our competitors may be able to offer services or products better received by patients or may be

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able to respond more quickly and effectively to new opportunities and changing technologies, regulations and customers’ demands. We will also compete with future market entrants as the rapid growth of relevant industries may attract more domestic or international players to enter. Some of our competitors may have substantially greater financial, marketing or other resources than we do. In particular, both public and private healthcare service providers may increasingly adopt AI technologies to enhance their service. AI technology companies have also been actively pursuing and developing commercial applications in the broader healthcare service industry, including specific initiatives targeting the TCM healthcare service sector. It is also possible that there will be significant consolidation and mergers in the private TCM healthcare service industry. Our competitors may develop alliances, and these alliances may acquire significant market share. If we cannot properly address these challenges, our business and prospects would be materially and adversely affected.

We primarily compete on the following key factors: quality of service, clinical excellence, market reputation, accessibility, patients’ satisfaction and pricing. We cannot assure you that we will be able to successfully compete against new or existing competitors, and changes in the competitive landscape may result in price reduction, reduced profitability or loss of market share, any of which could have a material adverse effect on our business, results of operations and prospects.

Our business is closely tied to the acceptance of TCM healthcare offerings in mainland China, which may fluctuate overtime, and our business, results of operations and financial condition may be materially affected as a result.

The sustainability of our business model relies on the continued popularity and demand for TCM healthcare offerings in mainland China. However, we recognize that consumer attitudes and preferences regarding TCM may shift due to various factors, including but not limited to (i) evolving perceptions about the effectiveness of TCM in addressing specific health concerns or achieving desired outcomes, (ii) changes in consumer preferences between TCM and alternative healthcare approaches that promise similar benefits, (iii) the emergence of new scientific research, clinical findings, or general publicity that challenges or supports the principles or practices of TCM. We cannot assure you that consumer attitudes and preferences for TCM healthcare offerings will not experience material changes in the future. There is also no guarantee that future research, findings, or public sentiment will consistently support or align with the existing TCM practices or the approaches we employ.

Moreover, adverse events or negative outcomes, even if resulting from improper use of TCM practices or products, could potentially be associated with TCM as a whole. Such associations, whether warranted or not, could undermine consumer confidence. Any shift in public opinion or scientific consensus that questions the validity, safety, or efficacy of TCM may adversely impact consumer demand for TCM healthcare offerings, and our business, results of operations and financial condition may be adversely affected.

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Our business may be affected by technological and therapeutic advancements as well as shifts in preferences within the TCM healthcare service industry.

The broader healthcare service industry, including the TCM healthcare sector, is characterized by continuous technological and therapeutic advancements, leading to the emergence of new services, equipment, AI-assisted diagnostic tools, and treatment methods. These developments can significantly influence customer preferences and alter the competitive landscape of relevant industries. To maintain our competitiveness and attract customers, we must stay abreast of such technological advancements and evolving therapeutic approaches and integrate them into our operations where appropriate, especially when treating complex or severe conditions that may require a combination of different treatment methods and technologies.

There is no assurance that we will possess sufficient management experience, expertise, or financial resources to successfully adapt to new technological trends, therapeutic developments, and evolving treatment paradigms, particularly in the rapidly changing field of AI-assisted diagnosis. Some of our competitors may have greater resources or capabilities to respond to these changes. If we fail to adapt successfully to technological or therapeutic advancements or are unable to access new diagnostic methods and treatment approaches in a timely manner, we may lose attractiveness to potential customers, and our competitive position could be weakened.

The integration of new technologies and new therapeutic methods into TCM practices presents unique challenges. Even if we identify and apply new services, equipment, AI technologies, or treatment protocols, there is no guarantee that we will recover the associated expenditures or successfully compete with others in integrating these innovations into our existing business model. The rapid pace of improvement in AI, healthcare technology, and therapeutic approaches could lead to earlier-than-anticipated obsolescence of our current systems and practices, potentially resulting in impairment charges, which may adversely affect our results of operations.

Our past results and growth may not be indicative of our future performance, and we may not be able to grow at a rate comparable to our growth rate in the past.

We were established in 2018 and during the Track Record Period, we experienced significant growth in our business. During the Track Record Period, our revenues increased by 204.0% from RMB62.2 million in 2022 to RMB189.0 million in 2023 and by 33.8% from RMB129.4 million for the nine months ended September 30, 2023 to RMB173.1 million for the nine months ended September 30, 2024. During the same periods, our adjusted net profit (non-HKFRS measure) increased by 735.2% from RMB5.2 million in 2022 to RMB43.0 million in 2023 and by 137.4% from RMB20.9 million for the nine months ended September 30, 2023 to RMB49.5 million for the nine months ended September 30, 2024. As a fast-growing company with a relatively short operating history, our ability to forecast our future results of operations is limited and subject to a number of uncertainties, including our ability to plan for and model further growth and our revenue mix. Therefore, our historical results and revenue growth may not be indicative of our future performance, as our revenue, cost, expenses, and operating results may vary from period to period as it could be affected by various factors beyond our control. Such factors include changes in the general economic conditions, new trends in the

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TCM healthcare service industry in mainland China, and our costs and expenses control capability. To maintain our revenue growth and achieve profitability, we must continue to strengthen our reputation, attract quality talent, adopt advanced technologies and treatment solutions, and enhance patients’ experience. We may also need to successfully expand our offline footprint into new geographical locations where we have limited experience. We cannot assure you that we will achieve any of the above. As a result, we believe that period-to-period comparisons of our operating results during the Track Record Period may not be indicative of our future performance, and you should not rely on such comparisons to predict our future performance.

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

Our business has become increasingly complex in terms of both the type and scale of business we operate. Any expansion may increase the complexity of our operations and place a significant strain on our managerial, operational, financial and human resources. Our current and planned personnel, systems, procedures and controls may be inadequate to support our future growth. We cannot assure you that we will be able to effectively manage our growth or to implement all these systems, procedures and control measures successfully. If we are not able to manage our growth effectively, our business and prospects may be materially and adversely affected.

We are also continually executing new initiatives, strategies and operating plans designed to enhance our business, such as continuing to invest in service, product and technology innovation, improve our customers’ experience, expand our clinic network and grow our customer and physician base. For details, see “Business — Our Strategies” and “Future Plans and [REDACTED].” These initiatives are new and evolving, some of which are still at the inception or trial stage and may be proven unsuccessful. We may not be able to successfully complete these growth initiatives, strategies and operating plans and realize the benefits that we expect to achieve. If, for any reason, the benefits we realize from these initiatives are less than our expectations, or the implementation of these growth initiatives, strategies and operating plans costs more than we have expected, our business, financial condition and results of operations may be materially and adversely affected.

Any negative publicity about us, our clinics or the healthcare service industry could harm the reputation of us or our clinics and trust in the services provided by us, which could result in a material and adverse impact on our business and prospects.

Our business success depends on our reputation and brand name. Negative publicity involving us, our management, our physicians and other medical professionals, our online and offline TCM healthcare service network, the industry where we operate, the healthcare, internet and internet healthcare industries may materially and adversely harm the brand image and reputation of us and our online and offline TCM healthcare service network. Such negative publicity could also cause deterioration in the level of market recognition of and trust in the healthcare solutions and products provided by us, thereby resulting in reduced patient visits and market demands, and potential loss of business partners as well as medical professionals and other staffs. In addition, in light of the negative publicity, our management’s attention may be

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diverted, and government agencies may investigate or impose other forms of scrutiny. These consequences may have a material and adverse effect on our business, results of operations, financial condition and prospects.

Our in-house technologies and solutions are complex and may contain undetected errors or may not operate properly, which could adversely affect our business, financial condition and results of operations.

The technologies underlying our TCM Brain, are highly complex and may contain undetected errors or vulnerabilities, some of which may only be discovered while the systems have been used in practice. Any real or perceived errors, failures, bugs or other vulnerabilities discovered in our system could damage our reputation, cost business opportunities and market acceptance of our system, disadvantage our competitive position and lead to loss of revenue or liability for damages. In such cases, we may be required or may choose to allocate extra resources to help correct the problems, which could be costly and time consuming. Moreover, no matter the outcome of such problems, we may experience damage to our reputation and brand. In addition, we cannot assure you that provisions that attempt to limit our exposure to claims would be enforceable or adequate or would otherwise protect us from liabilities or damages with respect to any particular claim. Any claim brought against us by any patients or customers would likely be time-consuming and costly to defend and could seriously damage our reputation and brand, which could materially and adversely affect our business, financial condition and results of operations.

The proper functioning of our computer network infrastructure and information technology systems is essential to our business operations, and any technological failure, security breach or other disruptions may adversely impact our business.

Our computer network infrastructure and information technology systems, such as our cloud-based HIS, help us manage and monitor the operational performance of our integrated online and offline TCM healthcare service network, such as billing, business data, patient records and inventory. We regularly maintain, upgrade and enhance the capabilities of our information technology systems to meet operational needs. Any failure associated with the information technology systems, including those caused by power disruption or loss, natural disasters, computer viruses, hackers, network failures or other unauthorized tampering, may cause interruptions in our ability to provide services and products to our patients, keep accurate records, and maintain proper business operations. In addition, if the information technology system relating to the billing were to malfunction and result in the loss of related records, we may not receive full payment from our patients or customers, which could cause a material adverse impact on our business and results of operations. Any of the foregoing events may adversely affect our business, financial condition and results of operations.

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AI technologies, including AI-assisted clinical decision support, are constantly evolving. Any flaws, inappropriate usage, or negative perceptions of AI technologies, whether intended or inadvertent, whether committed by us or other third parties, could have negative impact our business, reputation, and the general acceptance of AI in the TCM healthcare service industry and the society in general.

AI technologies, including AI-assisted clinical decision support systems in healthcare sectors, are constantly evolving. To remain competitive in the TCM healthcare service industry, we must continuously adapt to rapid technological developments and emerging trends in AI-assisted clinical decision support. While we invest significantly in research and development in response to such constant changes, there is no assurance that these efforts will generate the expected returns, or any returns at all. Failure to cope with the rapid development of AI technologies in healthcare industries may materially and adversely affect our business, financial condition, and results of operations.

The application of AI in TCM healthcare and healthcare in general is still in its early stages and will continue to evolve. Flaws or deficiencies in AI technologies could compromise the accuracy and reliability of our diagnostic recommendations. There can be no assurance that we will be able to detect and address such issues promptly, if at all. If the diagnostic suggestions or analysis produced by our TCM Brain prove to be inaccurate or unreliable, we could face competitive disadvantages, potential legal liabilities, and damage to our reputation within the TCM community and among patients. Any flaws or deficiencies in our AI technologies and relevant services, whether actual or perceived, could materially and adversely affect our business, reputation, results of operations and prospects.

Moreover, AI technologies present risks and challenges that could affect customer perception and public opinion. Any inappropriate or premature application of AI in TCM healthcare or healthcare in general, whether intended or inadvertent, and whether by us or by other third parties, could discourage potential consumers from adopting AI-assisted healthcare service. This could impair the general acceptance of AI technologies in TCM, attract negative publicity, and adversely impact our reputation. The novelty of AI technologies in the healthcare service industry may also subject us to increased scrutiny from regulators, potentially leading to compliance challenges or restrictions on our operations. Each of the foregoing events may in turn materially and adversely affect our business, financial condition and results of operations.

We are exposed to inherent risks of medical disputes and legal proceedings arising from our operations, which could result in costs and affect our brand image, reputation and results of operations.

The nature of our TCM healthcare services inherently carries risks of medical disputes and potential legal challenges and many factors contributing to these risks are beyond our immediate control. Our physicians and relevant medical professionals are required to make proper and real-time clinical decisions regarding the diagnosis and treatment of our patients based on their professional judgement, which is subject to the possibility of errors or unexpected outcomes. In addition, there are inherent risks associated with the use of certain TCM ingredients and techniques that may result in adverse reactions as well as unexpected injuries. Moreover, there is no guarantee that we can always meet our patients’ high expectations on our

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services since (i) patient satisfaction is subjective and may not always align with clinical outcomes, and (ii) the effectiveness of our treatments can be influenced by factors such as a patient’s medical history, adherence to instructions, and individual physiology.

Undesirable or unexpected outcomes, including complications, injuries, and in extreme cases, deaths, may occur in the course of providing healthcare services. Such outcomes may result in negative sentiments, requests for refunds, complaints, claims or legal actions alleging malpractice or other causes of action, or extreme actions or even violence against our staff or other patients. Any such incident, if occurs, would harm our reputation, impair our ability to recruit and retain medical professionals and other staffs, discourage other customers from using our services, and cause us to incur substantial costs.

During the Track Record Period, the total amount of monetary compensation paid by us to settle patient complaints was approximately RMB77,000. See “Business — Customer service and feedback — Management of customer complaints.” We cannot guarantee that we will not be subject to any medical disputes or patient complaints or, that we can successfully prevent or address all medical disputes and patient complaints in the future. Any complaint, claim or legal proceeding, regardless of merit, could result in significant legal costs, diversion of medical professionals’ and management’s attention and financial resources and reputational damage to us, which may in turn materially and adversely affect our business, financial condition and results of operations.

We depend on the continued service of our senior management team and other key employees, and if we lose their services, our business, financial condition and results of operations may be adversely affected.

We have been, and will continue to be, heavily dependent on the continued services of our senior management team and other key employees, some of whom have been with us since our inception. In particular, we rely on the expertise, experience and leadership of Mr. Cui and Dr. Lin, the co-founders of our Group. We also rely on a number of key members of our senior management team.

We do not maintain key person insurance. Competition for competent candidates in the industry is intense and the pool of competent candidates is limited. If we lose the services of one or more of our key personnel, we may not be able to timely locate suitable or qualified replacements or at all and may incur additional expenses to recruit and train new personnel. Consequently, our business could be severely disrupted, the implementation of our business strategies could be delayed, and our financial condition and results of operations could be materially and adversely affected. In addition, if any member of our senior management team or key employees joins a competitor or forms a competing business, we may lose know-how, trade secrets, customers and key professionals and staff. We cannot assure you, however, the extent to which any of the confidentiality agreements we enter or may enter into with our employees will be enforceable under the applicable laws. If any of these agreements were rendered ineffective or unenforceable, our business may be materially and adversely affected.

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We may be subject to product liability claims or product recalls, which could cause us to incur significant expenses and be liable for significant damages and have a material adverse effect on our business, financial condition and results of operations.

We are subject to product liability claims with respect to products provided by us. Such claims may arise if any such products are deemed or proven to be unsafe, contaminated or defective or when we are alleged to have engaged in actions, such as improper filling of prescriptions, insufficient or improper labeling of products, provision of inadequate warnings, insufficient or misleading disclosures of side effects, or unintentional distribution of counterfeits. If the use or misuse of any products provided by us results in personal injury or death, product liability and/or indemnity claims may be brought against us, in addition to our product recalls, and the relevant regulatory authorities in mainland China may impose operational restrictions or take administrative actions against us.

Furthermore, if any of our products provided are alleged to be harmful, we may have to recall them from the market. While we had not experienced any material product recalls or product liability claims during the Track Record Period, there is no guarantee that such recalls or claims will not happen in the future. Any substantial claim or substantial number of claims against us, if successful, would have a material adverse effect on our reputation, business, financial condition and results of operations. Any product recalls or any claims against us, regardless of their merit, can strain our financial resources and distract our management’s time and attention. If any claims against us are successful, we may incur monetary liabilities, and our reputation may be severely damaged.

Our business is subject to professional and other liabilities for which we may not be insured.

Our integrated online and offline TCM healthcare service network is exposed to potential liabilities that are inherent to healthcare solutions and products. In recent years, physicians and medical institutions in mainland China have been subject to a number of claims. During the Track Record Period and up to the Latest Practicable Date, we have not been subject to any material customer complaints or medical dispute. As of September 30, 2024, we maintained medical liability insurance for our physicians and public liability insurance to cover liability for damages arising out of our clinics. However, we may face liabilities that exceed our available insurance coverage or which arise from claims outside the scope of relevant insurance coverage. We may also experience gaps in coverage when we seek to renew our medical liability insurance policies or seek to change insurance providers. Moreover, insurers may refuse or dispute to honor claims for a variety of unforeseeable reasons beyond our control. We cannot assure that our integrated online and offline TCM healthcare service network will not incur uninsured losses and liabilities.

In addition, in line with industry practice, we do not maintain any property insurance, product liability insurance and business interruption insurance or key person insurance. Outbreaks of transmittable diseases or natural or man-made disasters may cause interruption to our business or damage to our properties and clinics. Any significant uninsured loss could have a material and adverse effect on our business, financial condition and results of operations.

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We depend on third-party suppliers and service providers for different aspects of our business. Any loss of or significant interruption in any of our major suppliers or service providers may negatively impact our business.

We depend on third parties for different aspects of our business, such as supplying decocting pieces, medical consumables and other supplies. We generally do not have long-term agreements with our major suppliers and service providers, and we typically cooperate with third-party suppliers and service providers on a non-exclusive basis. The availability and prices of the decocting pieces, medical consumables and other supplies used in our business may fluctuate from time to time and are subject to factors beyond our control, including supply, demand, general economic conditions and governmental regulations, each of which may affect our procurement costs or cause a disruption in our supply. We maintain a list of qualified suppliers and may conduct periodic review of the quality of our suppliers’ respective supplies. For the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2024, cost of pharmaceutical and other products accounted for approximately 40.9%, 51.3% and 54.3% of our cost of sales, respectively. Any interruptions or changes in the medical supplies, or our inability to obtain substitute suppliers and service providers meeting our quality standards at acceptable prices in a timely manner may impair our ability to meet the demands of our patients. Moreover, we expect our demand for such supplies to continuously increase as we keep expanding our business scale. We cannot guarantee that our current suppliers and service providers have the capacity to meet our increasing demand going forward. In addition, we cannot assure you that our suppliers and service providers will continue their business relationships with us on commercially reasonable terms or at all. If these third parties do not continue to maintain or expand their cooperation with us or fail to provide us with adequate supply to meet our needs, we may not be able to find suitable alternative suppliers and service providers within a short period of time, which could disrupt our operations and adversely affect our results of operations.

We rely on major suppliers for a large portion of our procurement for supplies.

During the Track Record Period, we made procurement from a limited number of suppliers for decocting pieces. In 2022, 2023 and the nine months ended September 30, 2024, our purchases from our five largest suppliers amounted to 48.6%, 60.0% and 56.9% of our total purchases, respectively, and our purchases from our largest suppliers accounted for 13.2%, 21.8% and 17.7% of our total purchases, respectively. See “Business — Supplier and Procurement — Major Suppliers”. As such, we are subject to the concentration risk of procuring most of our supplies from major suppliers. If any of these major suppliers decides to substantially reduce the supplies or terminate their cooperation with us in the future, we may not be able to find suitable alternative suppliers with commercially acceptable terms in a timely manner, or at all, in order to guarantee the demand from our clinics and decoction centers, which may materially and adversely affect our business, financial conditions and results of operations.

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We depend on the quality of decocting pieces, medical consumables and other supplies used in our operations. If such quality does not meet the required standards, we could be exposed to liabilities and our reputation, business, results of operations, financial condition and prospects could be adversely affected.

Since we procure a variety of decocting pieces, medical consumables and other supplies frequently used in our business operation from suppliers that we do not have control over, we cannot assure you the quality and authenticity of these supplies. If these supplies are subsequently found to have been defective at the time of the supply, even though we did not know or could not have known about such defect, we may be subject to liability claims, negative publicity, reputational damage, regulatory investigation or administrative sanction, any of which may adversely affect our results of operations and reputation. Moreover, we cannot assure you that significant claims of such nature will not be asserted against us in the future, and that adverse verdicts will not be reached or that we will be able to recover losses from our suppliers. In addition, termination of our supply agreements with unqualified suppliers can be time-consuming and costly, and we may not be able to find suitable replacement suppliers on commercially acceptable terms in a timely manner or at all, failing which our business, results of operations, financial condition and prospects will be adversely affected.

We rely on third-party logistics and delivery companies to fulfill and deliver our orders. If these logistics and delivery companies fail to provide reliable delivery services, our business and prospects, as well as our financial condition and results of operations, may be materially and adversely affected.

We engage third-party logistics companies to deliver prescriptions and products to our patients or customers. Interruptions to or failures by these third-party logistics companies' delivery services could prevent the timely or proper delivery of our products. Such interruptions may be caused by reasons beyond our or the logistics companies' control, such as natural disasters, inclement weather, traffic accidents or labor unrest. In such cases, we may not be able to find alternative delivery companies to provide delivery services in a timely manner at reasonable costs, or at all, which may have a material adverse effect on our business.

Failure to renew our current leases at reasonable terms or to locate desirable alternatives for our clinics or decoction centers could materially and adversely affect our business and results of operations.

We may not be able to successfully extend or renew our current leases upon their expiration on commercially reasonable terms, or at all, and may therefore be forced to relocate our clinics or decoction centers concerned. This could disrupt the operations of clinics or decoction centers concerned and result in significant relocation expenses, which could adversely affect our business, financial condition and results of operations. In addition, we compete with other businesses for premises at certain locations or of desirable sizes. As a result, even though we could extend or renew our leases, rental payments may significantly increase as a result of the high demand for the leased properties. In addition, we may not be able to locate desirable alternative sites for our clinics or decoction centers as our business continues to grow, and failure in relocating our clinics or decoction centers concerned could adversely affect our business and operations.

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Our leased property interests may be defective and our lease agreements may not be registered, our right to lease the properties affected by such defects may be challenged, which could cause significant disruption to our business.

As of the Latest Practicable Date, (i) the actual use of some of our leased properties with an aggregate GFA of approximately 6,491 sq.m., representing approximately 31.3% of our total leased GFA, did not fit into the prescribed scope of usage shown on the relevant ownership certificates; and (ii) five of our leased properties with an aggregate GFA of approximately 3,308 sq.m., representing approximately 16.0% of our total leased GFA, were subject to prior-registered mortgages. Our use of such leased properties may be disrupted and we may be forced to vacate the relevant properties and relocate to a different site. We may incur additional expenses during the process, and our business, financial condition and results of operations may be negatively affected. In addition, seven of our lease agreements with landlords have not been registered with the relevant government authorities in mainland China, which may expose us to potential fines of RMB1,000 to RMB10,000 for each non-registered lease agreement. The estimated total maximum penalty was RMB70,000 as of the Latest Practicable Date.

As a result, we cannot assure you that we will not be subject to any challenges, lawsuits or other actions taken against us with respect to the properties we use or lease. If any challenge against us in these respects are successful, our use or lease of such properties may be affected and we may be required to relocate from these relevant properties. If we fail to find suitable alternative premises on terms acceptable to us, or if we are subject to any material liability resulting from such challenges, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We are subject to regulatory requirements in labor-related laws and regulations of the PRC. Failure to make adequate contributions to various employee benefit plans as required by PRC rules and regulations may subject us to penalties.

Pursuant to the PRC Labor Contract Law, that became effective in January 2008 and was amended in December 2012 and its implementing rules that became effective in September 2008, employers are subject to strict requirements in terms of signing labor contracts, minimum wages, paying remuneration, determining the term of employees’ probation and unilaterally terminating labor contracts. We believe our current practice complies with the Labor Contract Law and its amendments. However, the relevant governmental authorities may take a different view and impose fines on us. In the event that we decide to terminate some of our employees or otherwise change our employment or labor practices, the PRC Labor Contract Law and its implementation rules may limit our ability to effect those changes in a desirable or cost-effective manner, which could adversely affect our business and results of operations.

Companies operating in mainland China are required to participate in various employee benefit plans, including social insurance, housing provident funds and other welfare-oriented payment obligations. The amounts of contributions should be equal to prescribed percentages of salaries, including bonuses and allowances, of our employees up to a maximum amount specified by the local governments from time to time, at the locations where we operate our businesses. The requirement of employee benefit plans has not been implemented consistently by

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the local governments in mainland China given the different levels of economic development in different locations. The relevant government authorities may examine whether an employer has made adequate payments of the requisite employee benefit payments, and employers who fail to make adequate payments may be subject to late payment fees, fines and/or other penalties.

During the Track Record Period, we have not received any notices, complaints or demand for payment of any outstanding contributions from the relevant government authorities. We have obtained the written confirmations from the relevant government authorities in charge of social insurance and housing provident fund that, during the Track Record Period, there was no record indicating that we violated any laws, regulations or rules in relation to social insurance and housing provident fund. As advised by our PRC Legal Advisor, based on the confirmation letters issued by and consultations with the competent local authorities, during the Track Record Period, we were not in violation of applicable laws and regulations related to social insurance and housing provident funds in all material aspects. However, the relevant government authorities may take a different view in the future and there is no assurance that our historical and current practice with respect to the contribution of social insurance plans will at all times be deemed in full compliance with relevant laws and regulations in mainland China by government authorities. In the event of any such non-compliance, we may be required to pay any shortfall in social insurance contributions within a prescribed time period and to pay penalties if we fail to do so. For details of relevant laws and regulations, see “Regulatory Overview — Regulations relating to labor.”

In general, as the interpretation and implementation of labor-related laws and regulations are still evolving, our employment practice could inadvertently violate labor-related laws and regulations in mainland China, which may subject us to labor disputes or government investigations. If we are deemed to have violated relevant labor laws and regulations, we could be subject to penalties and be required to provide additional compensation to our employees and our business, financial condition and results of operations could be materially and adversely affected.

The development and ramp-up of new clinics could contribute to fluctuations in our financial results, and they may not achieve profitability as anticipated in a timely manner, or at all.

Our operating results have been, and in the future may continue to be, influenced by the timing and extent of the expansion of our offline TCM healthcare service network. New clinics generally have lower income and higher operating costs during the initial stages of their operations. We also incur substantial expenses for opening new clinics such as leasehold improvements, rental expenses and equipment costs. It may take months for a new clinic to achieve profitability. Accordingly, the timing and extent of expansion of our offline TCM healthcare service network have, and may continue to have, a significant impact on our profitability.

In addition, the opening of new clinics involves regulatory approvals and reviews by various government authorities in mainland China. We may not be able to obtain all the required approvals, permits, licenses or certificates in a timely manner or at all, as the administrative procedure of application is beyond our control. Therefore, we may not be able to

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immediately derive revenue from a newly opened clinic as anticipated due to the inability or material delay by us in obtaining the required approvals, permits, licenses or certificates and any substantial increase in costs to ramp up operations.

Failure to maintain optimal inventory levels could increase our operating costs or lead to unfulfilled patients’ demand, either of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We aim to maintain optimal inventory levels in order to successfully meet our patients’ and customers’ demand. However, we are exposed to inventory risk because of various factors that are beyond our control, including shortage or delay in supplies, changing medical demands and force majeure events such as earthquakes, flood or typhoon. There can be no assurance that we can accurately predict these trends and events and avoid over-stocking or under-stocking our inventories.

Inventory levels in excess of demand may result in inventory write-downs, expiration of our inventories, an increase in inventory holding costs and a potential negative effect on our liquidity. On the contrary, if we underestimate demand, we may experience inventory shortages which may, in turn, result in unfulfilled patients’ and customers’ demand, leading to a negative impact on patient and customer experiences. There can be no assurance that we will be able to continuously maintain proper inventory levels of our inventories, and any such failure may have a material adverse effect on our business, financial condition, results of operations and prospects.

Our business generates and possesses a large amount of patients’ personal and medical information, and the improper collection, storage, use or disclosure of such information could materially and adversely affect our business and reputation.

We collect and maintain medical data from the diagnosis and treatment of our patients. Our digital systems also generate and process a certain amount of personal and behavioral data. Personal information and privacy of our patients are particularly essential to our operation, and they expect us to keep their information strictly confidential. Our clinics and employees are also subject to, among others, regulations on personal information protection, which limit the use of personal information of our patients collected by us for specific purpose that the information were collected or for a directly related purpose that are required or allowed by relevant laws and regulations. In addition, we have implemented our own policies to safeguard our patients’ personal information and have adopted a set of rules and management procedures in accordance with relevant laws and regulations for system safety to prevent any data leakage. Sensitive user information in our business operations is stored in an internet data cloud center. We face risks inherent in handling large volumes of data and in securing and protecting such data. In particular, we face a number of data-related challenges related to our business operations, including:

- protecting the data in and hosted on our system, including against attacks on our system by external parties or fraudulent behavior by our employees;
- addressing concerns related to privacy and sharing, safety, security and other factors; and

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- complying with applicable laws, rules and regulations relating to the collection, use, disclosure or security of personal information, including any requests from regulatory and government authorities relating to such data.

We cannot guarantee that our data security and confidentiality policies and measures could always effectively or completely prevent our patient information from leakage or unauthorized use. Any system failure or compromise of our clinics network security may result in the unauthorized access to or release of such data. In particular, we could be subject to attacks on our systems by third parties or fraudulent or inappropriate behaviors by our employees, third-party service providers or other business partners. Third parties may also gain access to our data using computer malware, viruses, spamming, phishing attacks or other means. Personal information we maintain could be leaked due to any theft or misuse of personal information by misconduct or negligence. Any breach of our confidentiality obligations to our patients could expose our Group and/or our physicians and management to potential liabilities, such as claims, regulatory actions or litigations, or disciplinary actions, which may have a material adverse effect on our brand image and reputation, business, results of operations, financial conditions and prospects.

In recent years, The PRC Government has enacted a series of laws, regulations and governmental policies for the protection of cybersecurity and personal data. For instance, on November 7, 2016, the Standing Committee of the National People’s Congress (the “SCNPC”) promulgated the Cybersecurity Law of the PRC (《中華人民共和國網絡安全法》), which became effective on June 1, 2017. As the PRC’s first basic law comprehensively regulating cyberspace security management, it was promulgated to maintain network security, safeguard the cyberspace sovereignty, national security and public interests, protect the lawful rights and interests of citizens, legal persons and other organizations, and further enhance personal information protection, such as through requirements on the collection, use, processing, storage and provision of personal information. The PRC Data Security Law (《中華人民共和國數據安全法》), which took effect on September 1, 2021, outlines the regulatory framework of data security protection. The Personal Information Protection Law of the PRC (《中華人民共和國個人信息保護法》), which was promulgated by the SCNPC on August 20, 2021 and became effective on November 1, 2021, provides detailed rules for processing personal information and further improves the personal information protection system. On September 30, 2024, the State Council issued the Regulations on Network Data Security Management (網絡數據安全管理條例) (the “**Network Data Regulations**”), which took effect on January 1, 2025, providing detailed operational guidelines for the implementation of the Cybersecurity Law, Data Security Law, and Personal Information Protection Law of the PRC.

The Opinions on Strictly Cracking Down on Illegal Securities Activities in Accordance with the Law (《關於依法從嚴打擊證券違法活動的意見》), which were issued by the General Office of the State Council and another authority on July 6, 2021, require to speed up the revision of legislation on strengthening the confidentiality and archives coordination between regulators related to overseas issuance and listing of securities, and improvement to the legislation on data security, cross-border data flow, and management of confidential information. On August 8, 2022, the NHC, NATCM, and National Bureau of Disease Control and Prevention jointly promulgated the Administrative Measures for the Cybersecurity of Medical and Healthcare Institution (《醫療衛生機構網絡安全管理辦法》) with immediate

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effect, which requires all the medical and healthcare institutions to implement full life-cycle management of cyber security and data security, including but not limited to strengthening system construction, implementing daily network maintenance and monitoring, conducting annual self-inspection and rectification, and classifying and grading data assets.

In July 2018, the NHC promulgated the Administrative Measures Regarding National Healthcare Big Data Standards, Safety and Service Management (Trial) (《國家健康醫療大數據標準、安全和服務管理辦法(試行)》), to further standardize the standard management, security management and service management of the healthcare data produced in the course of disease treatment and health management. In May 2014, the National Health and Family Planning Commission (currently known as the NHC) promulgated the Measures for Administration of Population Health Information (Trial) (《人口健康信息管理辦法(試行)》), which require that the medical institution shall be responsible for collection, management, utilization, safety and privacy protection of population healthcare information which includes the medical service information.

Any violation of the provisions and requirements under the laws and regulations may subject us to warnings, fines, confiscation of illegal gains, revocation of licenses, suspension of business, shutting down of websites or even criminal liabilities. Any failure, or perceived failure, by us to comply with the related laws and regulations could result in proceedings or actions against us by governmental entities or others. These proceedings or actions may subject us to significant penalties and negative publicity, require us to change our business model or practices, increase our costs and severely disrupt our business.

We invest significantly in research and development, and we may not be able to recoup the investments we make, which in turn could adversely impact our financial condition and results of operations.

We continually enhance our healthcare offerings to keep our competitive edge. If we are unable to respond to rapid technological changes in a cost-effective manner and develop new features and functions that satisfy our customers’ and patients’ demands, our healthcare offerings may become less marketable and less competitive, and our business, results of operations may be adversely affected.

We have made and will continue to make investments in research and development, including further developing the TCM Brain and relevant technologies. We incurred RMB5.4 million, RMB9.0 million, RMB7.2 million and RMB8.4 million of research and development expenses for the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2023 and 2024, respectively, accounting for 8.7%, 4.8%, 5.6% and 4.9% of our total revenues during the respective periods. However, we cannot guarantee that our investments in research and development will yield the desired results. We may experience difficulties that could delay or impede the development we fund, after having committed significant time and financial resources. Even if research and development projects successfully lead to upgraded functions or modules, they may require lengthy period of time for testing before commercial launch, and the final upgraded products or services we offer to the market may not be well-received by our customers or patients or generate sufficient revenue to cover the expenses we incurred.

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We may not be able to adequately protect our intellectual property rights, which could harm our brand image and our business.

We believe our trademarks and other intellectual property rights are crucial to our success. Our principal intellectual property rights include trademarks, copyrights, patents and domain names. Our intellectual property rights may be infringed by third parties. We cannot assure you that third parties will not copy or otherwise obtain and use our intellectual property rights without our prior authorization. Our efforts to enforce or defend our intellectual property rights may not be adequate. We may have to initiate legal proceedings to defend the ownership of our intellectual property rights against any infringement by third parties, which may be costly and time-consuming, and we might be required to devote substantial management time and resources in an attempt to achieve a favourable outcome. If we are unable to adequately protect or safeguard our intellectual property rights, our business, financial condition, results of operations and prospects may be adversely affected.

In addition, other parties may register trademarks which may look similar to our registered trademarks under certain circumstances, which may cause confusion among patients. We may not be able to prevent other parties from using trademarks that are similar to ours in a timely manner, or at all, and the patients may confuse our integrated online and offline TCM healthcare service network with others using similar trademarks. In such case, the value of our trademarks and the public perception of our brand image may be adversely affected. A negative perception of our brand image could have a material and adverse effect on our business, financial condition, results of operations and prospects.

Third parties may assert or claim that we have infringed their intellectual property rights, which may disrupt and affect our business.

We may be exposed to intellectual property rights infringement or misappropriation claims by third parties during the course of our operations. Defense against any potential claims would be both costly and time-consuming and could divert the efforts and resources of our management and other personnel. An adverse determination in any such litigation or proceedings to which we may become a party could subject us to liabilities to third parties, require us to seek consents or licenses from third parties, pay ongoing fees or royalties, or subject us to injunctions prohibiting the provision and marketing of the relevant brand or services. To the extent that such consents or licenses are not available to us on commercially reasonable terms or at all, we may be required to expend considerable time and resources sourcing alternative technologies or rebranding our services, if any, or we may be forced to delay or suspend the relevant services or the promotion of the relevant brand. We may incur expenses and require attention of management in defending against these third-party infringement claims, regardless of their merit. Litigation against us could also result in reduced patient visits. In addition, we could face disruptions to our business operations as well as damage to our reputation as a result of such claims, and our business, financial condition and results of operations could be materially and adversely affected.

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If third-party institutions that we collaborate with for business and medical research activities decide to terminate or not renew our cooperation arrangements, our business operation, revenue and profitability may suffer.

We collaborate with renowned third-party institutions, such as hospitals and higher education institutions. We believe such collaborations would enable us to further advance our treatment capabilities, technology innovation to our TCM Brain, medical professional training and best practice integration, as well as to promote our brand and reputation and broaden our patient and customer base. For example, we co-founded a Joint Innovation Center of TCM Artificial Intelligence in partnership with Shaanxi University of Chinese Medicine and have established strategic partnerships with multiple TCM higher education institutions in connection with talent training and graduate recruitment. We cannot assure you that any of such collaborations will be successful or enduring. Our collaborations with third-party institutions may be terminated or not renewed due to various reasons, including financial restraints, regulatory requirements or academic disagreements. However, any early termination or discontinuation of collaboration may result in negative publicity to us and may, in turn, adversely affect our established reputation, medical research activities and reduce our attractiveness to qualified medical professionals.

We may not be able to detect, deter and prevent all instances of fraud or other misconduct committed by our employees, patients, suppliers or other third parties.

We are exposed to the risks of fraud or other misconduct involving employees, patients, suppliers or other third parties, which may have a material adverse impact on our business. We are not aware of any instances of fraud, theft and other misconduct involving our employees and other third parties that had any material adverse impact on our business and results of operations during the Track Record Period and up to the Latest Practicable Date. However, there can be no assurance that there will not be any such instances in the future. We may be unable to prevent, detect or deter all instances of misconduct. Any misconduct committed against our interests, which may include past acts that have gone undetected or future acts, could subject us to financial losses, harm our reputation and may have a material adverse effect on our business and financial condition.

Meanwhile, our risk management systems, information technology systems and internal control procedures are designed to monitor our operations and overall compliance. However, we may be unable to identify non-compliance or suspicious transactions promptly, or at all. Furthermore, it is not always possible to detect and prevent fraud or other misconduct committed by our employees or third parties, and the precautions we take to prevent and detect such activities may not be effective. Therefore, we are subject to the risk that fraud or other misconduct may have previously occurred but was undetected, or may occur in the future. This may materially and adversely affect our business, financial condition and prospects.

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The sale of prescription medicines is subject to stringent scrutiny, which may expose us to risks and challenges.

The sale of prescription medicines is subject to stringent scrutiny, which may expose us to risks and challenges. For instance, the Measures for the Supervision and Administration of Online Pharmaceuticals Sales (《藥品網絡銷售監督管理辦法》) (the “**Online Pharmaceuticals Sales Measures**”), provides various specific and explicit rules for the online sales of prescription drugs. Specifically, online prescription drug sellers shall (i) ensure the accuracy and reliability of the source of prescription, (ii) keep records of any prescription for at least five years and no less than one year after the expiration date of the prescription drugs, and (iii) disclose safety warnings including “prescription drugs should only be purchased and used with prescriptions and guidance of licensed pharmacists” when displaying information of prescription drugs.

Any failure to comply with the relevant laws and regulations could subject us to disciplinary warnings and administrative penalties, which may in turn materially and adversely affect our business, results of operations, financial condition and prospects. Additionally, we cannot assure you that we will always be able to effectively and timely detect or prevent prescriptions abuse or fraudulent orders. Failure to effectively screen the sale of prescription medicines could expose us to liability under PRC Law, which may incur significant liability.

If we fail to maintain adequate internal controls, we may not be able to effectively manage our business.

Our success depends on our ability to effectively utilize our standardized management system, information systems and internal control procedures. As we will continue to expand our business, we will need to continuously modify and improve our financial and managerial controls, reporting systems and procedures and other internal controls and compliance procedures to meet our evolving business needs going forward. If we are unable to improve our internal controls, systems and procedures in pace with our business expansion, relevant control measures, systems and procedures may become ineffective and adversely affect our ability to manage our business and cause errors or information lapses that affect our business. There can be no assurance that we can modify and improve our internal control system effectively in the future. If we are not successful in discovering and addressing the potential weaknesses in our internal controls, our ability to effectively manage our business may be materially and adversely affected.

Preferential tax treatment we have enjoyed may change or discontinue, which may have an adverse effect on our financial condition and results of operations.

During the Track Record Period, our PRC subsidiaries were subject to a statutory EIT rate of 25% on the assessable profits, except that our certain PRC subsidiaries enjoyed a 25% deduction on the portion of assessable profits not exceeding RMB3.0 million as well as a preferential tax rate of 20% since they were qualified as Small and Micro Enterprise by the relevant government authorities. In addition, we enjoyed a preferential tax treatment of 0% VAT for our healthcare services and 13% VAT for our TCM Brain subscription services with any portion of the effective VAT exceeding 3% being eligible for an immediate refund.

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There is no assurance that we would continue to enjoy these preferential tax treatment or financial subsidies at the historical levels, or at all. Any change, suspension or discontinuation of these preferential tax treatment and financial subsidies to us could adversely affect our financial condition, results of operations and cash flows.

Failure to comply with the PRC anti-corruption laws, regulations and rules could subject us our physicians and/or other employees at our clinics to investigations and administrative or criminal penalties, which may harm our reputation and materially and adversely affect our business, financial condition, results of operations.

We have adopted policies and procedures designed to ensure that the physicians, other medical professionals, administrators, and other employees at our Company comply with the PRC anti-corruption laws, rules and regulations. See “Business — Risk Management and Internal Control”. However, the PRC Government has increased its anti-bribery efforts to reduce improper payments and other benefits received by physicians, other medical professionals, administrators and other employees in connection with the purchase of medicines, medical consumables and medical equipment and the provision of healthcare services. Although we have established anti-corruption policies and procedures and have not been subject to any government investigation relating to anti-corruption violations, there is no assurance that these policies and procedures will effectively prevent our non-compliance with the PRC anti-corruption laws, regulations and rules arising from actions taken by the individual physicians, other medical professionals, administrators and other employees without our knowledge. If this occurs, we and/or the physicians, other medical professionals, administrators and other employees may be subject to investigations and administrative or criminal penalties, and our reputation could be harmed by any negative publicity stemming from such incidents, which may materially and adversely affect our business, financial condition and results of operations.

We recorded net liabilities and net current liabilities during the Track Record Period.

As of December 31, 2022 and 2023, and September 30, 2024 we recorded net current liabilities of RMB226.2 million, RMB430.3 million and RMB481.3 million, respectively. The net current liabilities as of December 31, 2022, 2023 and September 30, 2024 was primarily due to high level of current portion of convertible redeemable preference shares. As of December 31, 2022 and 2023, and September 30, 2024 we recorded net liabilities of RMB215.4 million, RMB414.7 million and RMB463.8 million, respectively. Although the convertible redeemable preference shares will automatically convert into ordinary shares upon the [REDACTED], and no further loss or gain on fair value change of convertible redeemable preference shares is expected to be recognized afterwards, we cannot assure you that we will not record net current liabilities or net liabilities in the future. Net current liabilities and net liabilities positions may expose us to certain liquidity risks and may constrain our operational flexibility, as well as adversely affect our ability to expand our business. If we do not have sufficient working capital to meet future financial needs, we may need to resort to external funding. Our inability to obtain additional external borrowings on a timely basis and on acceptable terms, or at all, may force us to abandon our development and expansion plans, and our businesses, financial positions and results of operations may be materially and adversely affected.

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We may need additional capital and may not be able to obtain it in a timely manner or under commercially acceptable terms, or at all.

We may require additional capital beyond those generated by the [REDACTED] from time to time to grow our business, to better serve our customers, develop and enhance our products, and improve our operating infrastructure. Accordingly, we may need to sell additional equity or debt securities or obtain a credit facility. Future issuances of equity or equity-linked securities could significantly dilute our existing shareholders, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our ordinary shares. The incurrence of debt financing would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations or our ability to pay dividends to our shareholders.

Our ability to obtain additional capital on commercially acceptable terms is subject to a variety of uncertainties, some of which are beyond our control, including (i) general economic and other conditions in mainland China and globally, (ii) general market conditions for capital raising activities by companies in the TCM healthcare service industry in mainland China, which in turn depends on the prospect of this industry, (iii) our market position and competitiveness in the TCM healthcare service industry, and (iii) our operating and financial performance. We cannot assure you that future financing will be available in amounts or on terms commercially acceptable to us, if at all. In the event that financing is not available or is not available on terms commercially acceptable to us, our business, results of operations and growth prospects may be adversely affected.

Fair value changes in our financial instruments issued to investors and related valuation uncertainty may materially affect our financial position and performance.

We have historically issued several series of convertible redeemable preference shares to investors. Upon the completion of this [REDACTED], all of such preference shares will be automatically converted into ordinary shares. For the identity and background of the foregoing investors, see “History, Reorganization and Corporate Structure”. Convertible redeemable preference shares and the respective fair value is determined by using valuation techniques. The fair value of our convertible redeemable preference shares amounted to RMB263.5 million, RMB506.1 million and RMB598.2 million as of December 31, 2022 and 2023 and September 30, 2024, respectively. Additionally, we recorded fair value loss of convertible redeemable preference shares of RMB159.6 million, RMB236.9 million, RMB235.9 million and RMB98.9 million for 2022, 2023 and the nine months ended September 30, 2023 and 2024, respectively. We used the discounted cash flow method to determine the underlying equity value and adopted equity allocation model to determine the respective fair values. Considerable judgment is required to interpret market data used in the valuation techniques. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. Any change in these assumptions may lead to different valuation results and, in turn, changes in the fair value of these financial instruments issued to investors. To the extent we need to revalue the convertible redeemable preference shares prior to the closing of the [REDACTED], any change in fair value of convertible redeemable preference shares and related valuation uncertainty could materially affect our financial position and performance. After the automatic conversion of the convertible redeemable preference shares into ordinary shares upon

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the completion of the [REDACTED] and the closing of the [REDACTED], we do not expect to recognize any further gains or losses on fair value of these convertible redeemable preference shares in the future.

An occurrence of a natural disaster, widespread health epidemic or other outbreaks could have a material adverse effect on our results of operations.

Any occurrence of force majeure events, natural disasters, including earthquakes, floods and droughts, or outbreaks of epidemics, including COVID-19, avian influenza, swine influenza and severe acute respiratory syndrome, may restrict business activities in the areas affected and materially and adversely affect our business and results of operations. To be specific, the force majeure events, natural disasters and outbreaks of epidemics could put restrictions on our clinics’ ability to provide healthcare services, cause temporary closure of our clinics and adversely affect our patients’ demands for our service. Due to the nature of the force majeure events, natural disasters and epidemics, we cannot predict the incidence, timing and severity of them. If such majeure events, natural disasters or epidemics were to occur in the future, our ability to operate our business could be seriously impaired, and therefore adversely affect our operations and financial conditions.

The wide variety of payment methods that we accept subjects us to additional expenses or payment processing-related risks.

For our TCM healthcare services and TCM lifestyle products, our customers are primarily individual patients who receive our treatment and retail consumers who purchase our TCM lifestyle products. We accept payments using a variety of methods, primarily including cash, bank cards, or online payment via widely used payment platforms in mainland China that are provided by third parties, as applicable. We may be charged interchange and other fees for certain payment methods, which may increase over time and raise our operating costs and lower our profit margins. We may also be subject to fraud and other illegal activities in connection with the various payment methods we offer, including online payment option. We are also subject to various rules, regulations and requirements governing electronic funds transfers in mainland China, which could change or be reinterpreted to make it difficult or impossible for us to comply with. If we fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments from our customers, process electronic funds transfers or facilitate other types of online payments, and our business, financial condition and results of operations could be materially and adversely affected.

We may be held liable for information or content displayed on, retrieved from or linked to our websites or social media accounts, which may materially and adversely affect our business and operating results.

Under the PRC Law, we are required to monitor our websites and social media accounts for items or contents deemed to be factually incorrect, socially destabilizing, obscene, superstitious or defamatory, as well as contents, services or products that are illegal to be provided online, and promptly take appropriate actions with respect to such contents, services or products. We may also be subject to potential liabilities for any unlawful actions of the users of our websites or social media accounts or for contents we distribute that are deemed

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inappropriate. It may be difficult to determine the type of contents that may result in liability to us, and if we are found to be liable, we may be subject to fines, have our relevant business operation licenses revoked, or be prevented from operating our websites or social media accounts in mainland China. Furthermore, as important channels for brand influence and customer visibility, social media platforms may cease to cooperate with us in the situations described above or if we violate their platform-specific rules, which may be more stringent than regulatory requirements, potentially impacting our market reach and customer engagement. In addition, claims may be brought against us for defamation, libel, negligence, copyright, patent or trademark infringement, tort (including personal injury), other unlawful activity or other theories and claims based on the nature and content of information posted on our websites or mobile interfaces, including news feeds, healthcare service or product reviews and message boards, by our customers. Regardless of the outcome of such disputes or lawsuits, we may suffer from negative publicity and reputational damage as a result, which may adversely affect our business.

In addition, according to the Administrative Measures on Medical Advertisements (《醫療廣告管理辦法》) and Notice on Further Strengthening the Administration of Medical Advertisements (《關於進一步加強醫療廣告管理的通知》) which was promulgated in July 2008, a Medical Advertisement Examination Certificate (醫療廣告審查證明) must be obtained before publishing a medical advertisement. Violation of these regulations may result in penalties against the non-compliant medical institution, including rectification, orders, warnings, suspension of operations, revocation of relevant permits to engage in the provision of specific healthcare solutions and products, and the revocation of the Medical Institution Practicing License (醫療機構執業許可證) of such medical institution. In addition, if the content of the published advertisement deviates from what is approved and documented in the Medical Advertisement Examination Certificate, the competent authority may revoke the Medical Advertisement Examination Certificate and suspend any application for advertisement examination for one year. For advertisements related to certain types of services and products, such as medical devices, our medical institutions are required to confirm that the advertisers have completed filings with local authorities and obtained all requisite government approvals. Any violations of these laws and regulations may subject us to government penalties, impair our brand and adversely impact our financial condition and results of operations. For instance, during the Track Record Period, we were found once to have violated medical advertisement laws and regulations, resulting in a fine. We have settled such fine, and as advised by our PRC Legal Advisor, this fine does not constitute a material administrative penalty, and the violation does not constitute a material non-compliance under the relevant laws and regulations. To avoid any potential violations, we have established internal policies to monitor the obtaining and relevant validity period of the Medical Advertisement Examination Certificate for our medical advertisement and its compliance with the relevant PRC laws and regulations. However, we cannot assure you that our internal management will be sufficient to secure the compliance with the relevant laws and regulations in connection with medical advertisement, the violation of which may subject us to administrative penalties thus materially and adversely affected our business, results of operations and financial condition.

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Our use of open-source software could subject us to possible litigation.

We use open-source software in connection with our business operation. Companies that incorporate open-source software may, from time to time, face claims challenging the ownership of open-source software and compliance with open-source license terms. As a result, we could be subject to suits by parties claiming ownership of what we believe to be open-source software or non-compliance with open-source licensing terms. Some open-source software licenses require users who distribute open-source software as part of their software to publicly disclose all or part of the source code to such software and make available any derivative works of the open-source code on unfavorable terms or at no cost. Any requirement to disclose our source code or pay damages for breach of contract could be harmful to our business, financial condition and results of operations.

RISKS RELATING TO THE CONTRACTUAL ARRANGEMENTS

If the PRC government finds that the Contractual Arrangements do not comply with applicable PRC Law, or if these regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of our interest in our Medical Institution Subsidiaries.

Current PRC Law impose certain restrictions on foreign ownership of companies that engage in a number of business activities, including medical institution services and other related services. We are a company incorporated under the laws of the Cayman Islands, and the WFOE, our wholly-owned PRC subsidiary, is considered a foreign-invested enterprise. To comply with PRC Law, we conduct our business in mainland China through our Medical Institution Subsidiaries. Our Medical Institution Subsidiaries hold the licenses, approvals and key assets that are essential for our business operations. For a detailed description of the Contractual Arrangements, see “Contractual Arrangements.”

If the PRC government finds that our Contractual Arrangements do not comply with its restrictions on foreign investment in businesses, or if the PRC government otherwise finds that we or our Medical Institution Subsidiaries are in violation of PRC Law, or lack the necessary permits or licenses to operate our business, the relevant PRC regulatory authorities, including the MOFCOM, the NDRC and the NHC, would have discretion in dealing with such violations or failures, including, without limitation:

- requiring the nullification of the Contractual Arrangements;
- revoking our business and operating licenses;
- discontinuing or restricting our operations;
- imposing fines or confiscating any of our income which is deemed to have been obtained through illegal operations;
- imposing conditions or requirements with which we or the WFOE and our Medical Institution Subsidiaries may not be able to comply;

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- requiring us or the WFOE and our Medical Institution Subsidiaries to restructure the relevant ownership structure or operations, or to re-apply for the necessary licenses, or to relocate our business, staff and assets;
- restricting or prohibiting our use of the [REDACTED] from the [REDACTED] or other of our financing activities to finance the business and operations of our Medical Institution Subsidiaries; or
- taking other regulatory or enforcement actions that could be harmful to our business.

Any of these actions could cause significant disruption to our business operations, and may materially and adversely affect our business, results of operations and financial condition. In addition, it is unclear whether PRC government actions would have any impact on us, and our ability to consolidate the financial results of any of our Medical Institution Subsidiaries in our consolidated financial statements, if the PRC governmental authorities find our legal structure and Contractual Arrangements to be in violation of PRC Law.

On February 17, 2023, the CSRC released the Trial Administrative Measures of 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**”) and five supporting guidelines, which came into effect on March 31, 2023. At the press conference held for the Trial Measures on the same day, officials from the CSRC clarified that, as for companies seeking overseas listing with contractual arrangements, the CSRC will solicit opinions from relevant regulatory authorities and complete the filing of the overseas listing of such companies if they duly meet the compliance requirements, and support the development and growth of these companies by enabling them to utilize two markets and two kinds of resources. If we fail to complete the filing with the CSRC in a timely manner or at all, for any future offerings, listing or any other capital raising activities, which are subject to the filings under the Trial Measures, due to our Contractual Arrangements, our ability to raise or utilize funds could be materially and adversely affected, and we may even need to unwind our Contractual Arrangements or restructure our business operations to rectify the failure to complete the filings. However, given that the Trial Measures were recently promulgated, their interpretation, application, and enforcement and how they will affect our operations and our future financing are subject to further clarification and interpretation.

The interpretation and implementation of the Foreign Investment Law may be subject to changes from time to time, and it remains to be seen how it may impact the viability of our current corporate structure, corporate governance and business operations.

On March 15, 2019, the National People’s Congress approved the PRC Foreign Investment Law (中華人民共和國外商投資法) (the “**FIL**”), which came into effect on January 1, 2020. On December 26, 2019, the State Council published Implementation Rules of the PRC Foreign Investment Law (中華人民共和國外商投資法實施條例). These rules are relatively new and are subject to further implementation and interpretation.

Under the FIL, “foreign investment” refers to the investment activities directly or indirectly carried out in mainland China by one or more foreign natural persons, enterprises or other organizations (the “**Foreign Investor(s)**”). The FIL specifically stipulates three forms of foreign investment, namely, (i) establishment of a foreign invested enterprise in mainland China

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by a Foreign Investor, either individually or collectively with any other investor, (ii) obtaining shares, equities, assets interests or any other similar rights or interests of an enterprise in mainland China by a Foreign Investor; and (iii) investment in any new construction project in mainland China by a Foreign Investor, either individually or collectively with any other investor, and does not explicitly stipulate contractual arrangements as a form of foreign investment. However, there is a catch-all provision under the definition of “foreign investment” to include investments made by Foreign Investors in mainland China, through means stipulated by laws or administrative regulations, or other methods prescribed by the State Council. Therefore, there are possibilities that future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, which would render it uncertain as to whether foreign investment via contractual arrangements would be deemed violation of the foreign investment access requirements, and how the above-mentioned Contractual Arrangements would be regulated.

The FIL grants national treatment to foreign-invested entities, except for those foreign-invested entities that operate in industries specified as either “restricted” or “prohibited” from foreign investment in the Negative List. The FIL provides that foreign-invested entities shall not invest in “prohibited” industries and shall meet the investment conditions stipulated under the negative list for any “restricted” industries. If our control over our Medical Institution Subsidiaries through the Contractual Arrangements are deemed as foreign investment in the future, and any business of our Medical Institution Subsidiaries is “restricted” or “prohibited” from foreign investment under the “negative list” effective at the time, we may be deemed to be in violation of the FIL, the contractual arrangements that allow us to have control over our Medical Institution Subsidiaries may be deemed as invalid and illegal, and we may be required to unwind such contractual arrangements and/or restructure our business operations, any of which may have a material and adverse effect on our business operation.

Furthermore, if foreign investment related laws, administrative regulations or rules change in the future, we may need to take further actions with respect to our Medical Institution Subsidiaries for the purpose of having better operational control on our Medical Institution Subsidiaries or continuously satisfying applicable requirements of the stock exchange where we list. With respect to any new regulatory development and any further detailed implementing rules that the PRC governmental authority may formulate in the future, there is no guarantee that the Contractual Arrangements and our business will not be materially and adversely affected in the future as a result of changes in PRC Law. If future laws, administrative regulations or provisions mandate further actions to be completed by companies with existing contractual arrangements, we cannot guarantee whether such actions can be timely completed, or at all. Failure to take timely and appropriate measures to cope with any of these, or similar regulatory compliance challenges could materially and adversely affect our current corporate structure and business operations.

In the extreme scenario, we may be required to unwind the Contractual Arrangements and/or dispose of our Medical Institution Subsidiaries, which could have a material and adverse effect on our business, results of operations and financial condition. In the event that we no longer have a sustainable business after the aforementioned unwinding of the Contractual Arrangements or disposal of our Medical Institution Subsidiaries or such measures are not

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complied with the relevant laws and regulations, the Stock Exchange may take enforcement actions against us, which may have a material adverse effect on the [REDACTED] of our Shares or even result in [REDACTED] of our Company. For details of the FIL and the Negative List, and its potential impact on us, see “Contractual Arrangements — Development in Legislation on Foreign Investment in the PRC.” Therefore, there is no guarantee that our Contractual Arrangements and the business of our Medical Institution Subsidiaries will not be materially and adversely affected in the future.

Certain terms of the Contractual Arrangements may not be enforceable.

The Contractual Arrangements provide for dispute resolution by way of arbitration in the Shenzhen Arbitration Commission, in accordance with the then effective arbitration rules.

The Contractual Arrangements contain provisions to the effect that the arbitral body may award remedies over the equity interests or assets of Medical Institution Subsidiaries, injunctive relief and/or order the winding up of Medical Institution Subsidiaries. However, these terms may not be enforceable. In the event of non-compliance with such arbitral award, enforcement measures may be sought from the court. However, the court may or may not support the award of an arbitral body when deciding whether to take enforcement measures.

In case the Contractual Arrangements provide that courts in competent jurisdictions may grant and/or enforce interim remedies or in support of arbitration, such interim remedies (even if granted by courts in competent jurisdictions in favor of an aggrieved party) are subject to recognition and enforcement by PRC courts according to relevant laws and regulations. As a result, in the event that our Medical Institution Subsidiaries breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our Medical Institution Subsidiaries and conduct our business could be materially and adversely affected.

Our Contractual Arrangements may be subject to scrutiny by the PRC tax authorities, and a finding that we owe additional taxes could substantially reduce our consolidated net income and the value of your [REDACTED].

The PRC tax authorities may assert that we or our subsidiaries or Medical Institution Subsidiaries or their equity holders owe and/or are required to pay additional taxes on previous or future revenue or income. In particular, under PRC Law, arrangements and transactions among related parties, such as the contractual arrangements with our Medical Institution Subsidiaries, may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the Contractual Arrangements among the WFOE and our Medical Institution Subsidiaries do not represent an arms-length price and adjust our Medical Institution Subsidiaries income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction, for PRC tax purposes, of expense deductions recorded by our Medical Institution Subsidiaries, which could in turn increase their tax liabilities. In addition, the PRC tax authorities may impose late payment fees and other penalties to our Medical Institution Subsidiaries for under-paid taxes. Our results of operations may be materially and adversely affected if our tax liabilities increase or if we are found to be subject to late payment fees or other penalties.

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If we exercise the option to acquire equity ownership and assets of our Medical Institution Subsidiaries, the ownership or asset transfer may subject us to substantial costs.

We may incur substantial cost in the exercise of the option to acquire the equity interests in or assets of our Medical Institution Subsidiaries. Pursuant to the Contractual Arrangements, the WFOE has the exclusive right to purchase all or any part of the equity interests in each of our Medical Institution Subsidiaries from their shareholders at the WFOE’s sole and absolute discretion to the extent permitted by PRC Law. The WFOE also has the exclusive right to purchase all or any part of the assets in each of our Medical Institution Subsidiaries from their shareholders at the WFOE’s sole and absolute discretion to the extent permitted by PRC Law. In the event of such transfer, the lowest price permitted by PRC Law may be substantially higher than the aforesaid actual capital contributions in case of purchasing the equity interests, or the net book value of relevant assets, or the competent tax authority may require the WFOE to pay enterprise income tax, value-added tax and other applicable taxes with reference to the fair value of such assets instead of the price as stipulated under the Contractual Arrangements, in which case the WFOE may be subject to a substantial amount of tax and our financial condition may be materially and adversely affected.

RISKS RELATING TO CONDUCTING OPERATIONS IN THE PRC

Our business operations may be extensively affected by the laws and regulations regarding data privacy and protection in mainland China.

We are subject to privacy laws, information security policies and contractual obligations related to data privacy and security. On December 28, 2021, the Cyberspace Administration of China (the “CAC”), jointly with other twelve governmental authorities, issued the revised Measures for Cybersecurity Review (網絡安全審查辦法) (the “CAC Measures”), which became effective from February 15, 2022. According to the CAC Measures, a cybersecurity review is required when national security has been or may be affected when a critical information infrastructure operator (the “CII”) purchases network products and services. Moreover, the CAC Measures also provide that an internet platform operator possessing personal information of more than one million users that applies for listing abroad, shall make declaration for cybersecurity review with the Office of Cybersecurity Review. Furthermore, the relevant governmental authorities in mainland China may initiate cybersecurity review if such governmental authorities believe that the network products or services, or data processing activities affect or may affect national security according to the CAC Measures. On July 30, 2021, the State Council promulgated the Regulations for Safe Protection of Critical Information Infrastructure (關鍵信息基礎設施安全保護條例) (the “CII Regulation”) which came into effect on September 1, 2021. Pursuant to the CII Regulation, critical information infrastructure refers to important network infrastructure and information system in public telecommunications, information services, energy sources, transportation and other critical industries and domains, in which any destruction, loss of functions or data leakage will have severe impact on national security, the nation’s welfare, the people’s living and public interests. The CII Regulation also stipulates the procedures for determining critical information infrastructure. It provides that competent authorities shall promulgate detailed rules in designating critical information infrastructure, identify critical information infrastructure in the relevant industries, and notify operators of such critical information infrastructure in a timely manner. As of the Latest

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Practicable Date, we had not been notified by any authorities of being classified as a CIIO, involved in any cybersecurity review or received any investigation, inquiry, notice, warning or sanctions by any governmental authorities on such basis. Pursuant to a telephone consultation conducted by our PRC Legal Advisor on a named basis with China Cybersecurity Review, Certification and Market Regulation Big Data Center, which is authorized by the CAC for public inquiry relating to the cybersecurity review under the Cybersecurity Review Measures, we were informed that Hong Kong is part of the PRC and listing in Hong Kong is not recognized as listing in a foreign country and, therefore, we are not required to apply for cybersecurity review for the [REDACTED] under the CAC Measures. However, pursuant to the CAC Measures, the CAC has the right to initiate a cybersecurity review without application, if any member organization of the cybersecurity review mechanism has reason to believe that any internet products, services or data processing activities influence or may influence national security.

On November 14, 2021, the CAC issued the Regulations on the Administration of Cyber Data Security (Draft for Comments) (網絡數據安全管理條例(徵求意見稿)) (the “**Draft Data Security Regulations**”). Pursuant to Article 13 of the Draft Data Security Regulations, data processors shall, in accordance with relevant state provisions, apply for cyber security review when carrying out the activities including (i) seeking to be listed in Hong Kong that will affect or may affect national security; and (ii) other data processing activities that will affect or may affect national security. However, the final version of the Network Data Regulations, issued by the State Council on September 30, 2024, removed the requirement for a cybersecurity review by a data processor seeking to list in Hong Kong. Therefore, data processors seeking to list in Hong Kong do not need to apply for a cybersecurity review unless their data processing activities will affect or may affect national security.

As of the Latest Practicable Date, we had not been notified by any authorities of being classified as a data processor carrying out data processing activities that influence or may influence national security, neither had we been subject to any cybersecurity review, enquiry, investigation or notice by the CAC or any other authorities in connection with the proposed [REDACTED] or our business operation and we are not identified as a CIIO by any relevant authority. Nevertheless, it may be challenging for us to fully and consistently comply with all relevant laws and regulations regarding data privacy and security.

We are subject to environmental and fire safety laws and regulations. If we fail to comply with relevant laws and regulations, we could be subject to fines or penalties or incur costs that could have a material adverse effect on our business.

Our business is generally subject to laws and regulations relating to the environment and public health, such as the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》), Fire Protection Law of the PRC (《中華人民共和國消防法》) and Regulations on the Management of Medical Waste (《醫療廢物管理條例》). The amendments and changes to the applicable laws and regulations may cause additional compliance costs, which could have an adverse effect on our business, results of operations and prospects.

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Our business operations are also subject to applicable fire safety laws in mainland China. If we fail to comply with environmental protection and fire safety laws and regulations, we may be subject to various consequences, including substantial fines, potentially significant monetary damages or suspensions of our business operations, which may in turn adversely impact our business, financial conditions and results of operations. Historically, certain of our premises failed to complete requisite fire safety procedures. See “Business — Legal Proceedings and Compliance — Non-Compliance — Failure to Complete the Fire Safety Filing for Certain Leased Properties.” We cannot assure you that we or any of our clinics will not be subject to liabilities or penalties in connection with environmental or fire safety laws in the future. Any of these actions or penalties may adversely affect our business, results of operations and financial condition.

Moreover, public awareness of environmental, social and governance (“ESG”) has been increasing in recent years, making businesses more sensitive to changes in social trends and policies associated with environmental protection, public health and other ESG issues. For information about our ESG policies and practices, please see “Business — Environmental, Social Responsibility and Governance.” Investor advocacy groups, certain institutional investors, investment funds, and other influential investors have placed increasing importance on the ESG practices and the social costs of their investments. Any ESG concern or developments in social trends and political policies relating to ESG could increase our compliance costs, or require us to alter our practices in a way that could adversely impact our operating results. If we fail to adapt to or comply with the evolving expectations and standards of ESG, regardless of whether there is a legal requirement to do so, we may suffer from reputational damage and our business operations and financial condition could be materially and adversely affected.

Service of process upon us or our management that reside in mainland China or to enforce against them or us in mainland China of any judgment obtained from foreign courts shall be subject to PRC Law and international and regional treaties to which the PRC has entered into.

We are an exempted company incorporated under the laws of the Cayman Islands. We conduct almost all of our operations in mainland China, and almost all of our assets are located in mainland China. In addition, some of our management reside within mainland China for a significant portion of the time and are PRC nationals. Service of process upon us or our management that reside in mainland China or to enforce against them or us in mainland China of any judgment obtained from foreign courts by investors shall be subject to PRC Law and international and regional treaties to which China has entered into. According to the Civil Procedure Law of PRC (《中華人民共和國民事訴訟法》), if a legally effective judgment or ruling made by a foreign court requires recognition and enforcement by any court in mainland China, the party concerned may directly apply for recognition and enforcement to the intermediate court in mainland China with jurisdiction. Alternatively, the foreign court may, pursuant to the provisions of an international treaty concluded between or acceded to by the foreign state or region and the PRC or in accordance with the principle of reciprocity, request the court in mainland China to recognize and enforce the judgment or ruling. China has not joined

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international treaties with all countries and regions. However, mainland China and Hong Kong have signed a series of arrangements for mutual recognition and enforcement of civil and commercial judgments under contractual jurisdiction, such as:

On July 14, 2006, the Supreme People’s Court and the government of the Hong Kong Special Administrative Region entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (《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 “**Arrangement**”), pursuant to which a party with an enforceable final court 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 mainland China. Similarly, a party with an enforceable final judgment rendered by a court in mainland China requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a court in mainland China is expressly designated as the court having sole jurisdiction for the dispute.

On January 18, 2019, the Supreme People’s Court and the government of the Hong Kong Special Administrative Region 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 “**New Arrangement**”), which seeks to establish a mechanism with further clarification on and certainty for recognition and enforcement of judgments in a wider range of civil and commercial matters between Hong Kong Special Administrative Region and mainland China. The New Arrangement discontinued the requirements for a choice of court agreement for bilateral recognition and enforcement. The New Arrangement will only take effect after the promulgation of a judicial interpretation by the Supreme People’s Court and the completion of the relevant legislative procedures in the Hong Kong Special Administrative Region. On November 10, 2023, the Hong Kong Special Administrative Region government published the “Mainland Judgments in Civil and Commercial Matters (Reciprocal Enforcement) Ordinance” and the “Mainland Judgments in Civil and Commercial Matters (Reciprocal Enforcement) Rules” in the Gazette and the Supreme People’s Court published 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 on January 25, 2024 (《最高人民法院關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排》), confirming the New Arrangement came into effect since January 29, 2024. Although the effectiveness of the New Arrangement will greatly enhance the convenience for mutual recognition and enforcement of judgments made by courts in the two places, we still cannot guarantee that all foreign court judgments made against us or our management in mainland China will be effectively enforced.

In addition, on January 9, 2021, the MOFCOM promulgated the Measures for Blocking Improper Extraterritorial Application of Foreign Laws and Measures (《阻斷外國法律與措施不當域外適用辦法》) pursuant to which, where a citizen, legal person or other organization of

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mainland China is prohibited or restricted by foreign legislation and other measures from engaging in normal economic, trade and related activities with a third State (or region) or its citizens, legal persons or other organizations, he/it shall truthfully report such matters to the MOFCOM within 30 days. Upon assessment and being confirmed that there exists unjustified extraterritorial application of foreign legislation and other measures, the MOFCOM could issue a prohibition order to the effect that, the relevant foreign legislation and other measures are not accepted, executed, or observed, but a citizen, legal person or other organization of mainland China may apply to the MOFCOM for an exemption from compliance with such prohibition order.

Changes in the economic or social conditions or government policies in mainland China could have a material adverse effect on our business and operations.

All of our revenue is derived from our businesses in mainland China. Accordingly, our financial condition, results of operations and prospects are, to a material extent, subject to economic, and social conditions in mainland China. If the macro-economy condition experiences changes, demand for our service and our ability to maintain our operations may suffer, which will consequently have a material adverse effect on our financial condition, results of operations and our future prospects.

We may be deemed to be a PRC tax resident enterprise under the EIT Law, which could result in unfavorable tax consequences to us, and may materially and adversely affect our profitability and the value of your [REDACTED].

We are a holding company incorporated under the laws of the Cayman Islands. Pursuant to the EIT Law and its implementation rules, an enterprise established outside of mainland China with “de facto management bodies” within mainland China would generally be deemed a “PRC resident enterprise” for tax purposes and be subject to an EIT rate of 25% on its global income. “De facto management bodies” is defined as the body that has actual overall management and control over the business, personnel, accounts and properties of an enterprise.

In April 2009, the SAT promulgated the Notice of the State Administration of Taxation on Issues Concerning the Determination of Chinese-Controlled Enterprises Registered Overseas as Resident Enterprises on the Basis of Their Bodies of Actual Management (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) (the “Circular 82”), which has been revised by the Decision of the State Taxation Administration on Issuing the Lists of Invalid and Abolished Tax Departmental Rules and Taxation Normative Documents (《國家稅務總局關於公佈失效廢止的稅務部門規章和稅收規範性文件目錄的決定》) in December 2017. Under Circular 82, a foreign enterprise is considered a PRC resident enterprise if all of the following apply: (i) the senior management and core management departments in charge of daily operations are located mainly within mainland China; (ii) decisions relating to the enterprise’s financial and human resource matters are made or subject to approval by organizations or personnel in mainland China; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholder meeting minutes are located or maintained in mainland China; and (iv) 50.0% or more of voting board members or senior executives of the enterprise habitually reside in mainland China. Further to Circular 82, the SAT issued the Chinese-Controlled Offshore Incorporated Resident Enterprises Income Tax Regulation (《境外

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註冊中資控股居民企業所得稅管理辦法(試行)》(the “**Bulletin 45**”), effective in September 2011 and last amended on June 15, 2018 to provide more guidance on the implementation of Circular 82 and clarify the reporting and filing obligations of such “Chinese-controlled offshore incorporated resident enterprises”. Bulletin 45 provides for, among other matters, procedures for the determination of resident status and administration of post-determination matters. Although Circular 82 and Bulletin 45 explicitly provide that the above standards apply to enterprises that are registered outside mainland China and controlled by PRC enterprises or PRC enterprise groups, Circular 82 may reflect SAT’s criteria for determining the tax residence of foreign enterprises in general.

We believe that none of our entities outside of mainland China is a PRC resident enterprise for PRC tax purposes. However, “de facto management bodies” and then the tax resident status of an enterprise are subject to determination by the tax authorities in mainland China. As substantially all of our management members are based in mainland China, it remains unclear how the tax authorities will treat a case such as ours. Nevertheless, if the authorities in mainland China were to subsequently determine, or any future regulation provides, that we should be treated as a PRC tax resident enterprise, we would be subject to the PRC EIT at a rate of 25% on our global income, which may materially and adversely affect our profits and hence our retained profit available for distribution to our Shareholders.

You may be subject to the PRC withholding tax on dividends from us and the PRC income tax on any gain realized on the transfer of our Shares.

Under the EIT law and its implementation rules, subject to any applicable tax treaty or similar arrangement between the PRC and your jurisdiction of residence that provides otherwise, PRC withholding tax at a rate of 10% is normally applicable to dividends from a PRC source paid to investors that are “non-resident enterprises,” which do not have an establishment or place of business in mainland China, or which have such establishment or place of business but whose relevant income is not effectively connected with the establishment or place of business. Any gain realized on the transfer of shares by such is generally subject to a 10% PRC income tax if such gain is regarded as income derived from sources within mainland China.

Under Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) and its implementation rules, dividends from sources within mainland China paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20% and gains from PRC sources realized by such investors on the transfer of shares are generally subject to PRC income tax at a rate of 20% for individuals. Any PRC tax may be reduced or exempted under applicable tax treaties or similar arrangements.

As substantially all of our business and operations are in mainland China, there is no assurance that dividends we pay with respect to our Shares, or the gain realized from the transfer of our Shares, would not be treated as income derived from sources within mainland China which would, as a result, be subject to Chinese income tax. If we are treated as a PRC resident enterprise as described under “— We may be deemed to be a PRC tax resident enterprise under the EIT Law, which could result in unfavorable tax consequences to us, and may materially and adversely affect our profitability and the value of your [REDACTED],”

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dividends we pay with respect to our Shares, or the gain realized from the transfer of our Shares, may be treated as income derived from sources within mainland China and as a result be subject to the PRC income taxes described above. If PRC income tax is imposed on dividends paid to our non-residents investors or on gains realized through the transfer of our Shares, the value of your [REDACTED] in our Shares may be adversely affected.

Our PRC subsidiaries’ ability to change their registered capital or distribute profits to us is subject to PRC Law relating to offshore investment activities by PRC residents or we and our PRC resident beneficial owners may be subject to liability and penalties due to non-compliance of relevant laws and regulations.

In July 2014, SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment Through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “SAFE Circular 37”), which replaced the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments via Overseas Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》). SAFE Circular 37 requires PRC residents (including PRC individuals and PRC corporate entities as well as foreign individuals that are deemed as PRC residents for foreign exchange administration purpose) to register with SAFE or its local branches in connection with their direct or indirect offshore investment activities. SAFE Circular 37 further requires amendment to the SAFE registrations in the event of any changes with respect to the basic information of the offshore special purpose vehicle, such as change of a PRC individual shareholder, name and operation term, or any significant changes with respect to the offshore special purpose vehicle, such as increase or decrease of capital contribution, share transfer or exchange, or mergers or divisions. SAFE Circular 37 is applicable to our shareholders who are PRC residents.

If our shareholders who are PRC residents or entities do not complete their registration with the local SAFE branches, our PRC subsidiaries may be prohibited from distributing its profits and proceeds from any reduction in capital, share transfer or liquidation to us, and we may be restricted in our ability to contribute additional capital to our PRC subsidiaries. In February 2015, SAFE promulgated a Circular on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (the “SAFE Circular 13”), effective in June 2015. Under SAFE Circular 13, applications for foreign exchange registration of inbound foreign direct investments and outbound overseas direct investments, including those required under SAFE Circular 37, will be filed with qualified banks instead of SAFE. The qualified banks will directly examine the applications and accept registrations under the supervision of SAFE.

We may not be informed of the identities of all the PRC residents holding direct or indirect interest in our Company, nor can we compel our beneficial owners who are PRC individuals to comply with SAFE registration requirements. We cannot assure you that all shareholders or beneficial owners of ours who are PRC residents have complied with, and will in the future make, obtain or update any applicable registrations or approvals required by, SAFE regulations.

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The failure or inability of such shareholders or beneficial owners to comply with SAFE regulations, or failure by us to amend the foreign exchange registrations of our PRC subsidiaries, could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our PRC subsidiaries’ ability to make distributions or pay dividends to us or affect our ownership structure. As a result, our business operations and our ability to distribute profits to you could be materially and adversely affected.

We may not be fully informed of the identities of all our shareholders or beneficial owners who are PRC entities, and we cannot provide any assurance that all of our shareholders and beneficial owners who are PRC entities will comply with our request to complete the overseas direct investment procedures under the aforementioned regulations or other related rules in a timely manner, or at all. If they fail to complete the filings or registrations required by the overseas direct investment regulations, the relevant authorities may order them to suspend or cease the implementation of such investment and make corrections within a specified time, which may adversely affect our business, financial condition and results of operations.

We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business.

We are a Cayman Islands holding company, and we may rely principally on dividends and other distributions on equity from our PRC subsidiaries for our cash requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders for services of any debt we may incur. If any of our PRC subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Under PRC Law, our PRC subsidiaries may pay dividends only out of their respective accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, our PRC subsidiaries are required to set aside at least 10% of its accumulated after-tax profits each year, if any, to fund a certain statutory reserve fund, until the aggregate amount of such fund reaches 50% of its registered capital. Such reserve funds cannot be distributed to us as dividends.

Our PRC subsidiaries generate essentially all of their revenue in Renminbi, which is subject to certain foreign exchange regulations. As such, we may not have sufficient foreign exchange to meet our foreign exchange needs under certain exchange rates.

Any limitation on the ability of our PRC subsidiaries to pay dividends or make other kinds of payments to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

In addition, the EIT Law and its implementation rules provide that a withholding tax rate of up to 10% will be applicable to dividends payable by Chinese companies to non-PRC resident enterprises unless otherwise exempted or reduced according to treaties or arrangements between the PRC central government and governments of other countries or regions where the non-PRC resident enterprises are incorporated.

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Fluctuations in exchange rates could have a material and adverse effect on our results of operations and the value of your [REDACTED].

The value of the RMB against the Hong Kong dollar, the U.S. dollar and other currencies fluctuates, which is, to a large extent, subject to domestic and international economic and political developments as well as supply and demand in the local market. It is difficult to predict how market forces or government policies may impact the exchange rate between the RMB and the Hong Kong dollars, the U.S. dollar or other currencies in the future. We cannot assure you that RMB will not appreciate or depreciate significantly in value against Hong Kong dollars and the U.S. dollar in the future.

Any significant appreciation or depreciation of RMB may materially and adversely affect our revenues, earnings and financial position, and the value of, and any dividends payable on, our Shares. For example, to the extent that we need to convert Hong Kong dollars into Renminbi for capital expenditures and working capital and other business purposes, appreciation of the Renminbi against the Hong Kong dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, a significant depreciation of the Renminbi against the Hong Kong dollar may significantly reduce the Hong Kong dollar equivalent of our earnings, which in turn could adversely affect the price of our Shares, and if we decide to convert Renminbi into Hong Kong dollars for the purpose of making payments for dividends on our Shares, strategic acquisitions or investments or other business purposes, appreciation of the Hong Kong dollar against the Renminbi would have a negative effect on the Hong Kong dollar amount available to us.

Very limited hedging options are available for us to reduce our exposure to exchange rate fluctuations. Currently, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited, and we may not be able to adequately hedge our exposure or at all.

Governmental regulation of currency conversion may limit our ability to utilize our revenues effectively and affect the value of your [REDACTED].

We expect to receive a majority of any future revenues we earn in Renminbi. Under our current corporate structure, our Cayman Islands holding company may rely on dividend payments from our Group entities in mainland China to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval of SAFE by complying with certain procedural requirements. Specifically, under the existing exchange policies, without prior approval of SAFE, cash generated from the operations of our PRC subsidiaries in mainland China may be used to pay dividends to our Company. However, we need to obtain SAFE approval to use cash generated from the operations of our PRC subsidiaries to pay off their respective debt in a currency other than RMB owed to entities outside mainland China, or to make other capital expenditure payments outside mainland China

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in a currency other than RMB. Our failure to obtain sufficient foreign currencies to satisfy our foreign currency demands may have a material adverse impact on our ability to fund our operations and our ability to pay dividends in foreign currencies to our Shareholders.

RISKS RELATING TO THE [REDACTED]

There has been no public market for our Shares prior to the [REDACTED], and the [REDACTED] and [REDACTED] of our Shares may be volatile.

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

- actual or anticipated fluctuations in our results of operations (including variations arising from foreign exchange rate fluctuations);
- news regarding recruitment or loss of key personnel by us or our competitors;
- announcements of competitive developments, acquisitions or strategic alliances in our industry;
- changes in earnings estimates or recommendations by financial analysts;
- potential litigation or regulatory investigations;
- changes in general economic conditions or other developments affecting us or our industry;
- price movements on international stock markets, the operating and stock price performance of other companies, other industries and other events or factors beyond our control; and
- release of lock-up or other transfer restrictions on our outstanding Shares or sales or perceived sales of additional Shares by us or other Shareholders.

In addition, the Stock Exchange and other securities markets have, from time to time, experienced significant price and volume fluctuations that are not related to the operating performance of any particular company. These fluctuations may also materially and adversely affect the [REDACTED] of our Shares.

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You will incur immediate and substantial dilution and may experience further dilution in the future.

As the [REDACTED] of our Shares is higher than the net tangible book value per Share immediately prior to the [REDACTED], purchasers of our Shares in the [REDACTED] will experience an immediate dilution in [REDACTED] adjusted consolidated net tangible assets. See “Appendix II — Unaudited [REDACTED] Financial Information.” If we issue additional Shares in the future, purchasers of our Shares in the [REDACTED] may experience further dilution in their shareholding percentage.

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

Prior to and immediately following the completion of the [REDACTED], our Controlling Shareholders will retain substantial control over our Company. Therefore, the Controlling Shareholders will be able to exercise significant control and exert significant influence over our business or otherwise on matters of significance to us and other Shareholders by voting at the general meeting of the Shareholders and at Board meetings. The interests of our Controlling Shareholders may differ from the interests of other Shareholders, and they are free (other than on any matters that they are required to abstain from voting on) to exercise their votes according to their interests. To the extent that the interests of the Controlling Shareholders conflict with the interests of other Shareholders, the interests of other Shareholders can be disadvantaged and harmed.

The actual or perceived sale or availability for sale of substantial amounts of our Shares, especially by our Directors, executive officers, Controlling Shareholders and [REDACTED] Investors, could adversely affect the [REDACTED] of our Shares.

Future sales of a substantial number of our Shares, especially by our Directors, executive officers, Controlling Shareholders and the [REDACTED] Investors, or the perception or anticipation of such sales, could negatively impact the [REDACTED] of our Shares in Hong Kong and our ability to raise equity capital in the future at a time and price that we deem appropriate. The Shares held by certain of our shareholders are subject to certain lock-up periods beginning on the date on which [REDACTED] in our Shares commences on the Stock Exchange. While we currently are not aware of any intention of such persons to dispose of significant amounts of their Shares after the expiry of the lock-up periods, we cannot assure you that they will not dispose of any Shares they may own now or in the future.

We cannot assure you whether and when we will declare and pay dividends in the future.

We cannot guarantee when and in what form dividends will be paid on our Shares following the [REDACTED]. Distribution of dividends will be at the discretion of our Board and subject to Shareholders’ approval. A decision to declare or pay dividends and the amount of such dividends will depend on our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. See “Financial Information — Dividends”. As a result, there can be no assurance whether, when and in what manner we will pay dividends in the future.

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Facts, forecasts and statistics in this document relating to the general economy and the industry that we operate in may not be fully reliable.

This document, particularly the sections headed “Business” and “Industry Overview,” contains information and statistics relating to the PRC, the PRC economy and our industry. Such information and statistics have been derived from different official government publications, available sources from public market research and other sources from independent suppliers, and from an independent industry report prepared by China Insights Industry Consultancy Limited. We believe that the sources of the information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. The information from official government sources has not been independently verified by us, the [REDACTED], any of their respective directors and advisors, or any other persons or parties involved in the [REDACTED] (excluding China Insights Industry Consultancy Limited), and no representation is given as to its accuracy. Collection methods of such information may be flawed or ineffective, or there may be discrepancies between published information and market practice, which may result in the statistics being inaccurate or not comparable to statistics produced for other economies. You should therefore not place undue reliance on such information. In addition, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In any event, you should consider carefully the importance placed on such information or statistics.

Forward-looking information in this document is subject to risks and uncertainties.

This document contains forward-looking statements with respect to our business strategies, operating efficiencies, competitive positions, and growth opportunities for existing operations, plans and objectives of management, certain pro forma 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 and 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 consequence, these forward-looking statements should be considered in light of various important factors, including those set out in “Risk Factors”. 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.

THIS DOCUMENT IS IN DRAFT FORM. THE INFORMATION CONTAINED HEREIN IS INCOMPLETE AND IS SUBJECT TO CHANGE. THIS DOCUMENT MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

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

There may be coverage in the media regarding the [REDACTED] and our operations. We do not accept any responsibility for the accuracy or completeness of the information and make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the media. To the extent that any of the information in the media is inconsistent or conflicts with the information contained in this document, we disclaim it. Accordingly, prospective [REDACTED] should read the entire document carefully and should not rely on any of the information in press articles or other media coverage. Prospective [REDACTED] should rely only on the information contained in this document to make [REDACTED] decisions about us.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the [REDACTED], our Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

WAIVER IN RELATION TO MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong.

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on June 19, 2018. The headquarters of our Company is located in mainland China and a substantial portion of the business operations and management functions of our Group are based outside of Hong Kong and are in mainland China. Our Company has two executive Directors and four other senior management members, the majority of whom are based in mainland China and are expected to continue to be based in mainland China. We consider that it is in the best interests of our Company for our executive Directors and our senior management to be based in the places where our Group has significant operations and it would be practically difficult, unduly burdensome and costly to relocate our executive Directors to Hong Kong or appoint additional executive Directors who are ordinarily resident in Hong Kong.

We do not and, for the foreseeable future, will not have sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules. Accordingly, we have applied to the Stock Exchange for[, and the Stock Exchange has granted,] a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, we will put in place by the [REDACTED] the following measures in order to ensure that regular communication is maintained between the Stock Exchange and us:

- (a) our Company has appointed Mr. Cui, our executive Director, and Ms. Ho Sin Tung (何倩彤) (“**Ms. Ho**”), one of our joint company secretaries, as our two authorized representatives pursuant to Rule 3.05 of the Listing Rules. Our authorized representatives will act as the principal channel of communication between the Stock Exchange and our Company. Ms. Ho is ordinarily resident in Hong Kong, and Mr. Cui will be available to visit Hong Kong and meet with the Stock Exchange within a reasonable period of time upon request. Our authorized representatives will be readily contactable by the Stock Exchange by telephone and/or email to deal promptly with any enquiries which may be made by the Stock Exchange. Each of our authorized representatives is authorized to communicate on behalf of our Company with the Stock Exchange;
- (b) each of our authorized representatives has means to contact all our Directors (including our independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters. Our Company will implement a policy whereby:
 - (i) each Director will provide his/her mobile phone number, office phone number and email address to the authorized representatives;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (ii) each Director will provide his/her phone number(s) or means of communication to our authorized representatives when he/she is travelling; and
- (iii) each Director will provide his/her mobile phone number, office or home phone number and email address to the Stock Exchange;
- (c) each Director who is not ordinarily resident in Hong Kong has confirmed that he/she possesses or can apply for valid travel document(s) to visit Hong Kong and can meet with the Stock Exchange upon reasonable notice;
- (d) in compliance with Rules 3A.19 of the Listing Rules, our Company has retained Haitong International Capital Limited to act as the compliance advisor of our Company, who will act as an additional channel of communication between the Stock Exchange and our Company for the period commencing on the [REDACTED] and ending on the date that our Company publishes its financial results for the first full financial year after the [REDACTED] pursuant to Rule 13.46 of the Listing Rules. Our Company will ensure that the compliance advisor has prompt access to our Company’s authorized representatives and Directors who will provide to the compliance advisor such information and assistance as the compliance advisor may need or may reasonably require in the course of performing its duties. In the event our authorized representatives and our Directors are unavailable, our compliance advisor will be available to answer enquiries from the Stock Exchange and will act as the principal channel of communication between the Stock Exchange and our Company;
- (e) our Company will inform the Stock Exchange promptly in respect of any change in our Company’s authorized representatives and compliance advisor; and
- (f) our Company will retain a Hong Kong legal advisor to advise our Company on the application of the Listing Rules and other applicable Hong Kong laws and regulations after the [REDACTED].

We believe that the above measures and arrangements will ensure that all members of our Board can be promptly informed of any matters raised by the Stock Exchange and that there is an effective communication channel in place between the Stock Exchange and our Company.

WAIVER IN RELATION TO JOINT COMPANY SECRETARIES

Pursuant to Rules 8.17 and 3.28 of the Listing Rules, our company secretary must be an individual who, by virtue of his or her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary.

Note 1 to Rule 3.28 of the Listing Rules stipulates that the Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (a) a member of the Hong Kong Chartered Governance Institute;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); and
- (c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

Note 2 to Rule 3.28 of the Listing Rules further provides that in assessing “relevant experience”, the Stock Exchange will consider the individual’s:

- (a) length of employment with the issuer and other issuers and the roles he/she played;
- (b) familiarity with the Listing Rules and other relevant law and regulations including the SFO, Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance, and the Takeovers Code;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 (i.e. not less than 15 hours of relevant professional training in each financial year); and
- (d) professional qualifications in other jurisdictions.

We have appointed Ms. Chen Lingzhu (陳靈珠) (“**Ms. Chen**”) as one of our joint company secretaries. Our Directors are of the view that, considering Ms. Chen’s past management experience within our Group, her thorough understanding of the internal administration and business operations of our Group as well as her industry knowledge, she is a suitable person to act as a company secretary of our Company. In addition, as our headquarters and principal business operations are located in mainland China, our Directors believe that it is necessary to appoint Ms. Chen as a company secretary whose presence in mainland China will enable her to attend to the day-to-day corporate secretarial matters and Listing Rules compliance matters concerning our Group. However, as Ms. Chen does not possess the qualification and sufficient relevant experience as stipulated in the notes to Rule 3.28 of the Listing Rules, she is not able to solely fulfill the requirements as a company secretary of a [REDACTED] issuer stipulated under Rules 8.17 and 3.28 of the Listing Rules. Therefore, we have appointed Ms. Ho, who fulfils the requisite qualification as required under note 1 to Rule 3.28 of the Listing Rules, to act as the other joint company secretary and to assist Ms. Chen to acquire all qualifications and experience as the company secretary of our Company required under Rule 3.28 of the Listing Rules. For the biographical details of Ms. Chen and Ms. Ho, see “Directors and Senior Management.”

Apart from discharging her functions in her role as one of our joint company secretaries, Ms. Ho will assist Ms. Chen in enabling her to acquire the relevant company secretary experience as required under Rule 3.28 of the Listing Rules and to become familiar with the requirements of the Listing Rules and other applicable Hong Kong laws and regulations. In addition, Ms. Chen will also attend relevant professional training during each financial year as required under Rule 3.29 of the Listing Rules and such other professional training as may be appropriate.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Accordingly, we have applied to the Stock Exchange for[, and the Stock Exchange has granted,] a waiver from strict compliance with Rules 8.17 and 3.28 of the Listing Rules in respect of the appointment of Ms. Chen as one of our joint company secretaries on the conditions that:

- (a) Ms. Chen must be assisted by Ms. Ho, who possesses the qualifications and experience required under Rule 3.28 of the Listing Rules and is appointed as a joint company secretary of our Company, throughout the validity period of the waiver; and
- (b) the waiver is valid for a period of three years from the [REDACTED] and will be revoked immediately if and when Ms. Ho ceases to provide such assistance or if there are material breaches of the [REDACTED] by our Company.

Further, before the end of the three-year period, the qualifications and experience of Ms. Chen and the need for on-going assistance of Ms. Ho will be further evaluated by the Company. The Company will then endeavour to demonstrate to the Stock Exchange’s satisfaction that Ms. Chen, having had the benefit of the assistance of Ms. Ho for the three immediately preceding years, has acquired the relevant experience (within the meaning of note 2 to Rule 3.28 of the Listing Rules) such that a further waiver from Rules 8.17 and 3.28 of the Listing Rules will not be necessary.

WAIVER IN RELATION TO CONTINUING CONNECTED TRANSACTIONS

We have entered into certain transaction(s), which would constitute continuing connected transactions subject to annual reporting, annual review, announcement, circular and independent Shareholders’ approval requirements, namely non-exempt continuing connected transactions under Chapter 14A of the Listing Rules after the [REDACTED]. Accordingly, we have applied to the Stock Exchange for[, and the Stock Exchange has granted,] a waiver from strict compliance with the requirements of Chapter 14A of the Listing Rules in relation to these continuing connected transactions. For details about such transactions together with the application for a waiver from strict compliance with the relevant announcement, circular and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules, see “Connected Transactions.”

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[REDACTED]

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INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

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[REDACTED]

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[REDACTED]

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DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Cui Xiangrui (崔祥瑞)	Room 18A, Tower D Building 11, Shenyue Xin'an Line Xin'an Avenue Southeast Side Baoan District, Shenzhen Guangdong Province PRC	Chinese
Mr. Li Yongfeng (李永豐)	28E, Building 1, Phase 1 Haijingjie Jiayuan Houhai Avenue Nanshan District, Shenzhen Guangdong Province PRC	Chinese
Non-Executive Directors		
Dr. Chang Nan-Hsig (張南雄)	3F-2, No. 33 Lane 121, Section 1 Zhongshan North Road Zhongshan District, Taipei Taiwan	Chinese (Taiwan)/ United States
Independent Non-Executive Directors		
Mr. Zeng Jun (曾俊)	No. 142, Lane 800, Gaojing Road Qingpu District, Shanghai PRC	Chinese
Mr. Ta Ergai (塔爾蓋)	Rooms 202–214 No. 668 Shenzhuan Road Songjiang High-tech Park Caohejing Development Zone Shanghai PRC	Chinese
Ms. Chau Chi Yan Amanda (朱芷欣)	20C Pearl Garden 7 Conduit Road Hong Kong	Chinese (Hong Kong)

Further information about our Directors and other senior management members is set out in “Directors and Senior Management.”

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DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

PARTIES INVOLVED IN THE [REDACTED]

Sole Sponsor

Haitong International Capital Limited
Suites 3001–3006 and 3015–3016
One International Finance Centre
No. 1 Harbour View Street
Central, Hong Kong

[REDACTED]

[REDACTED]

Legal Advisors to Our Company

As to Hong Kong laws:

Han Kun Law Offices LLP
Rooms 4301–10
43/F., Gloucester Tower
The Landmark
15 Queen’s Road Central
Hong Kong

As to PRC laws:

Han Kun Law Offices
9/F, Office Tower C1
Oriental Plaza
1 East Chang An Ave.
Dongcheng District
Beijing 100738, PRC

As to Cayman Islands laws:

Harney Westwood & Riegels
3501 The Center
99 Queen’s Road Central
Hong Kong

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DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

**Legal Advisors to the Sole Sponsor
and the [REDACTED]**

As to Hong Kong laws:

Linklaters

11/F, Alexandra House
Chater Road
Central
Hong Kong

As to PRC laws:

Jingtian & Gongcheng

34/F, Tower 3
China Central Place
77 Jianguo Road
Chaoyang District
Beijing, PRC

Auditor and Reporting Accountants

Ernst & Young

*Certified Public Accountants and Registered Public
Interest Entity Auditor*
27/F, One Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

Industry Consultant

China Insights Industry Consultancy Limited

10th Floor, Block B
Jing'an International Center
88 Puji Road
Jing'an District
Shanghai, PRC

[REDACTED]

[REDACTED]

CORPORATE INFORMATION

Registered Office	Harneys Fiduciary (Cayman) Limited 4th Floor, Harbour Place 103 South Church Street P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands
Head Office and Principal Place of Business in the PRC	2601, 2608, 2609 Qiancheng Commercial Center No. 5 Haicheng Road Mabu Community, Xixiang Street Bao'an District, Shenzhen PRC
Principal Place of Business in Hong Kong	Room 1928, 19/F Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
Company's Website	<u>www.techcm.com</u> <i>(Note: the information on this website does not form part of this document)</i>
Joint Company Secretaries	Ms. Chen Lingzhu (陳靈珠) 2601, 2608, 2609 Qiancheng Commercial Center No. 5 Haicheng Road Mabu Community, Xixiang Street Bao'an District, Shenzhen PRC Ms. Ho Sin Tung (何倩彤) Room 1928, 19/F Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong

CORPORATE INFORMATION

Authorized Representatives

Mr. Cui Xiangrui (崔祥瑞)
Room 18A, Tower D
Building 11, Shenye Xin'an Line
Xin'an Avenue Southeast Side
Baoan District, Shenzhen
Guangdong Province
PRC

Ms. Ho Sin Tung (何倩彤)
Room 1928, 19/F
Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

Audit Committee

Mr. Zeng Jun (曾俊) (*Chairman*)
Dr. Chang Nan-Hsig (張南雄)
Mr. Ta Ergai (塔爾蓋)

Remuneration Committee

Ms. Chau Chi Yan Amanda (朱芷欣) (*Chairwoman*)
Mr. Cui Xiangrui (崔祥瑞)
Mr. Zeng Jun (曾俊)

Nomination Committee

Mr. Cui Xiangrui (崔祥瑞) (*Chairman*)
Mr. Zeng Jun (曾俊)
Ms. Chau Chi Yan Amanda (朱芷欣)

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Compliance Advisor

Haitong International Capital Limited
Suites 3001–3006 and 3015–3016
One International Finance Centre
No. 1 Harbour View Street
Central, Hong Kong

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CORPORATE INFORMATION

Principal Bank

China Merchants Bank Co., Ltd. Shenzhen Kefa Branch
No.6 Keyuan Road, Technology Park
Yuehai Street
Nanshan District, Shenzhen
Guangdong Province
PRC

INDUSTRY OVERVIEW

Certain information and statistics presented in this section and elsewhere in this document were derived from official government publications and other publicly available sources as well as from a market research report and a user and customer survey, each commissioned by us and prepared by China Insights Industry Consultancy Limited (“CIC”), an independent market research and consulting company. The survey was conducted in July 2024 with 1,059 randomly sampled patients who had received TCM healthcare services from the Company at the time of the survey and 206 randomly sampled users (which included physicians of the Company and physicians of other medical institutions) who had used the TCM Brain to provide healthcare services at the time of the survey. We refer to this report as the “CIC Report” and the survey as the “CIC Survey.” We believe that the sources of the information in this section and elsewhere in this document are appropriate sources for such information and reasonable care has been taken in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any part has been omitted that would render such information false or misleading. The information from official government sources has not been independently verified by us, the Sole Sponsor, [REDACTED], any of the [REDACTED], or any parties (except CIC) involved in the [REDACTED], or any of our or their respective directors, officers, or representatives, and no representation is given as to its accuracy or completeness. Accordingly, you should not place undue reliance on such information and statistics. For discussions of risks relating to our industries, see “Risk Factors — Risks Relating to Our Industry and Business.”

SOURCES OF INFORMATION

CIC was commissioned to conduct research and analysis of, and produce a report on, China’s AI-empowered TCM healthcare service industry and related economic data at a fee of approximately RMB960,000. The commissioned report has been prepared by CIC independently without the influence from the Company or other interested parties. CIC offers industry consulting services, commercial due diligence and strategic consulting. With a consultant team actively tracking the latest market trends in various industries such as healthcare, automotive, consumer goods and services, agriculture, chemicals, marketing and advertising, culture and entertainment, energy and industry, finance and services, CIC possesses the most relevant and insightful market intelligence in these sectors. Except as otherwise noted, all of the data and forecasts contained in this section are derived from the CIC Report.

CIC employed both primary and secondary research methods using a variety of resources. Primary research included interviews with key industry experts and leading participants, while secondary research involved analyzing data from publicly available sources, such as the National Bureau of Statistics and General Administration of Customs of the PRC. The market projections in the CIC Report are based on the following key assumptions during the forecast period: (i) that the overall global social, economic, and political environment is expected to maintain a stable trend over the next decade; (ii) that related key industry drivers are likely to continue driving growth in China’s AI-empowered TCM healthcare service industry during the forecast period; and (iii) that there is no extreme force majeure or set of industry regulations in which the market situation may be affected either dramatically or fundamentally.

INDUSTRY OVERVIEW

Our Directors confirm that, to the best of their knowledge, after making reasonable inquiries, there is no material and adverse change in the market information since the date of the CIC Report, which may qualify, contradict or have an impact on the information in this section.

TCM HEALTHCARE SERVICES: LONG-RUN GROWTH POTENTIAL

Development and Prospect of the TCM Healthcare Service Market in Mainland China

Demand for healthcare services and healthcare expenditure in mainland China has been growing in recent years due to aging population, urbanization, increasing health awareness, and rising household wealth. The growth trajectory is expected to continue. Medical institutions in mainland China are projected to see the total number of outpatient visits increase from around 9.6 billion in 2023 to approximately 11.5 billion by 2028. Correspondingly, the market size of the healthcare service industry in mainland China in terms of revenue is forecasted to expand from roughly RMB5.1 trillion in 2023 to around RMB6.9 trillion by 2028, reflecting a CAGR of 6.3%.

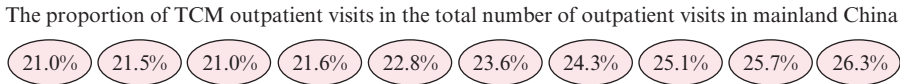
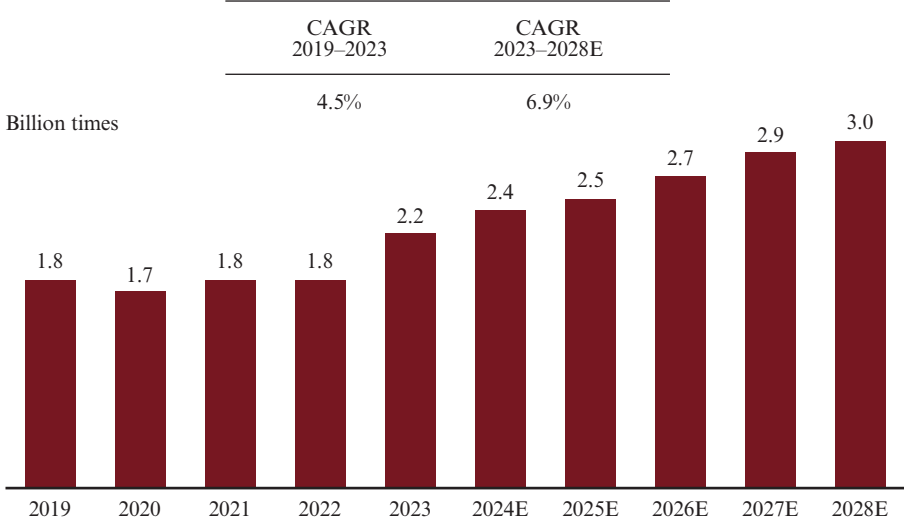
Against such a backdrop of increasing demand for healthcare services, TCM, a distinctive medical system in China, is steadily emerging as a pivotal pillar propelling the growth of the healthcare service industry in mainland China. Deeply rooted in a centuries-old tradition, TCM prioritizes a patient-centric approach, delivering treatments tailored to individual factors such as health status, constitution, age, gender, as well as seasonal and environmental conditions. This holistic, adaptive methodology endows TCM with unique advantages in addressing a wide range of medical challenges, from common ailments and chronic conditions to cancer and severe conditions as well as difficult and complex conditions. Over the millennia, TCM has given rise to a rich legacy of renowned physicians, seminal medical texts, and diverse therapeutic philosophies and methodologies, all of which continue to evolve and innovate to this day.

Owing to its distinctive advantages, TCM has steadily gained recognition and acceptance among patients in recent years in mainland China. In 2023, the TCM healthcare service providers in mainland China achieved an impressive 2.2 billion TCM outpatient visits, with a CAGR of 4.5% from 2019 to 2023, outpacing the 2.3% of that of the overall healthcare service industry during the same period. In addition, more patients have been electing to receive TCM treatment for complex medical conditions. For instance, in TCM hospitals, the CAGR of outpatient visits for oncology services reached 4.7% from 2019 to 2023, while the CAGR of inpatient discharges for oncology services reached 5.1%, both outpacing the overall growth rates for all services provided by such medical institutions. According to the CIC Report, such development is expected to be further accelerated by a number of factors, such as patients' increasing willingness to pay for TCM healthcare services, surging demand from aging population, policy tailwind, and technology breakthrough. By 2028, the number of TCM outpatient visits in mainland China is expected to increase to 3.0 billion, at a CAGR of 6.9% from 2023 to 2028, surpassing the 3.8% of the overall healthcare service industry during the same period. As a result, TCM's share of total outpatient visits is expected to increase from 22.8% in 2023 to 26.3% by 2028.

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INDUSTRY OVERVIEW

Number of outpatient visits for TCM healthcare services in mainland China, 2019–2028E



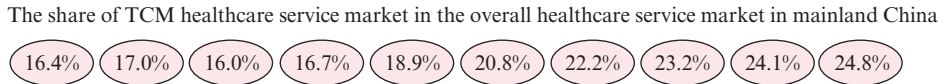
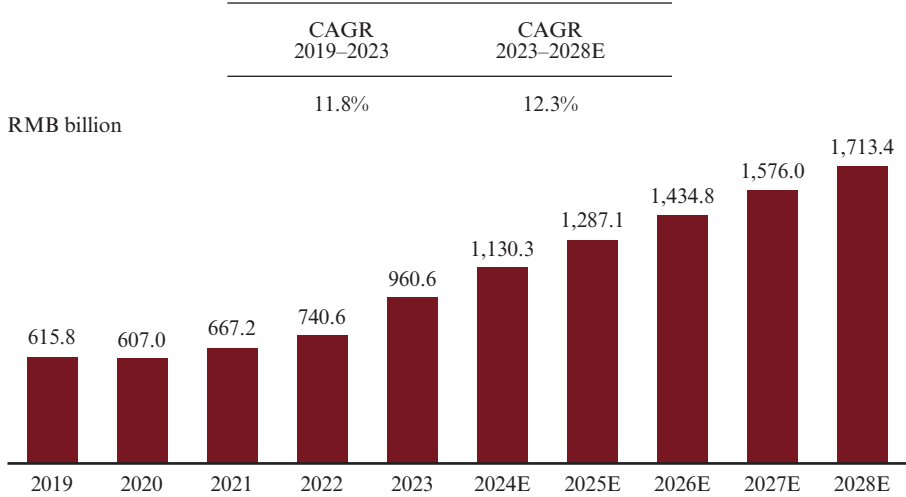
Note: Outpatient visits include visits in TCM hospitals, TCM outpatient departments, TCM clinics and other TCM medical institutions, such as community medical institutions providing TCM healthcare services

Source: CIC Report

In 2023, the TCM healthcare service market in mainland China, in terms of revenue of TCM medical institutions, has already reached a sizable scale of RMB960.6 billion. The market is projected to sustain a robust growth in the future, reaching RMB1,713.4 billion by 2028 with a CAGR of 12.3% from 2023 to 2028.

INDUSTRY OVERVIEW

Market size of the TCM healthcare service market in mainland China, 2019–2028E



Note: The market size of the TCM healthcare service market is estimated by aggregating all expenditures incurred by patients during the whole process in which patients receive diagnosis and treatment from TCM healthcare service providers.

Source: CIC Report

Key Drivers of the TCM Healthcare Service Market in Mainland China

According to the CIC Report, the market is expected to continue to be driven by the following factors:

- Rising recognition and willingness to pay for TCM.** Due to the widespread dissemination of TCM culture and supportive government policies, public acceptance and trust in TCM have seen steady increase, leading to a significant improvement in TCM health awareness. According to a survey by the National Administration of Traditional Chinese Medicine, in 2022, more than 22 out of every 100 individuals aged 15–69 possess a basic understanding of TCM knowledge, up from 16 in 2019. Furthermore, the CIC Survey indicates that approximately 62.8% of respondents have a strong long-term willingness to spend at least the same or more in TCM healthcare services, compared to their past expenditure. Such progresses demonstrate the enlarging role of TCM healthcare services in the Chinese residents’ healthcare system, as well as their increasing popularity among patients to maintain physical well-being and manage illnesses.

INDUSTRY OVERVIEW

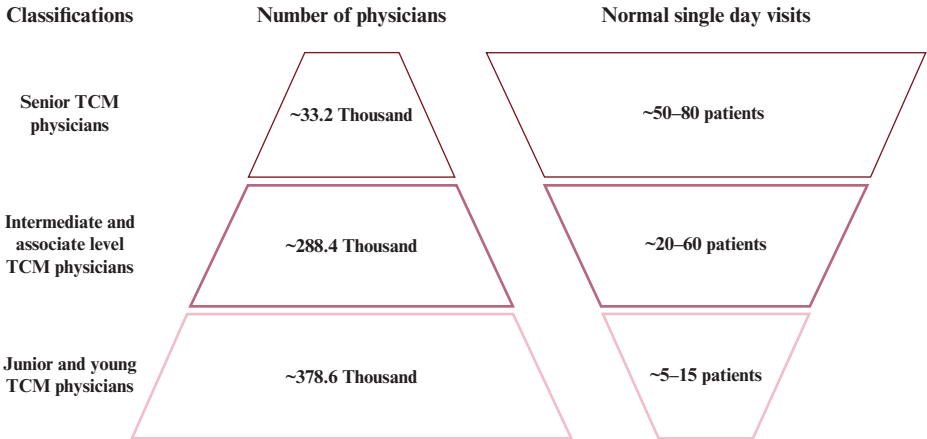
- ***Aging population and demand for treatment of complex and severe conditions.*** The aging demographic shifts in mainland China will unlock significant demand for healthcare services, especially for the treatment of complex and severe conditions. By the end of 2023, individuals aged 60 and above already accounted for over 20% of mainland China’s total population, a proportion projected to reach 25% by 2028. Concurrently, the nation’s average life expectancy has risen from 71.4 years in 2000 to approximately 80.0 years in 2023, and is forecasted to further climb to around 81.3 years by 2035. The combination of aging demographic and the prevalence of unhealthy lifestyles will expose more people to complex and severe conditions. For example, the annual incidence of cancer-related diseases in mainland China has surged from approximately 4.3 million cases in 2018 to around 4.8 million in 2022, with projections indicating a further climb to 5.6 million by 2028. Such diseases usually feature complex complications and unclear causes. TCM healthcare services can offer targeted solutions from a holistic approach. Thus, the demand for TCM healthcare services is expected to see steady increase in this sector. According to the CIC Survey, approximately 80% of the respondents were willing to receive TCM treatment to address complex and severe conditions.
- ***Robust policy support.*** The Chinese government has demonstrated strong policy commitment to the advancement of TCM. In recent years, a series of policy directives have been rolled out to support the systemic development of the TCM. For instance, the Opinions on Promoting the Inheritance and Innovation of Traditional Chinese Medicine issued in October 2019 outlined six key focus areas, ranging from enhancing service system building to cultivating talent and driving innovation. Further, the 14th Five-Year Plan for the Development of Traditional Chinese Medicine and multiple national-level initiatives introduced between March 2022 and April 2023 have set precise targets and support mechanisms for TCM healthcare services, workforce development, information infrastructure, as well as cultural preservation and innovation.
- ***Increasing adoption of novel technologies.*** Advanced technologies such as AI have enhanced the accessibility and efficiency of TCM healthcare services, further accelerating the development of the TCM healthcare service industry. In particular, the application of large AI models has fueled a continuous expansion in the TCM field in recent years. Such algorithmic models can be trained with massive real-world data and cases to serve as clinical decision-making assistants, helping to standardize and enhance the diagnosis of TCM physicians. As a result, the technological integration has catalyzed the scalable development of the TCM healthcare service industry, enabling it to serve more patients with greater precision and better treatment outcome.

INDUSTRY OVERVIEW

Challenges in the TCM Healthcare Service Market

Despite the growing public acceptance of TCM, the sector continues to grapple with a persistent imbalance between supply and demand. It is challenging to effectively meet the heightened demand for TCM healthcare services among the public across a wide geographic reach, leading patients to flock to a limited number of renowned senior TCM physicians.

The supply and demand relationship of TCM healthcare services in mainland China



Source: CIC Report

Note: Titles of TCM physicians in mainland China are generally classified pursuant to regulations applying to all physicians practicing at medical institutions. “Senior TCM physicians” mainly refer to chief physicians (主任醫師), “intermediate and associate level TCM physicians” encompass deputy chief physicians (副主任醫師) and attending physicians (主治醫師), and “junior and young TCM physicians” primarily denote junior physicians (醫師).

Supply-side Challenges:

- Limited standardization:* Characterized by multiple schools of diverse treatment approaches under different philosophies, TCM often faces challenges with standardization. The highly personalized nature of TCM diagnosis and treatment, which emphasizes tailoring to individual characteristics, means that treatment plans, drug combinations, dosage, and therapies are heavily dependent on the professional judgment of physicians.
- Scarcity of senior TCM physicians and lengthy training:* In 2023, mainland China had around 700,000 TCM physicians, of whom less than 5% were senior TCM physicians. While the proportion of junior and young TCM physicians is relatively high, they typically require years of extensive clinical experience and training to become experienced experts capable of independently managing complex medical cases.

INDUSTRY OVERVIEW

- *Heavy reliance on renowned senior TCM physicians:* Traditional TCM diagnosis and treatment rely heavily on the subjective clinical judgment of physicians, with limited use of technological and technical methods. This has led to strong dependence on a small number of highly experienced senior TCM physicians whose expertise and proven clinical outcomes are highly sought after.
- *High talent acquisition cost:* The scarcity of experienced TCM physicians, combined with strong patient preference for them, drives up talent acquisition costs for medical institutions. TCM healthcare service providers usually allocate a large portion of their income to retain these talents to attract patients. This constrains the profitability of medical institutions and poses a challenge to the scalable development of private TCM clinics which struggle to find and afford such talents.

Due to the aforementioned challenges, TCM healthcare service providers tend to struggle to achieve significant growth and expansion. The top ten TCM healthcare service providers account for less than 5% of total market in terms of revenue, indicating a highly fragmented industry. This dispersed market structure hinders the broad availability of high-quality medical resources, presenting challenges for patients seeking access to high-quality TCM healthcare services.

Demand-side challenges:

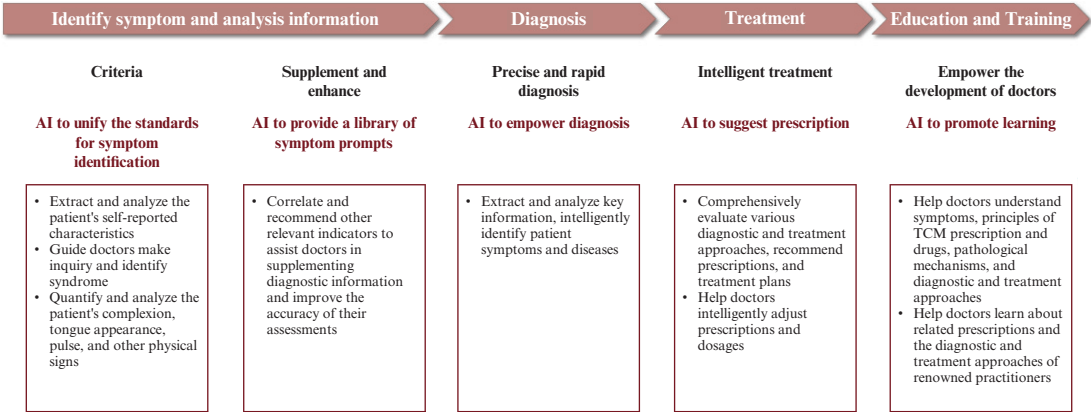
- *Lack of accessibility of reliable TCM healthcare services:* The fragmented nature of the TCM healthcare service market leads to inconsistent quality in diagnosis and treatment, as well as a scarcity of high-quality medical resources. This makes it challenging for patients to locate and access reliable TCM healthcare services, compromising their prospects of receiving effective care and achieving their desired treatment outcomes.
- *Subdued patient demand in TCM for complex conditions:* Many patients with complex conditions such as cancer, epilepsy, and post-stroke complications often lack awareness of TCM’s potential in treating serious conditions. This lack of awareness leads to fewer patients pursuing TCM treatments, which in turn results in underdeveloped demand for these specialized healthcare services in the TCM healthcare service market.
- *Misconception about TCM:* There is a prevalent public misconception that TCM can only provide limited effects and that its benefits manifest slowly. According to the CIC Report, the top five conditions for online TCM consultations in 2023 were insomnia, gastritis, menstrual irregularity, sub-health management, and cough. Most patients’ understanding of TCM’s efficacy is limited to the treatment of common ailments, chronic conditions, and sub-health management, overlooking its potential and advantages in addressing complex and severe medical conditions.

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AI-EMPOWERED TCM: NEW SUSTAINABLE GROWTH OPPORTUNITIES

AI-empowered TCM healthcare services refer to TCM diagnostic and treatment services assisted by intelligent clinical decision support systems that are based on AI technologies. These AI-based systems, drawing insights from the diagnostic and treatment experience and expertise of senior TCM physicians as well as massive knowledge from TCM classics, empower TCM practitioners with standardized and intelligent TCM clinical decision support and guidance. The integration of AI and TCM is expected to present new opportunities for the industry’s sustainable growth and development. By augmenting the capabilities of TCM practitioners, AI-empowered TCM solutions effectively address the challenges and fragmentation confronting the TCM healthcare service market in mainland China.

AI-empowered TCM solutions provide TCM practitioners with objective diagnostic support through standardized examination methods like tongue, pulse, and face diagnosis, while also integrating diverse TCM treatment philosophies to improve overall healthcare service quality. These standardized workflows not only boost diagnostic efficiency but also ensure consistent treatment outcomes, laying a foundation for the high scalability of medical institutions.



Source: CIC Report

Value Proposition of AI-empowered TCM Healthcare Services

- Accelerating the growth and enhancing the competency of young TCM physicians:** The application of AI-assisted TCM clinical decision support systems significantly shortens the development cycle of young TCM physicians and enhances their professional expertise. Not only does this help young TCM physicians achieve clinical proficiency faster, but it also provides the TCM healthcare service industry with high-quality medical resources. Furthermore, it greatly reduces the reliance on renowned senior TCM physicians, providing stable talent support for the large-scale expansion of TCM healthcare service providers.

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- *Improving diagnostic accuracy and treatment outcome through AI capabilities:* AI services leverage image recognition and deep learning to enhance the precision of TCM diagnosis, helping physicians detect subtle physical changes, reduce misdiagnosis, and extract key insights from clinical data to optimize treatment and improve therapeutic outcomes. Moreover, the vast experience and knowledge base of AI-assisted TCM clinical decision support systems provide physicians with evidence-based decision support that is beyond the reach of traditional TCM practices, particularly in complex and difficult-to-diagnose conditions. AI-assisted TCM clinical decision support systems enable physicians to develop more personalized and accurate treatment plans, effectively enhancing the quality and efficiency of healthcare services and delivering a superior healthcare experience for patients.
- *Improving access to high-quality TCM healthcare services across geographic boundaries:* AI-empowered TCM healthcare services can overcome regional limitations, enabling healthcare service providers in rural and underserved remote areas to deliver medical care on par with renowned urban clinics. This not only broadens the coverage of high-quality TCM treatments but also lowers the barriers for patients to access premium medical resources, significantly improving the convenience of healthcare services.

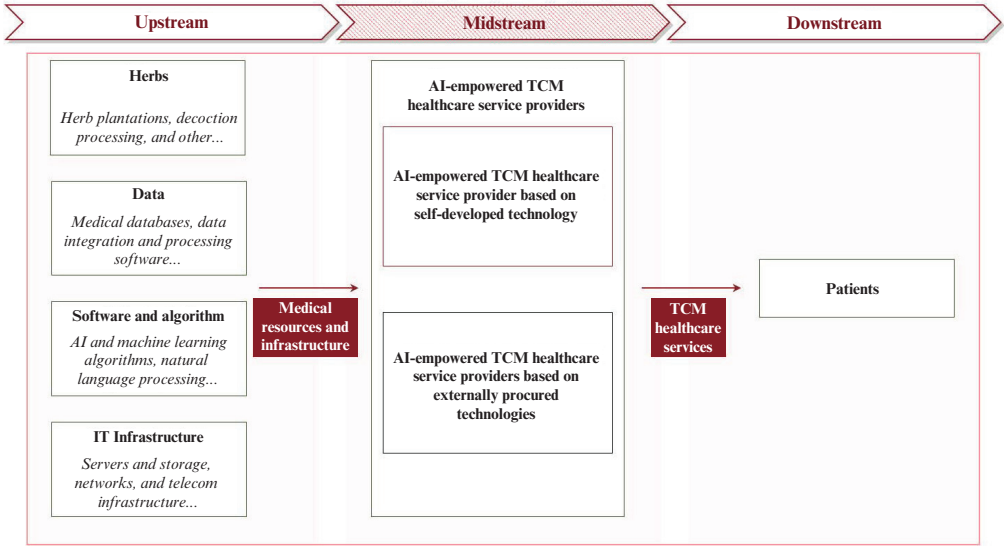
Value Chain of the AI-empowered TCM Healthcare Service Market in Mainland China

AI-empowered TCM healthcare service providers refer to TCM medical institutions that directly offer TCM diagnosis and treatment services supported by AI systems. AI-empowered TCM healthcare service providers generally adopt one of the following two approaches: (i) developing their own AI systems, or (ii) procuring systems developed by third-party technology service providers.

The upstream participants in the AI-empowered TCM healthcare service industry chain include traditional Chinese herbal suppliers, such as Chinese herb plantations, traders, and pharmaceutical processors, as well as technology service providers that offer data, software algorithms, and communication infrastructure. The midstream of the industry chain comprises AI-empowered TCM healthcare service providers, which provide TCM healthcare services to downstream patients.

INDUSTRY OVERVIEW

Value chain of mainland China’s AI-empowered TCM healthcare service market



Source: CIC Report

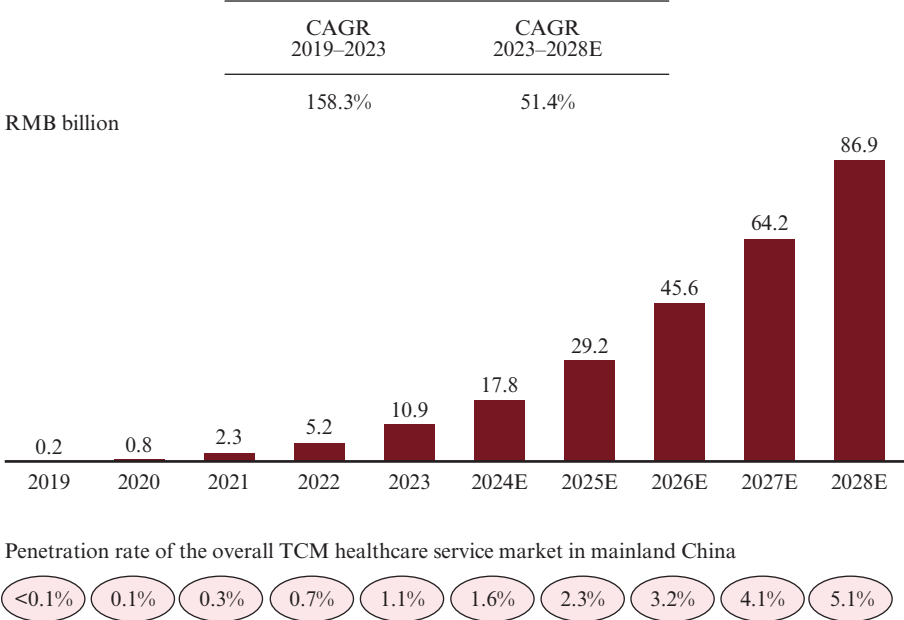
Market Size of the AI-empowered TCM Healthcare Service Market in Mainland China

The AI-empowered TCM healthcare service market refers to the healthcare service market where revenue generated from TCM healthcare services involves the use of AI-assisted TCM clinical decision support systems by AI-empowered TCM healthcare service providers. The AI-empowered revenue generated from AI-empowered TCM healthcare services include all expenditures incurred by patients during the TCM diagnostic and treatment process. Currently, the AI-empowered TCM healthcare service market is in its early stage of development, and TCM healthcare service providers are in the exploratory phase of applying the relevant technologies to test these technologies in certain departments or divisions.

The AI-empowered TCM healthcare service market has experienced rapid growth in recent years, with an estimated market size in terms of revenue of around RMB10.9 billion in 2023 and a CAGR of 158.3% from 2019 to 2023. As the value of AI technology in TCM diagnosis and treatment becomes increasingly evident, the market penetration rate, which measures the percentage of revenue of the AI-empowered TCM healthcare service market over that of the overall TCM healthcare service market, is expected to continue rising in mainland China. According to the CIC Report, the penetration rate will grow from 1.1% in 2023 to around 5.1% by 2028, and the size of the AI-empowered TCM healthcare service market will further expand to approximately RMB86.9 billion by 2028, with a projected CAGR of 51.4% from 2023 to 2028. Meanwhile, the number of AI-empowered TCM healthcare service providers is expected to increase from 12.6 thousand in 2023 to 36.9 thousand in 2028 with a CAGR of 24.0% from 2023 to 2028.

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Market size of the AI-empowered TCM healthcare service market in mainland China, 2019–2028E



Source: CIC Report

Key Drivers of the AI-empowered TCM Healthcare Service Market

- Optimization of AI capabilities helps enhance the quality of TCM healthcare services.** AI-empowered TCM technology (i) effectively expands the scope of physicians’ experience by leveraging AI technology and a wealth of historical cases, helping physicians address more complex and difficult-to-treat conditions and enhancing the diagnostic and treatment capabilities of individual physicians; (ii) improves the consistency and stability of overall treatment outcome, reducing differences in service quality caused by variations in individual physicians’ experience and judgment; (iii) shortens the training period for young physicians, enabling the scalable provision of high-quality medical professionals; and (iv) facilitates the wider dissemination and application of the diagnostic and treatment expertise of a small number of experts, thereby helping to increase the accessibility of quality medical resources and reducing medical institutions’ reliance on a few senior TCM practitioners.

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- ***The penetration of AI-empowered TCM healthcare services is increasing.*** As the acceptance and recognition of these new technological capabilities continue to grow, both medical institutions and patients are actively embracing AI-empowered TCM technology. Currently, not only public TCM hospitals and private TCM clinics, but also internet companies and various other technology companies are increasing their investments in the AI-empowered TCM field. Some public medical institutions have even incorporated the application or innovation associated with AI technology into their evaluation of physicians’ performance. The penetration of AI-empowered TCM healthcare services is expected to increase significantly in the future, further driving market growth and industry innovation.
- ***Policies support the application of technology and innovation in TCM.*** In July 2024, the National Administration of Traditional Chinese Medicine and the National Data Administration jointly issued the “Several Opinions on Promoting the Development of Digital Traditional Chinese Medicine”, explicitly outlining plans to gradually integrate emerging digital technologies such as big data and AI into the inheritance and innovation of TCM within a timeframe of three to five years. This policy places particular emphasis on the sharing of TCM data, the development and application of AI large models, marking a significant acceleration in the intelligent transformation of TCM healthcare services and providing robust support for the advancement of the industry.

Competitive Landscape of the AI-empowered TCM Healthcare Service Market in Mainland China

As of December 31, 2023, there are approximately 12.6 thousand AI-empowered TCM healthcare service providers in mainland China, including public and private TCM hospitals, TCM outpatient departments, TCM clinics and other TCM healthcare service providers. As most TCM service providers are still in the early stages of adopting AI-assisted TCM clinical decision support systems, the application of such systems remains relatively limited. For instance, some public healthcare service providers only utilize AI-assisted TCM clinical decision support systems for a limited portion of departments or physicians. Consequently, the overall revenue generated from AI-empowered TCM healthcare services is relatively modest. The AI-empowered TCM healthcare service market in mainland China is highly fragmented, with the top five market participants accounting for a market share of approximately 5.4%.

We are the largest AI-empowered TCM healthcare service provider in mainland China in terms of AI-empowered revenue in 2023. We are also the only AI-empowered TCM health service provider that has commercialized its proprietary technologies on a large scale with revenue above RMB100 million.

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The following table sets forth the top five AI-empowered TCM healthcare service providers in terms of AI-empowered revenue in 2023:

Ranking	Name	Classification	AI-empowered Revenue ¹ , RMB million, 2023	Market Share, %, 2023
1	The Company	Private chain-operated AI-empowered TCM medical institution	167.2	1.5
2	Competitor A ²	Public TCM hospital	140.0	1.3
3	Competitor B ³	Public TCM hospital	110.4	1.0
4	Competitor C ⁴	Public TCM hospital	93.0	0.9
5	Competitor D ⁵	Public TCM hospital	83.1	0.8
Total			593.7	5.4

Source: CIC Report

Note:

1. AI-empowered revenue refers to the revenue generated from TCM healthcare services that involve AI-assisted TCM clinical decision support systems, including all costs incurred by patients during the diagnostic and treatment process, such as consultation fees, treatment fees and prescription drugs.
2. Founded in 1960 and headquartered in Shanghai, Competitor A is a Class III Grade A public traditional Chinese medicine hospital.
3. Founded in 1933 and headquartered in Guangzhou, Competitor B is a Class III Grade A public traditional Chinese medicine hospital and one of the earliest traditional Chinese medicine hospitals in modern Chinese history.
4. Founded in 1960 and headquartered in Shanghai, Competitor C is a Class III Grade A public hospital, and one of the four traditional Chinese medicine clinical bases established in China.
5. Founded in 1953 and headquartered in Nanjing, Competitor D is a Class III Grade A public hospital and one of the first provincial-level traditional Chinese medicine hospitals established in China.

The above mentioned top market players include (i) public TCM hospitals that have adopted AI-assisted TCM clinical decision support systems; and (ii) private chain-operated TCM healthcare service providers such as outpatient departments and TCM clinics.

- Leading public TCM hospitals have higher overall revenue, but they generally lack the technical capabilities and financial resources to self-develop AI-assisted TCM clinical decision support systems and typically acquire such systems through procurement from third party providers. Currently, the application of AI technology is still at early stage. Some physicians in the selected departments utilize AI in examination and diagnosis, but the usage in prescription and treatment is minimal, and such technology has currently been used by a few departments and physicians. As a result, the revenue generated from AI-empowered healthcare services remains limited currently. In the future, driven by positive policies that promote the adoption of innovative technologies, the penetration of AI-empowered healthcare services are expected to increase.

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- Leading private chain-operated AI-empowered TCM medical institutions have begun to develop their proprietary AI-assisted TCM clinical decision support systems, aiming to unleash and enhance the service capabilities and diagnostic efficiency of their physicians through AI technology. Although the scale of individual private medical institutions is smaller compared to public TCM hospitals, their adoption and penetration of AI technology is higher, and are experiencing rapid growth.

Entry Barriers and Key Success Factors

- **Technical capabilities.** Robust technical capabilities are essential for delivering reliable, stable, and accurate AI-empowered TCM healthcare services, which then affects the quality of service, treatment outcomes, customer satisfaction, and operational efficiency. As an advanced computer science technology, AI technology requires scarce specialized talent. To effectively integrate AI into the TCM medical domain, development teams must possess a deep understanding in both TCM and AI field. Late market entrants face significant barriers, as they must invest considerable resources in technology research and development and time to amass large volumes of real-case data to optimize their models.
- **Service quality and departmental coverage.** Prominent market players have established unified and robust internal management and training systems, enabling them to deliver high-quality and effective TCM diagnostic and treatment services. Additionally, leading medical institutions have built comprehensive departmental coverage to cater to the diverse needs of their clientele. In contrast, new entrants must not only enhance the overall treatment capabilities of their physicians, but also invest substantial resources to develop specialized departments in order to gradually build their influence and reputation.
- **Physician talent cultivation capability.** In the TCM healthcare service industry, qualified physician resources are in short supply. If healthcare service providers are unable to rapidly cultivate high-caliber physicians within their own organizations, they must invest additional funds to recruit experienced TCM practitioners externally, which poses a significant challenge for achieving scalable growth. However, leading medical institutions can leverage advanced technology and robust management frameworks to nurture and retain their physicians, thereby enabling more efficient expansion and development.

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- ***Brand reputation and customer acquisition.*** Leading players in the market have established a strong brand presence and positive reputation among customers, which are critical factors in expanding their customer base and reducing customer acquisition costs. Some of the prominent medical institutions have not only earned a favorable word-of-mouth reputation through their exceptional service quality and treatment outcomes but have also built thriving communities of TCM enthusiasts. By offering TCM-related community programs and actively promoting TCM culture, these leading medical institutions have effectively broadened their customer acquisition channels and lowered their acquisition costs, enabling them to continuously and efficiently grow their customer base.
- ***Effective supply chain management.*** The TCM healthcare service industry faces challenges with inefficient supply chains, volatile pricing, and quality control issues. Consequently, the ability to secure high-quality herbal resources, implement efficient and convenient supply chain management, and procure premium-quality herbs at reasonable costs has become a critical competitive advantage for industry participants.
- ***Rapid expansion and scalable growth.*** Providers possess the capacity to establish a nationwide footprint, build service capabilities, and achieve scalable development in order to continuously gain market share. However, due to limitations in brand influence, physician resources, and financial strength, only a few TCM medical institutions have successfully deployed cross-regional, nationwide service networks.

Overview of TCM community

Growing interest and appreciation for TCM culture has led to the increasing popularity of TCM communities. These communities, focused on TCM cultural engagement, have developed integrated online and offline networks. They offer platforms for TCM enthusiasts as well as aspiring practitioner with professional interests in TCM culture and practice, to systematically study TCM knowledge, discuss TCM cultural concepts, and connect with like-minded individuals. Furthermore, these communities provide vital support for the preservation, rejuvenation, and advancement of TCM culture. According to the CIC Report, the TCM community we have established, Jingyi Academy, was the largest TCM community globally based on cumulative number of registered members as of September 30, 2024.

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REGULATIONS RELATING TO THE REFORM OF MEDICAL INSTITUTIONS

The Opinions of the Central Committee of the Communist Party and the State Council on Promoting Further Reform of the Healthcare System (中共中央、國務院關於深化醫藥衛生體制改革的意見) (the “**Opinions**”), which was promulgated by the State Council on March 17, 2009, advocates a range of measures to reform medical institutions in China and to establish a basic healthcare system covering urban and rural residents. The Opinions encourages private capital to invest in medical institutions (including investments by foreign investors), the development of private medical institutions and the reform of public medical institutions (including those established by state-owned enterprises) through private capital investment.

On November 26, 2010, the General Office of the State Council promulgated the Notice of the General Office of the State Council on Forwarding the Opinions of the National Development and Reform Commission (the “**NDRC**”), the Ministry of Health (the “**MOH**”) and Other Ministries on Further Encouraging and Guiding the Establishment of Medical Institutions by Social Capital (關於進一步鼓勵和引導社會資本舉辦醫療機構意見) (the “**Notice**”). The Notice sets out the following measures with respect to expanding the scope for social capital to set up medical institutions, including that social capital is permitted and encouraged to set up various medical facilities, social capital may apply for establishing and operating either for-profit medical institutions (the “**PMIs**”) or not-for-profit medical institutions (the “**NMIs**”) according to its purposes; priority shall be given to social capital when adjusting or increasing medical and health resources; reasonably determine the scope of practice for NMIs; overseas medical institutions, enterprises and other economic organizations are permitted to establish medical institutions together with domestic medical institutions, enterprises or other economic organizations in the form of equity or cooperation joint venture. The restrictions on maximum equity that can be owned by overseas capital in domestic medical institutions will be lifted step by step. Simplify and standardize the approval procedures for medical institutions by overseas capital. The establishment of Sino-foreign equity joint venture and Sino-foreign cooperative joint venture medical institutions can be approved by provincial level health authority and commerce authority. In addition, for encouraging and guiding social capital in setup of medical facilities, the Notice also proposes on tax and price policies for the NMIs, entry policy for service providers under medical insurance plans, employment conditions and purchase of large-scale medical equipment.

Opinions on Accelerating the Development of Setup Medical Institutions by Social Capitals (關於加快發展社會辦醫的若干意見), which was promulgated by the National Health and Family Planning Commission (the “**NHFPC**”) and the National Administration of Traditional Chinese Medicine (the “**NATCM**”) on December 30, 2013, stipulates the policies to support the development of private-invested healthcare institutions, including but not limited to the (i) gradual relaxation of investment in healthcare institutions by foreign capital; (ii) relaxation of requirements for service sectors, allowing social capital’s investment in the areas which are not explicitly prohibited; and (iii) acceleration of the approval procedures regarding the establishment and operation of private hospitals.

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Opinions on Encouraging Social Forces to Provide Multi-layered and Diverse Healthcare Services (關於支持社會力量提供多層次多樣化醫療服務的意見), which was promulgated by the General Office of the State Council on May 16, 2017, stipulates the policies to actively support social forces to go deep into the niche service market, such as specialized medical services, expand the effective supply of services, and foster professionalized advantages. A number of competitive branded service agencies will be formed at a rapid pace.

REGULATIONS RELATING TO TCM AND TCM MEDICAL INSTITUTIONS

According to the Law of the PRC on Traditional Chinese Medicine (中華人民共和國中醫藥法), which was promulgated by the Standing Committee of the National People’s Congress (the “SCNPC”) on December 25, 2016 and came into effect on July 1, 2017, the government supports the establishment of Traditional Chinese Medicine (the “TCM”) medical institutions with private capital. TCM medical institutions established with private capital are entitled to identical rights as the TCM medical institutions sponsored by the government in respect of access, practice, basic medical insurance, scientific research and teaching, and medical personnel title assessment. TCM medical institutions shall be staffed by medical personnel who are mainly TCM professionals and mainly provide TCM services. TCM physicians who have obtained the physician qualification upon examination may, according to the relevant provisions of the government, adopt modern scientific and technical methods relating to their specialties in practice activities after receiving training and passing the examination.

The Strategic Plan on the Development of Traditional Chinese Medicine (2016–2030) (中醫藥發展戰略規劃綱要(2016–2030年)) (the “**Strategic Plan**”), which was promulgated by the State Council on February 22, 2016, made TCM a national strategy, with systemic plans for TCM development in the subsequent era. The Strategic Plan has mapped out a grand blueprint that focuses on the full revitalization of TCM, especially the upgrade of TCM service capabilities (including but not limited to elevating TCM service system covering urban and rural residents, improving the capability of TCM to prevent and treat diseases, and promoting the integration of TCM and western medicine) as well as the accelerated establishment of the “Internet plus” TCM on the basis of new TCM medical service models such as telemedicine, mobile medical treatment, and smart medical treatment, etc.

In order to implement the task of medical and health system reform, the State Council promulgated Several Opinions of on Supporting and promoting the Development of Traditional Chinese Medicine (國務院關於扶持和促進中醫藥事業發展的若干意見) on April 21, 2009, which aims to (i) develop the TCM and preventive healthcare services; (ii) promote the inheritance and innovation of the TCM; (iii) strengthen the construction of the TCM qualified personnel; and (iv) improve the industry development of the TCM.

The Basic Standards for Traditional Chinese Medicine Clinics (2023 Edition) (中醫診所基本標準(2023年版)), which was promulgated by the NATCM on March 10, 2023, stipulates the specific requirements for TCM clinics in terms of personnel, equipment and place.

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On July 25, 2019, the Notice on Pragmatic Strengthening of the Work of Traditional Chinese Medicine in the Establishment of the Medical Treatment Partnership Systems (關於在醫療聯合體建設中切實加強中醫藥工作的通知) was jointly issued by the NATCM and the NHC, which stipulates the following main requirements: (i) promoting the establishment of various forms of the Medical Treatment Partnership Systems (the “MTPS”) led by TCM hospitals; (ii) improving the comprehensive capabilities of county-level TCM hospitals; and (iii) strengthening the policy protection for the establishment of MTPS led by TCM hospitals.

On October 20, 2019, Opinions on Promoting the Inheritance and Innovation of the Traditional Chinese Medicine (關於促進中醫藥傳承創新發展的意見) was jointly issued by the Central Committee and the State Council, which stipulates the following main opinions: (i) improving the TCM service system; (ii) strengthening the unique role of the TCM in maintaining and promoting people’s health; (iii) promoting the quality improvement and the high-quality industry development of the TCM; (iv) strengthening the construction of the TCM qualified personnel; (v) promoting the inheritance and innovation of the TCM; and (vi) reforming and improving the management system and mechanism of the TCM.

On March 23, 2023, Opinions on Further Improving the Medical and Health Service System (關於進一步完善醫療衛生服務體系的意見) was jointly issued by the General Office of the CPC Central Committee and the General Office of the State Council, which stipulates the following main opinions: (i) carrying out training project for talent with characteristics of TCM; (ii) building national bases for prevention and treatment of TCM diseases based on high-level TCM hospitals; (iii) Supporting qualified TCM hospitals in leading the development of medical consortiums to strengthen the development of TCM departments in grass-roots medical and health institutions; (iv) increase investment in TCM hospitals and grass-roots medical and health institutions.

National Medical Products Administration (the “NMPA”) issued Several Measures on Further Strengthening the Scientific Supervision of TCM to Promote the Development of TCM Inheritance and Innovation (關於進一步加強中藥科學監管促進中藥傳承創新發展的若干措施) on January 3, 2023, in order to promote the development of the scientific supervision system of TCM, put forward, including, but not limited to, the following measures: (i) to strengthen the quality of TCM management; (ii) to strengthen the supervision of TCM tablets and formulas particles; (iii) to optimize the management of TCM preparations in medical institutions; (iv) to pay attention to the post-market management of TCM, etc.

REGULATIONS RELATING TO THE CLASSIFICATION OF MEDICAL INSTITUTIONS

The Opinions on Implementing Classification Administration of Urban Medical Institutions (關於城鎮醫療機構分類管理的實施意見), jointly promulgated by the MOH, NATCM, Ministry of Finance (the “MOF”) and NDRC on July 18, 2000 and came into effect on September 1, 2000, provides that medical institutions in the PRC are mainly identified as PMIs and NMIs, and NMIs is further divided into public NMIs and private NMIs. NMIs and PMIs shall be classified based on their business objectives, service purposes and implementation of various financial, taxation, pricing and accounting policies. Also, governments shall not operate for-profit medical institutions. On the other hand, NMIs must comply with the pricing guidance for medical service stipulated by governments from time to time, and the rules and

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policies issued by the NHC and the MOF including Hospital Finance System and Hospital Accounting System. PMIs may distribute their profit to their investors as economic returns. Based on its marketing needs, PMIs have the discretion to set the fees and prices for their medical and healthcare services. In establishing internal control system, they may apply the finance and accounting system and other policies suitable for corporate enterprise. Medical institutions shall file with relevant authorities of health written statements of their not-for-profit/for-profit status when they go through the application, registration and re-examination procedures in accordance with the relevant laws, and the handling authority of health shall, jointly with other relevant authorities, decide the not-for-profit/for-profit status for such medical institution based on the source of its investment and the nature of its business.

REGULATIONS RELATING TO THE MANAGEMENT OF MEDICAL INSTITUTIONS

The Administrative Measures on Medical Institutions (醫療機構管理條例), which was promulgated on February 26, 1994 by the State Council, came into effect on September 1, 1994 and amended on February 6, 2016 and March 29, 2022, and its Implementation Measures, which was promulgated by the MOH on August 29, 1994 and amended on November 1, 2006, June 24, 2008 and February 21, 2017, stipulate that the establishment of a medical institution by any entity or individual must be reviewed and approved by health administrative departments of people’s governments at or above the county level and obtain the Medical Institution Practising Certificate (醫療機構執業許可證). The Medical Institution Practising Certificate shall not be forged, altered, sold, transferred or lent. Where a medical institution violates the provisions hereof, and sells, transfers or lends the Medical Institution Practising Certificate, the health administrative department of the people’s government at the county level or above shall order it to make corrections, confiscate its illegal gains, and impose a fine of not less than five times but not more than 15 times the illegal gains; if the illegal gains are less than RMB10,000, the amount shall be taken as RMB10,000 for calculation; where the circumstance is serious, the Medical Institution Practising Certificate shall be revoked.

The Administrative Measures for Verification of Medical Institutions (For Trial Implementation) (醫療機構校驗管理辦法(試行)), which was promulgated by the MOH and came into effect on June 15, 2009, stipulates that the Medical Institution Practising Certificate is subject to periodic examinations and verifications by registration authorities. Verification period shall be 3 years for general hospitals, hospitals of traditional Chinese medicine, hospitals of western medicine and traditional Chinese medicine, hospitals of ethnic minority medicine and specialized hospitals, as well as sanitariums, rehabilitation hospitals, maternity and children’s health care centers, emergency centers, clinical laboratories and specialized disease prevention institutions equipped with more than 100 beds, while the verification period shall be 1 year for other medical institutions. In the event that a medical institution fails to apply for verification as required and post re-verification procedures or unsuccessful in its re-verification application, the registration authorities may cancel its Medical Institution Practising Certificate.

According to the Administrative Measures for Food Operation Licensing (食品經營許可管理辦法) promulgated by the China Food and Drug Administration (the “CFDA”) on August 31, 2015 and amended on November 17, 2017, a Food Operation License (食品經營許可證) shall be obtained in accordance with the law to engage in food selling and catering services within the PRC.

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REGULATIONS RELATING TO MEDICAL ADVERTISEMENT

Pursuant to the Advertising Law of the PRC (中華人民共和國廣告法) (the “**Advertising Law**”) promulgated by the SCNPC on October 27, 1994, amended on April 24, 2015, October 26, 2018 and April 29, 2021, advertisements shall not contain false statements that are deceitful or misleading to consumers. Advertisements are legally required to receive censorship, including those relating to medical treatment, pharmaceuticals and medical devices, shall be reviewed by the relevant authorities in accordance with relevant rules before being distributed by broadcasting, movies, television, newspapers, journals or otherwise. No such advertisement shall be published without being reviewed. If the advisors published such advertisements without being reviewed in violation of the provisions, the market regulation departments shall order the cessation of the publishing of advertisements, order the advertisers concerned to eliminate the ill-effects within the corresponding scope, and impose a fine equivalent to the amount to three times the amount of the advertising fees; where the advertising fees cannot be calculated or are significantly low, a fine of not less than RMB100,000 and not more than RMB200,000 shall be imposed; where the circumstance is serious, a fine of not less than three times and not more than five times the advertising fees shall be imposed; in case that the advertising fees cannot be calculated or are significantly low, a fine of not less than RMB200,000 and not more than RMB1 million shall be imposed; and the business licenses may be revoked, and the advertisement review authorities shall revoke the approval documents for advertisement review and shall not accept the relevant party’s application for advertisement review for one year.

Pursuant to the Administrative Measures on Medical Advertisement (醫療廣告管理辦法), which was jointly promulgated by the MOH and the State Administration of Industry and Commerce (the “**SAIC**”) on September 27, 1993 and amended on September 28, 2005 and November 10, 2006 and came into effect on January 1, 2007, any medical institution that intends to publish any medical advertisement shall apply for medical advertisement examination and obtain *Medical Advertisement Examination Certificate* (醫療廣告審查證明). The Medical Advertisement Examination Certificate shall be valid for one year.

According to the Circular of the Ministry of Health on Strengthening the Medical Advertisement Administration (衛生部關於進一步加強醫療廣告管理的通知), which was promulgated by the MOH on July 17, 2008 and became effective on the same date, the *Medical Advertisement Examination Certificate* (醫療廣告審查證明) shall be examined strictly, the medical advertisement monitoring system shall be gradually established and improved and the penalty for illegal medical advertisement shall be increased.

Pursuant to the Administrative Measures for Internet Advertisement (互聯網廣告管理辦法) promulgated by the State Administration for Market Regulation (the “**SAMR**”) on February 25, 2023 and became effective on May 1, 2023, advertisements for medical treatment, medicines, medical apparatuses, pesticides, veterinary medicines, health food, foods for special medical purposes and other advertisements which are subject to examination as stipulated by laws and regulations shall be subject to examination by an advertising examination authority prior to the publication, and such advertisements shall not be published without passing such examination.

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Pursuant to the Interim Administrative Measures for Censorship of Advertisements for Drugs, Medical Devices, Dietary Supplements and Foods for Special Medical Purpose (藥品、醫療器械、保健食品、特殊醫學用途配方食品廣告審查管理暫行辦法), which were promulgated by the SAMR on December 24, 2019, effective on March 1, 2020, an enterprise seeking to advertise its drugs, medical devices, dietary supplement or food for special medical purpose must apply for an advertisement approval number. The validity period of the advertisement approval number concerning a drug, medical device, dietary supplement or food for special medical purpose shall be consistent with that of the registration certificate or record-filing certificate or the production license of the product, whichever is the shortest. Where no validity period is set forth in the registration certificate, record-filing certificate or the production license of the product, the advertisement approval number shall be valid for two years. The content of an approved advertisement may not be altered without prior approval. Where any alteration to the advertisement is needed, a new advertisement approval shall be obtained.

REGULATIONS RELATING TO INTERNET HOSPITAL

According to the Guiding Opinions on Vigorously Advancing the “Internet Plus” Action (國務院關於積極推進“互聯網+”行動的指導意見) (the “**Opinions**”) issued by the State Council on July 1, 2015, Internet enterprises are encouraged to cooperate with medical institutions in establishing online medical information platforms, strengthen the integration of regional health care service resources, and make full use of the Internet, Big Data and other means to improve the capability to prevent and control major diseases and unexpected public health incidents.

Pursuant to the Opinions on Promoting the Development of “Internet Plus Health Care” (國務院辦公廳關於促進“互聯網+醫療健康”發展的意見) issued by the General Office of the State Council on April 25, 2018, which encouraged medical institutions to apply the internet and other information technologies to expand the space and content of medical services, and develop an online-offline integrated medical service model covering stages before, during and after diagnosis. The development of Internet hospitals depending on medical institutions shall be permitted. Medical institutions may use Internet hospital as the second name and, based on physical hospitals, use Internet technology to provide safe and appropriate medical services, allowing online subsequent visits for some common diseases and chronic diseases. After reviewing documents of the medical records and profiles of patients, doctors shall be allowed to prescribe online for some common diseases and chronic diseases.

In addition, Opinions on the National Health and Family Planning Commission on Promoting Telemedicine Services in Medical Institutions (國家衛生計生委關於推進醫療機構遠端醫療服務的意見) and Guidance on Improving the Policy of “Internet +” Medical Service Price and Medical Insurance Payment (關於完善“互聯網+”醫療服務價格和醫保支付政策的指導意見) encouraged the expansion of online consultation, which legalized and standardized the online medical service. The PRC government also encouraged offline hospitals to establish online hospitals and promoted the integration of TCM healthcare and Western healthcare.

Pursuant to The 13th Five-year Plan for Health and Wellness (“十三五”衛生與健康規劃) (the “**Plan**”), which was promulgated by the State Council on December 27, 2016, it is proposed to strengthen the informatization of the population health and fully implement “Internet Plus” medical and healthcare people-benefiting service. The Plan also encourages the establishment of

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regional telemedicine platform and enhances the flow of high-quality healthcare resources to the Midwest and the primary level. On July 17, 2018, the NHC and the National Administration of Traditional Chinese Medicine jointly promulgated three documents, including the Measures for the Administration of Internet Diagnosis and Treatment (Trial) (互聯網診療管理辦法(試行)), the Measures for the Administration of Internet Hospitals (Trial) (互聯網醫院管理辦法(試行)) and the Specifications for the Administration of Remote Medical Services (Trial) (遠程醫療服務管理規範(試行)), and amended on September 28, 2018. Pursuant to the Measures for the Administration of Internet Hospitals (Trial), “internet hospitals” include: (a) internet hospitals as the second name of physical medical institutions, and (b) internet hospitals that are independently established on the support of physical medical institutions.

According to the Measures for the Administration of Internet Hospitals (Trial), the state implements access management for internet hospitals pursuant to the Administrative Measures on Medical Institutions (醫療機構管理條例) and the Implementation Measures of the Administrative Measures on Medical Institutions (醫療機構管理條例實施細則), promulgated on August 29, 1994 and amended on February 21, 2017. Before implementing access for internet hospitals, provincial health administrative departments shall establish provincial internet medical service supervision platforms to connect with information platforms of internet hospitals to achieve real-time supervision. Establishing an internet hospital is governed by the administrative approval process as stipulated in the Measures for the Administration of Internet Hospitals (Trial). According to the Measures for the Administration of Internet Hospitals (Trial), applying for establishing an internet hospital is required to submit an application to the practice registration authority of its supported physical medical institution, and submit the application form, the feasibility research report on the establishment, the address of the supported physical medical institution, and the agreement jointly signed by the applicant and the supported physical medical institution in relation to establishing an internet hospital through cooperation. If a physical medical institution intends to establish an internet hospital information platform through cooperation with a third-party institution, the relevant cooperation agreement should be submitted. For an internet hospital sets up through cooperation, if the cooperation partner changes or other circumstance occurs that will invalidate the cooperation agreement, reapplication for establishing an internet hospital shall be required. The health administrative department of the State Council and the competent departments of traditional Chinese medicine shall be responsible for the supervision and administration of the Internet hospitals across China. The local health administrative departments at all levels (including the competent departments of traditional Chinese medicine) shall be responsible for the supervision and management of Internet hospitals within their respective jurisdictions.

In terms of practicing rules on internet hospitals, the Measures for the Administration of Internet Hospitals (Trial) provides that where a third-party institution jointly establishes an internet hospital on the support of its physical medical institution, it shall provide the physical medical institution with professional services such as physicians and pharmacists, and information technology support services, and clarify the responsibilities and rights of all parties in respect of medical services, information security, and privacy protection through agreements and contracts. In terms of supervision and management of internet hospitals, the Measures for the Administration of Internet Hospitals (Trial) clarifies that provincial health administrative departments and the registration authorities for internet hospitals jointly

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implement supervision on internet hospitals through the provincial internet medical service supervision platform, focusing on the supervision on internet hospitals’ personnel, prescriptions, diagnosis and treatment behaviors, patients’ privacy protection and information security. Internet hospitals shall adopt information security protection measures for Level 3 information system in accordance with relevant information security laws and regulations, including completion of filings with local public security authorities. Doctors can only provide follow-up diagnosis services through internet hospitals for patients that have been diagnosed with certain common diseases or chronic diseases, unless the patients are in physical hospitals and the doctors in the physical hospital invite other doctors to provide diagnosis services through internet hospital.

According to the Measures for the Administration of Internet Diagnosis and Treatment (Trial) (互聯網診療管理辦法(試行)), Internet diagnosis and treatment activities shall be provided by the medical institutions that have obtained a “Practicing License for Medical Institution”, and the Internet-based diagnosis services provided by a medical institution shall be consistent with its diagnosis subjects. Physicians and nurses carrying out Internet diagnosis and treatment activities shall be able to be found in the national electronic registration system of physicians and nurses. A medical institution shall conduct electronic real-name verification for the medical staff members carrying out Internet diagnosis and treatment activities.

According to the Measures for the Administration of Internet Hospital (Trial) (互聯網醫院管理辦法(試行)), Internet hospital must inform the patients of the risks and obtain their consents. When a patient receives medical treatment in a physical medical institution and the physician receiving such patient invites other physicians to hold group consultation of physicians through the Internet hospital, the physicians attending the group consultation may issue diagnosis opinions and a prescription; and when a patient does not receive medical treatment in a physical medical institution, a physician may only provide subsequent visits for a patient of some common diseases and chronic diseases through the Internet hospital. Internet hospital may provide contract signing service for family doctors. When a patient’s condition changes or there are other circumstances under which online diagnosis and treatment services are inappropriate, the physician shall direct the patient to receive medical treatment in a physical medical institution. Internet diagnosis and treatment activities shall not be carried out for any patient receiving initial diagnosis.

On February 8, 2022, the NHC and the NATCM jointly promulgated the Rules on the Supervision of Internet Diagnosis and Treatment (Trial) (互聯網診療監管細則(試行)). Pursuant to such rules, physicians who practice at internet hospitals other than their main institutions of practice shall file Multi-site Practice Registration/Filing. A medical institution shall conduct real-name verification for the medical staff members carrying out internet diagnosis and treatment activities.

REGULATIONS RELATING TO PHARMACEUTICAL OPERATION

In September 1984, the SCNPC promulgated the Drug Administration Law (藥品管理法), which was amended in 2001, 2013, 2015 and 2019 respectively to regulate all entities or individuals engaging in research, manufacture, operation, use, supervision and management of drugs within the PRC. According to the Drug Administration Law, no pharmaceutical

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operation, including pharmaceutical wholesale and pharmaceutical retail business, is permitted without obtaining the Pharmaceutical Operation License. Where the trading of drugs is conducted without a Pharmaceutical Operation License, the illegal incomes by selling drugs shall be confiscated and the local medical products administrative authorities shall impose the fine ranging from 15 to 30 times of the value of the illegally sold drugs (including sold or unsold drugs). The Implementation Rules for the Drug Administration Law (藥品管理法實施條例), was promulgated by the State Council in August 2002 and amended in 2016 and 2019, which emphasized the detailed implementation rules of drugs administration.

The NMPA publicly solicited opinions on the Regulations for the Implementation of the Drug Administration Law of the PRC (Revised Draft for Comment) (中華人民共和國藥品管理法實施條例(修訂草案徵求意見稿)) on May 9, 2022, which further strengthens drug supervision and regulation. This draft regulation has not yet come into effect, and the relevant provisions of such regulation is subject to the officially final version to be promulgated upon effective.

According to the Measures on Prescription Drugs and OTC Drugs Classification Management (Trial) (處方藥與非處方藥分類管理辦法(試行)) and the Interim Provisions on the Circulation of Prescription and OTC Drugs (處方藥與非處方藥流通管理暫行規定), which were both promulgated by the State Drug Administration, which was restructured and integrated into the CFDA, in 1999 and became effective in January 2000, drugs are divided into prescription drugs and over-the-counter drugs, or OTC drugs. For prescription drugs, the dispensing, purchase and use can only be based on the prescription issued by the certified medical practitioner or certified medical assistant practitioner. In addition, the prescription drugs can only be advertised and promoted in professional medical magazines. OTC drugs, on the other hand, are further divided into Class A and Class B and they both can be purchased and used without a prescription and promoted in public upon approval by the relevant governmental authorities. The pharmaceutical wholesale enterprises distributing prescription drugs and/or OTC drugs, as well as pharmaceutical retail enterprises selling prescription drugs and/or Class A OTC drugs, are required to obtain the Pharmaceutical Operation License.

The Administrative Standard of Pharmaceutical Operating Quality (藥品經營質量管理規範), promulgated by the CFDA in April 2000 and amended in 2012, 2015 and 2016 respectively, the pharmaceutical operation enterprises shall take effective quality control measures over the process of procurement, storage, transportation and sale of drugs in order to ensure their quality.

Measures for the Supervision and Administration of Drug Quality in Operation and Usage (藥品經營和使用質量監督管理辦法) promulgated by the SAMR on September 27, 2023 and became effective on January 1, 2024, stipulates the procedures for applying the Pharmaceutical Operation License and the requirements and qualifications for pharmaceutical wholesalers or pharmaceutical retailers with respect to their management system, personnel, facilities and etc, as well as quality management standards and norms which shall be observed by medical institutions, pharmaceutical marketing authorization holders and pharmaceutical operators.

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REGULATIONS RELATING TO INTERNET PHARMACEUTICAL TRANSACTION SERVICES

The newly revised Drug Administration Law (藥品管理法) in 2019 abolishes the restriction on online sale of prescription drugs and adopts the principle of keeping online and offline sales consistent. According to Interim Provisions on the Examination and Approval of Internet Drug Transaction Services (互聯網藥品交易服務審批暫行規定), promulgated by CFDA on September 29, 2005 and effective since December 1, 2005, the enterprises engaging in the internet pharmaceutical transaction service shall be subject to examination and acceptance, and obtain the Qualification Certificate for Providing Internet Pharmaceutical Dealing Services. The Qualification Certificate for Providing Internet Pharmaceutical Dealing Services shall be valid for five years. The CFDA is in charge of examination and approval of the services provided for Internet pharmaceutical transactions between pharmaceutical production enterprises, pharmaceutical marketing enterprises and medical institutions, and the provincial Food and Drug Administration shall implement the examination and approval of the services provided for Internet pharmaceutical transactions with third-party enterprises engaged by pharmaceutical production enterprises, pharmaceutical wholesales enterprises on their own websites, as well as Internet pharmaceutical transactions services to individual consumers. The Interim Provisions on the Examination and Approval of Internet Drug Transaction Services further stipulates that any enterprise engaging in online pharmaceutical product trading services to individual consumers shall be established in the form of a pharmaceutical retail chain enterprise. According to the Drug Administration Law and the Administrative Standard of Pharmaceutical Operating Quality, the operation of pharmaceutical retail chain enterprise shall be in compliance with the acceptance standards provided by regulations and the CFDA. After obtaining the Qualification Certificate for Providing Internet Pharmaceutical Dealing Services issued by the competent food and drug supervision and administration authority, the applicant shall obtain the permit for operation of telecommunications services as required by the Internet Measures, or go through the formalities for record-filing. According to the Decision on the Cancellation of the Third Batch of Items Subject to Administrative Permission by Local Governments Designated by the Central Government (國務院關於第三批取消中央指定地方實施行政許可事項的決定), promulgated by the State Council on January 12, 2017, except for the third party platform, all the examination and approval of Internet drug trading service company implemented by FDAs of provincial level are canceled. According to the Decision on the Cancellation of Various Items Subject to Administrative Permission (國務院關於取消一批行政許可事項的決定) by the State Council, on September 22, 2017, the CFDA shall no longer accept applications for examination and approval of Internet drug transaction service enterprises engaging the business as the third party platform.

In August 3 2022, SAMR published the Measures for the Supervision and Administration of Online Pharmaceuticals Sales (“the Online Pharmaceuticals Sales Measures”) (藥品網絡銷售監督管理辦法), aiming to enhance the supervision of online pharmaceutical sales and related platform services. The Measures provides specific and explicit rules for the online sales of prescription drugs, which is perceived to be more conducive online prescription drug sellers including us. The Online Pharmaceuticals Sales Measures provides that, among others, online prescription drug sellers shall (i) ensure the accuracy and reliability of the source of prescription, (ii) keep records of any prescription for at least five years and no less than one year after the expiration date of the prescription drugs, and (iii) disclose safety warnings

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including “prescription drugs should only be purchased and used with prescriptions and guidance of licensed pharmacists” when displaying information of prescription drugs. The Online Pharmaceuticals Sales Measures also imposes certain obligations on platform service providers for online pharmaceutical sales, including, among others, that platform service providers should (i) establish and implement management systems for drug quality and safety, drug information display, prescription examination, real-name purchasing of prescription drugs, drug distribution, transaction record retention, adverse reaction reporting, and complaint and tip-off handling, etc.; (ii) enhance the scrutiny on the required licenses and permits as well as quality safety assurance capacity of online pharmaceutical merchants for online pharmaceuticals sales; and (iii) establish the examination and inspection and monitoring system for online drug sales activities and stop the illegal act and forthwith report to competent governmental authorities when discovering any illegal act committed by an online drug sales enterprise.

REGULATIONS RELATING TO ONLINE DRUG INFORMATION SERVICES

According to the Measures Regarding the Administration of Drug Information Service over the Internet (互聯網藥品信息服務管理辦法), promulgated by CFDA on July 8, 2004 and amended on November 17, 2017, the operational Internet drug information service refers to the activities of providing medical information (including medical devices) and other services to Internet users through the Internet, and where any website intends to provide Internet drug information services, it shall, prior to applying for an operation permit or record-filing from the State Council’s department in charge of information industry or the telecom administrative authority at the provincial level, file an application with the provincial FDA, and shall be subject to the examination and approval thereof for obtaining the qualifications for providing Internet drug information services. The validity term for a Qualification Certificate for Internet Drug Information Services is five years and may be renewed at least six months prior to its expiration date upon a re-examination by the relevant authority. Pursuant to the Measures Regarding the Administration of Drug Information Service over the Internet, the Internet drug information services are classified into two categories, namely, profit-making services and non-profit-making services. Profit-making services refers to that of providing Internet users with drug information in return for service fees whilst non-profit-making services refers to that of providing Internet users with drug information which is shared and accessible by the public through the Internet free of charge. Furthermore, the information relating to drugs shall be accurate and scientific in nature, and its provision shall comply with the relevant laws and regulations. No product information of stupeficient, psychotropic drugs, medicinal toxic drugs, radiopharmaceutical, detoxification drugs and pharmaceuticals made by medical institutes shall be distributed on the website. In addition, advertisements relating to drugs (including medical devices) shall be approved by the NMPA or its competent branches, and shall specify the approval document number.

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REGULATIONS RELATING TO MEDICAL DEVICES OPERATION

The Measures on the Supervision and Administration of the Business Operations of Medical Devices (醫療器械經營監督管理辦法) (the “**Measures on Business Operations of Medical Devices**”), which was promulgated by CFDA on July 30, 2014 and amended on November 17, 2017 and March 10, 2022, and took effect on May 1, 2022, applies to any business activities of medical devices as well as the supervision and administration thereof conducted within the territory of the PRC. Pursuant to the Measures on Business Operations of Medical Devices, medical devices are divided into three classes depending on the degree of risks of medical devices. Entities engaged in distribution of Class III medical devices shall obtain a medical device operating license and entities engaged in distribution of Class II medical devices shall complete filings with the competent local Medical Products Administration, while entities engaged in distribution of medical devices of Class I are not required to conduct any filing or obtain any license.

In addition, in accordance with Regulations on Supervision and Administration of Medical Devices (醫療器械監督管理條例), by the State Council on January 4, 2000 and lastly amended by the State Council on February 9, 2021 and effective in June 1, 2021, for Class I medical devices, the record-filing administration shall be implemented, while for Class II and Class III devices, the registration administration shall be implemented. To engage in the operation of Class II medical devices, an operating enterprise shall make a record-filing with the medical products administration. To engage in the operation of Class III medical devices, an operating enterprise shall apply for the Medical Device Operation License (醫療器械經營許可證).

REGULATIONS RELATING TO THE PRICE OF HEALTHCARE SERVICE AND MEDICINE

According to the Notice of Issues Related to the Implementation of Market Price Adjustment by Non-Public Medical Institutions (關於非公立醫療機構醫療服務實行市場調節價有關問題的通知) promulgated and implemented on March 25, 2014 by NDRC, the NHFPC and the Ministry of Human Resources and Social Security (the “**MHRSS**”), the price of healthcare services provided by non-public medical institutions to be set with reference to the market level. Non-public medical institutions which are for-profit in nature may set the price list for their healthcare services at their own discretion. Non-public medical institutions which are non-profit in nature shall set the price list for their healthcare services according to the National Standard Price List of Healthcare Services (全國醫療服務價格項目規範). For non-public medical institutions qualified to become designated medical institutions covered by medical insurance, they should be included as designated service providers covered by social insurance such as basic medical insurance for employees and urban residents, new-type rural cooperative medical insurance, work-related injury insurance and maternity insurance in accordance with relevant procedures and adopt the same payment policy as in public hospitals. To efficiently utilise funds, medical insurance agents should determine specific payment methods and standards with such non-public medical institution by ways of negotiation under the requirements of medical insurance payment system reform.

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REGULATIONS RELATING TO MEDICAL PRACTITIONERS OF MEDICAL INSTITUTIONS

Pursuant to the Law on Physicians of the People’s Republic of China (中華人民共和國醫師法) promulgated by the SCNPC on August 20, 2021, became effective on March 1, 2022, medical physicians in the PRC must obtain licenses of medical professional qualifications. Qualified physicians and assistant physicians must register with the relevant health administrative authorities at county level or above. After registration, physicians may practise in medical institutions of their registered location under the type of registered specialty to provide the relevant medical services.

Pursuant to the Administrative Measures for the Registration of Practising Physicians (醫師執業註冊管理辦法) promulgated by the NHFPC on February 28, 2017 and became effective on April 1, 2017, medical physicians must register and obtain the Physician Practising Certificate (醫師執業證書) before they commence practice and, those who are not registered or have not obtained the Physician Practising Certificate are not allowed to engage in medical, preventive and healthcare services. The registration details of practising physicians include the place of practice, type of registered specialty and scope of practice. The place of practice refers to the county and provincial administrative region of the medical, preventive and healthcare institutions where the physician is practising. For practising physician who wants to practice in multiple institutions within the same place of practice, he/she shall determine a specific institution as the main practicing institution, apply for registration with the competent health authority which approved the aforesaid institution’s operation; as to other institutions where the practitioner is to practice, the practising physician shall apply the record filing with the health authorities competent to approve the institutions’ operation and indicate the name of the institutions.

The Certain Opinions on Promoting and Standardizing Multi-site Practice of Physicians (推進和規範醫師多點執業的若干意見) jointly promulgated by 5 departments, on November 5, 2014, and became effective on the same date, stipulates clinical physicians, dentists and Chinese medicine physicians are permitted for practising at multiple sites. Physicians practising in multiple sites shall have intermediary or above technical skills and has been in the same profession for more than five years. Practising physicians practising outside of their first practice site shall practice the same registered specialty as their first practice site and the scope of practice shall be the same as Class II diagnosis and treatment of the first practice site.

Pursuant to the Drug Administration Law promulgated by the SCNPC on August 26, 2019 and came into effect on December 1, 2019, Medical institutions shall be equipped with pharmacists or other pharmacy technicians qualified in accordance with the law, and shall be responsible for the management of the unit’s medicines, the review and dispensing of prescriptions, and guidance on the rational use of medicines. Non-pharmacy technicians shall not be directly engaged in pharmacy technology. Qualified pharmacists or other pharmacy technicians in accordance with the law shall dispense prescriptions, shall be checked, the prescription of drugs listed shall not be changed without authorization or substitution.

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Besides, the Administrative Measures for the Registration of Licensed Pharmacists (執業藥師註冊管理辦法) which was promulgated and came into effect on June 18, 2021, provides the procedure for the registration of practicing pharmacists, the conditions for registration, and the rights and obligations of practicing pharmacists.

REGULATIONS RELATING TO MEDICAL INCIDENTS

The Civil Code of the PRC (中華人民共和國民法典) (the “**Civil Code**”) was adopted by the third session of the 13th National People’s Congress on May 28, 2020 and became effective on January 1, 2021. The Civil Code provides that if a medical institution or its medical personnel is at fault for damage inflicted on a patient during the course of diagnosis and treatment, the medical institution will be liable for compensation.

The Regulations on Handling Medical Incidents (醫療事故處理條例), which was promulgated by the State Council on April 4, 2002 and came into effect on September 1, 2002, provides a legal framework and specific regulations regarding the prevention, identification, compensation and penalties of or relating to cases involving personal injury to patients caused by medical institutions or medical personnel due to malpractice.

REGULATIONS RELATING TO INTERNET SECURITY

Internet information in China is regulated and restricted from a national security standpoint. The SCNPC has enacted the Decisions on Maintaining Internet Security (關於維護互聯網安全的決定) on December 28, 2000, amended on August 27, 2009, which may subject violators to criminal punishment in China for any effort to: (i) gain improper entry into a computer or system of strategic importance; (ii) disseminate politically disruptive information; (iii) leak state secrets; (iv) spread false commercial information; or (v) infringe intellectual property rights. The Ministry of Public Security of the PRC has promulgated the Administration Measures on the Security Protection of Computer Information Network with International Connections (計算機信息網絡國際聯網安全保護管理辦法) on December 16, 1997, and the State Council of the PRC has amended it on January 8, 2011 to prohibit use of the Internet in ways which, among other things, result in a leakage of state secrets or a spread of socially destabilizing content.

On June 22, 2007, the Ministry of Public Security of PRC, National Administration of State Secrets Protection and other governmental authorities issued the Administrative Measures for the Graded Protection of Information Security (信息安全等級保護管理辦法), which regulates that the security protection of an information system may be graded into five. For an information system of Grade II or above newly built, its operator or user shall, within 30 days after it is put into operation, complete the record filing procedures at the local public security organ at the level of municipality divided into districts or above.

On November 7, 2016, the SCNPC promulgated the Cyber Security Law of the PRC, or the Cyber Security Law (網絡安全法), which became effective on June 1, 2017. *The Cyber Security Law* requires network operators to comply with laws and regulations and fulfill their obligations to safeguard security of the network when conducting business and providing services. The Cyber Security Law further requires network operators to take all necessary measures in accordance with applicable laws, regulations and compulsory national requirements to

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safeguard the safe and stable operation of the networks, respond to cyber security incidents effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data.

On July 12, 2018, the NHC promulgated the Administrative Measures on Standards, Security and Services of National Healthcare Big Data (for Trial Implementation) (國家健康醫療大數據標準、安全和服務管理辦法(試行)) (the “**Measures on Healthcare Big Data**”), which became effective on the same day. The Measures on Healthcare Big Data set out the guidelines and principles for standards management, security management and services management of healthcare big data. Pursuant to the Measures on Healthcare Big Data, the healthcare data produced by the PRC citizens in the PRC can be managed and used by the state for the purposes of the state strategic safety and the benefits of the life and health of the PRC citizens, provided that the state guarantees the PRC citizens their respective right of information, usage and personal privacy. The NHC (including National Administration of Traditional Chinese Medicine) shall establish a mechanism for healthcare big data sharing, promote healthcare big data sharing and exchange, and lead the establishment of platform for the submission of the healthcare data, the catalog system of information resources and the system for information exchange. The NHC with other relevant authorities shall be responsible for administration of healthcare big data nationwide together and each health authority above county level together with other relevant authorities shall be responsible for administration of healthcare big data within its jurisdiction. Medical institutions and relevant enterprises, including those entrusted by medical institutions to storage or operate healthcare big data, shall, among other things, take measures such as data classification, data backup and encryption to ensure data security, and provide secured channels for information inquiries and copying. Medical institutions and relevant enterprises shall also comply with laws and regulation on classified protection of cyber security and cybersecurity reviews. When selecting a service provider of healthcare big data, the medical institution shall ensure that the provider complies with national and industrial regulations and rules, is competent in carrying out the relevant regulations, systems and standards and guaranteeing data security, and has established systems for data security management, personal privacy protection and emergency response management.

On November 14, 2021, the Draft Regulations on Cyber Data Security Management (網絡數據安全管理條例(徵求意見稿)) was proposed by the Cyberspace Administration of China (the “CAC”) for public comments until December 13, 2021. The Draft Regulations provide the circumstances under which data processors shall apply for cybersecurity review, including, among others, when (i) the data processors who process personal information of more than one million persons apply for a listing in foreign countries; and (ii) the data processors apply for a listing in Hong Kong which affects or may affect national security. Data processors processing personal information of more than one million individuals shall also comply with the provisions for processing important data stipulated in the Draft Regulations for important data processors. Data processors processing important data or listing overseas should carry out an annual data security assessment by themselves or by entrusting data security service agencies, and each year before 31 January data security assessment report for the previous year shall be submitted to the districted city-level cyberspace administration. As of the Latest Practicable Date, the Draft Regulations on Cyber Data Security Management had not come into effect.

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On September 24, 2024, the CAC announced the Regulations on the Administration of Cyber Data Security (《網絡數據安全管理條例》) (the Cyber Data Security Regulations), which has come into effect January 1, 2025. It regulates that Cyber data processors who carry out Cyber data processing activities that affect or may affect national security shall undergo national security review in accordance with relevant state regulations.

On December 28, 2021, CAC and other related authorities promulgated the Cybersecurity Review Measures (2021) (《網絡安全審查辦法(2021年)》), which became effective on February 15, 2022. The Cybersecurity Review Measures proposes the following key matters: (i) the network platform operators who are engaged in data processing are subject to the regulatory scope; (ii) the China Securities Regulatory Commission (the “CSRC”) is included as one of the regulatory authorities for purposes of jointly establishing the state cybersecurity review working mechanism; (iii) the network platform operators holding personal information of more than one million users and seeking a listing in foreign countries shall file for cybersecurity review with the Cybersecurity Review Office; and (iv) the purchase of network products and services by critical information infrastructure operator, which affects or may affect national security, shall be subject to cybersecurity review in accordance with the present Measures. Furthermore, where members of the cybersecurity review working mechanism believe that network products and services and data-processing activities affect or are likely to affect national security, the Cybersecurity Review Office shall report to the Central Cyberspace Affairs Commission for approval as per procedure and then conduct a review in accordance with the Cybersecurity Review Measures.

According to the Provisions on Technological Measures for Internet Security Protection (《互聯網安全保護技術措施規定》) promulgated on 13 December 2005 by the Ministry of Public Security, came into effect on March 1, 2006, internet service providers and networking entities should implement the following internet security protection technical measures: (a) the technical measures for preventing computer viruses, network intrusion and attack damage and other matters or acts that endanger network security; (b) important databases and systems of major equipment redundant backup measures; (c) technical measures for recording and retaining the users’ login and exit time, caller ID, account number, internet address or domain name, log files of system maintenance; (d) any other technical measures for internet security protection to be implemented as prescribed by any law, regulation or rule. Furthermore, the technical measures for record retention implemented by internet service providers and networking entities in accordance with the Provisions on Technological Measures for Internet Security Protection shall have the function of keeping records as a backup for at least 60 days.

REGULATIONS RELATING TO PERSONAL INFORMATION OR DATA PROTECTION

On December 29, 2011, the MIIT issued Several Provisions on Regulating the Market Order of Internet Information Services (《規範互聯網信息服務市場秩序若干規定》), which became effective on March 15, 2012. Several Provisions on Regulating the Market Order of Internet Information Services provides that an internet information service provider may not collect any user’s personal information or provide any such information to third parties without such user’s consent. Pursuant to the Several Provisions on Regulating the Market Order of Internet Information Services, internet information service providers are required to, among others, (i) expressly inform the users of the method, content and purpose of the collection and processing

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of such users’ personal information and may only collect such information necessary for the provision of its services; and (ii) properly maintain the users’ personal information, and in case of any leak or possible leak of a user’s personal information, online lending service providers must take immediate remedial measures and, in severe circumstances, make an immediate report to the telecommunications regulatory authority.

Pursuant to the Decision on Strengthening the Protection of Online Information (關於加強網絡信息保護的決定), issued by the SCNPC on December 28, 2012, and the Order for the Protection of Telecommunication and Internet User Personal Information (電信和互聯網用戶個人信息保護規定), issued by the MIIT on July 16, 2013, which became effective on September 1, 2013, any collection and use of any user personal information must be subject to the consent of the user, and abide to the applicable law, rationality and necessity of the business and fall within the specified purposes, methods and scopes in the applicable laws.

On August 22, 2019, the CAC issued the Provisions on the Cyber Protection of Children’s Personal Information (兒童個人信息網絡保護規定), which became effective on October 1, 2019 and apply to the collection, storage, use, transfer and disclosure of the personal information of the minors under the age of 14, or the Children, via the Internet.

On November 28, 2019, the Secretary Bureau of the CAC, the General Office of the MIIT, the General Office of the Ministry of Public Security and the General Office of the SAMR jointly issued the Notice on the Measures for Determining the Illegal Collection and Use of Personal Information through Mobile Applications (App違法違規收集使用個人信息行為認定方法), which aims to provide reference for supervision and administration departments and provide guidance for mobile applications operators’ self-examination and self-correction and social supervision by netizens, and further elaborates the forms of behavior constituting illegal collection and use of the personal information through mobile applications including: (i) failing to publish the rules on the collection and use of personal information; (ii) failing to explicitly explain the purposes, methods and scope of the collection and use of personal information; (iii) collecting and using personal information without the users’ consent; (iv) collecting personal information unrelated to the services they provide and beyond the necessary principle; (v) providing personal information to others without the users’ consent; (vi) failing to provide the function of deleting or correcting the personal information according to the laws or failing to publish information such as ways of filing complaints and reports.

Pursuant to the Notice of the Ministry of Industry and Information Technology on the Record-filing of Mobile Internet Apps (工業和信息化部關於開展移動互聯網應用程序備案工作的通知), promulgated by the MIIT on July 21, 2023 and took effective on the same day, any operator of APP (including mini programs and quick applications) that engages in Internet information services within the territory of the PRC shall go through the record-filing formalities in accordance with the Law of the People’s Republic of China Against Telecommunications and Internet Frauds (中華人民共和國反電信網絡詐騙法), the Administrative Measures on Internet-based Information Services (互聯網信息服務管理辦法) and other regulations. Any APP operator that fails to complete the record-filing formalities shall not engage in APP Internet information services.

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Pursuant to the Ninth Amendment to the Criminal Law (刑法修正案(九)), issued by the SCNPC on August 29, 2015, which became effective on November 1, 2015, any Internet service provider that fails to fulfill its obligations related to Internet information security administration as required under applicable laws and refuses to rectify upon orders shall be subject to criminal penalty. In addition, Interpretations of the Supreme People’s Court and the Supreme People’s Procuratorate on Several Issues Concerning the Application of Law in the Handling of Criminal Cases Involving Infringement of Personal Information (最高人民法院、最高人民檢察院關於辦理侵犯公民個人信息刑事案件適用法律若干問題的解釋), issued on May 8, 2017 and effective as of June 1, 2017, clarified certain standards for the conviction and sentencing of the criminals in relation to personal information infringement. In addition, pursuant to the Civil Code, the personal information of a natural person shall be protected by the law. Any organization or individual shall legally obtain such personal information of others when necessary and ensure the safety of such information, and shall not illegally collect, use, process or transmit personal information of others, or illegally purchase or sell, provide or make public personal information of others.

In addition, on May 28, 2020, the National People’s Congress of the PRC approved the PRC Civil Code (中華人民共和國民法典), which came into effect on January 1, 2021. Pursuant to the PRC Civil Code, the collection, storage, use, process, transmission, provision and disclosure of personal information should follow the principles of legitimacy, properness and necessity.

Pursuant to the Regulations for Medical Institutions on Medical Records Management (醫療機構病例管理規定) released on November 20, 2013, and effective from January 1, 2014, the medical institutions and medical practitioners shall strictly protect the privacy information of patients, and any leakage of patients’ medical records for non-medical, non-teaching or non-research purposes is prohibited. The NHFPC released the Measures for Administration of Population Health Information (Trial) (人口健康信息管理辦法(試行)) on May 5, 2014, which refers the medical health service information as the population healthcare information, and emphasizes that such information cannot be stored in offshore servers, and the offshore servers shall not be hosted or leased.

On February 15, 2017, the NHFPC and the General Office of the NATCM promulgated the Management Specification for the Application of Electronic Medical Records (for Trial Implementation) (《電子病歷應用管理規範(試行)》), effective on April 1, 2017, pursuant to which, medical institution shall be equipped with safety management systems and safety guarantee mechanisms of electronic medical records, and an electronic medical record system shall identify the identity of operators, save all previous operations, record operation time and information about operators, and ensure that all previous operations, operation time and operators’ information are queryable and traceable.

On July 30, 2021, the state council promulgated the Regulations on Protection of Critical Information Infrastructure (關鍵信息基礎設施安全保護條例), which became effective on September 1, 2021. Pursuant to the Regulations on Protection of Critical Information Infrastructure, a critical information infrastructure refers to an important network facilities or information systems in important industries or fields such as public communication and information service, energy, communications, water conservation, finance, public services,

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e-government affairs and national defense science, which may endanger national security, people’s livelihood and public interest in case of damage, function loss or data leakage. In addition, competent departments and administration departments of each important industry and field, or Protection Departments, shall be responsible to formulate determination rules and determine the critical information infrastructure operator in the respective important industry or field. The result of the determination of critical information infrastructure operator shall be informed to the operator, and notify the public security department of the State Council.

On August 20, 2021, the SCNPC promulgated the PRC Personal Information Protection Law (個人信息保護法), which took effect on November 1, 2021. Pursuant to the Personal Information Protection Law, “personal information” refers to any kind of information related to an identified or identifiable individual as electronically or otherwise recorded but excluding the anonymised information. The processing of personal information includes the collection, storage, use, processing, transmission, provision, disclosure and deletion of personal information. The Personal Information Protection Law applies to the processing of personal information of natural persons within the territory of the PRC, as well as personal information processing activities outside the territory of PRC, for the purpose of providing products or services to natural persons located within China, or for analysing or evaluating the behaviors of natural persons located within China, or for other circumstances as prescribed by laws and administrative regulations. A personal information processor may process the personal information of this individual only under the following circumstances: (i) where consent is obtained from the individual; (ii) where it is necessary for the execution or performance of a contract to which the individual is a party, or where it is necessary for carrying out human resource management pursuant to employment rules legally adopted or a collective contract legally concluded; (iii) where it is necessary for performing a statutory responsibility or statutory obligation; (iv) where it is necessary in response to a public health emergency, or for protecting the life, health or property safety of a natural person in the case of an emergency; (v) where the personal information is processed within a reasonable scope to carry out any news reporting, supervision by public opinions or any other activity for public interest purposes; (vi) where the personal information, which has already been disclosed by an individual or otherwise legally disclosed, is processed within a reasonable scope; or (vii) any other circumstance as provided by laws or administrative regulations. In principle, the consent of an individual must be obtained for the processing of his or her personal information, except under the circumstances of the aforementioned items (ii) to (vii). Where personal information is to be processed based on the consent of an individual, such consent shall be a voluntary and explicit indication of intent given by such individual on a fully informed basis. If laws or administrative regulations provide that the processing of personal information shall be subject to the separate consent or written consent of the individual concerned, such provisions shall prevail.

On June 10, 2021, the SCNPC passed the Data Security Law (數據安全法), which became effective as of September 1, 2021. The Data Security Law clarifies the scope of data to cover a wide range of information records generated from all aspects of production, operation and management of government affairs and enterprises in the process of the gradual transformation of digitalization, and requires that data collection shall be conducted in a legitimate and proper manner, and the theft or illegal collection of data is not permitted. Data processors shall establish and improve whole-process data security management rules, organize and implement data security training and take appropriate technical measures and other necessary measures to

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protect data security. In addition, data processing activities shall be conducted on the basis of the graded protection system for cybersecurity. Monitoring of data processing activities shall be strengthened, and remedial measures shall be taken immediately in case of discovery of risks regarding data security related defects or bugs. In case of data security incidents, responsive measures shall be taken immediately, and disclosure to users and report to the competent authorities shall be made in a timely manner.

On July 7, 2022, the CAC promulgated the Measures for Data Cross-border Transfer Security Assessment (數據出境安全評估辦法), which became effective on September 1, 2022. According to the Measures for Data Cross-border Transfer Security Assessment, where a data processor transfers data abroad, the data processor shall apply to the CAC for a data cross-border transfer security assessment through the local CAC at the provincial level for a data cross-border transfer security assessment when: (i) a data processor transfers important data abroad; (ii) a critical information infrastructure operator or a data processor processing the personal information of more than one million persons transfers personal information abroad; (iii) a data processor has provided a total of 100,000 persons’ personal information or 10,000 persons’ sensitive personal information abroad since January 1 of the previous year; or (iv) under other circumstances as stipulated by the CAC.

On August 8, 2022, National Health Commission, National Administration of Traditional Chinese Medicine, and National Bureau of Disease Control and Prevention jointly promulgated the Administrative Measures for the Cybersecurity of Medical and Healthcare Institution (醫療衛生機構網絡安全管理辦法) with immediate effect. Administrative Measures for the Cybersecurity of Medical and Healthcare Institutions require full life-cycle management of cyber security and data.

On March 22, 2024, the CAC promulgated the Provisions on Promoting and Regulating Cross-border Data Flows (促進和規範數據跨境流動規定), which became effective the same day. According to the Provisions on Promoting and Regulating Cross-border Data Flows, where a data processor transfers data abroad, it may be exempted from applying for a cross-border transfer security assessment, concluding a standard contract for personal information to be provided abroad or passing a security certificate for protection of personal information if it satisfies any of the following conditions: (i) where it is really necessary to provide personal information abroad for the purpose of concluding or performing a contract to which an individual concerned is a party, such as cross-border shopping, cross-border delivery, cross-border remittance, cross-border payment, cross-border account opening, air ticket and hotel reservation, visa handling and examination services; (ii) where it is really necessary to provide employees’ personal information abroad for the purpose of conducting cross-border human resources management in accordance with the employment rules and regulations and collective contracts formulated in accordance with the law; (iii) where it is really necessary to provide personal information abroad in an emergency to protect the life, health and property safety of a natural person; or (iv) where a data processor other than a critical information infrastructure operator provides abroad the personal information (excluding sensitive personal information) of not more than 100,000 persons accumulatively as of January 1 of the current year.

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REGULATIONS RELATING TO INTELLECTUAL PROPERTY RIGHTS

The PRC has adopted comprehensive legislation governing intellectual property rights, including copyrights, patents, trademarks and domain names.

The Copyright Law of the PRC (中華人民共和國著作權法), which was promulgated by the SCNPC on September 7, 1990, came into effect on June 1, 1991 and was amended on October 27, 2001, February 26, 2010 and November 11, 2020 and came into effect on June 1, 2021, specifies that copyrights include personal rights such as the right of publication and that of attribution as well as property rights such as the right of production and that of distribution. Reproducing, distributing, performing, projecting, broadcasting or compiling a work or communicating the same to the public via an information network without permission from the owner of the copyright therein, unless otherwise provided in the Copyright Law, shall constitute infringements of copyrights. The infringer shall, according to the circumstances of the case, undertake to cease the infringement, take remedial action, and offer an apology, pay damages, etc. In addition, the Regulations on the Protection of Rights to Information Network Communication (信息網絡傳播權保護條例) promulgated by the State Council on May 18, 2006 as amended in 2013, provides specific rules on fair use, statutory license, and a safe harbor for use of copyrights and copyright management technology and specifies the liabilities of various entities for violations, including copyright holders, libraries and internet service providers.

The Measures for the Registration of Computer Software Copyright (計算機軟件著作權登記辦法), which was promulgated by the National Copyright Administration on February 20, 2002, and came into effect on the same day, regulates the registration of software copyright, the exclusive licensing contract and assignment contracts of software copyright. The National Copyright Administration is mainly responsible for the registration and management of national software copyright and designates the China Copyright Protection Center as the agency for software registration. The China Copyright Protection Center will grant certificates of registration to computer software copyright applicants.

According to the Patent Law of the PRC (中華人民共和國專利法), promulgated by the SCNPC on March 12, 1984 and further amended on September 4, 1992, August 25, 2000, December 27, 2008, October 17, 2020 and came into effect on June 1, 2021 and the Implementing Rules of the Patent Law of the PRC (中華人民共和國專利法實施細則), promulgated by the China Patent Bureau Council on January 19, 1985, and further amended of December 21, 1992, June 15, 2001, December 28, 2002, January 9, 2010, December 11, 2023 and came into effect on January 20, 2024, the term “invention-creations” refers to inventions, utility models and designs. The duration of a patent right for inventions shall be 20 years and the duration of a patent right for utility models and designs shall be 10 years, both commencing from the filing date. In the event that a dispute arises due to a patent being exploited without the prior authorization of the patentee, that is to say an infringement upon the patent right of the patentee.

Trademarks are protected by the Trademark Law of the PRC (中華人民共和國商標法) which was promulgated on August 23, 1982 and subsequently amended on February 22, 1993, October 27, 2001, August 30, 2013, April 23, 2019 and took effect on November 1, 2019 as well as the Implementation Regulation of the PRC Trademark Law (中華人民共和國商標法實施條

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例) adopted by the State Council on August 3, 2002 and revised on April 29, 2014. In the PRC, registered trademarks include commodity trademarks, service trademarks, collective marks and certification marks. The Trademark Office of National Intellectual Property Administration handles trademark registrations and grants a term of 10 years to registered trademarks, renewable every 10 years where a registered trademark needs to be used after the expiration of its validity term.

The Administrative Measures for Internet Domain Names (互聯網域名管理辦法), which was promulgated by the MIIT on August 24, 2017 and became effective on November 1, 2017, regulates the “.CN” and the “.zhongguo (in Chinese character)” shall be China’s national top level domains. Any party that engages in internet information services shall use its domain name in compliance with laws and regulations and in line with relevant provisions of the telecommunications authority, but shall not use its domain name to commit any violation. On November 27, 2017, the MIIT promulgated the Notice on Regulating the Use of Domain Names in Providing Internet-based Information Services (工業和信息化部關於規範互聯網信息服務使用域名的通知), which became effective on January 1, 2018. Pursuant to the notice, the domain name used by an Internet-based information service provider in providing Internet-based information services must be registered and owned by such provider in accordance with the law. If the Internet-based information service provider is an entity, the domain name registrant must be the entity (or any of the entity’s shareholders), or the entity’s principal or senior manager.

REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION RELATED TO MEDICAL INSTITUTIONS

Pursuant to the Environmental Protection Law of the People’s Republic of China (中華人民共和國環境保護法) promulgated by the SCNPC on December 26, 1989 and became effective on the same day, amended on April 24, 2014, and became effective on January 1, 2015 the waste discharge licensing system has been implemented in the PRC and entities that discharge medical sewage to water bodies directly or indirectly shall obtain a waste discharge license. Furthermore, installations for the prevention and control of pollution at a construction project must be designed, built and commissioned together with the principal part of the project.

Pursuant to the Environmental Impact Assessment Law of the People’s Republic of China (中華人民共和國環境影響評價法) promulgated by the SCNPC on October 28, 2002, became effective on September 1, 2003 and amended on July 2, 2016 and December 29, 2018, the State implements administration by classification on the environmental impact of construction projects according to the level of impact on the environment. The construction entity shall prepare an environmental impact report, or an environmental impact form or complete an environmental impact registration form (the “**Environmental Impact Assessment Documents**”) for reporting and filing purpose. If the Environmental Impact Assessment Documents of a construction project have not been reviewed by the approving authority in accordance with the law or have not been granted approval after the review, the construction entity is prohibited from commencing construction works.

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Pursuant to Fire Protection Law of the PRC (中華人民共和國消防法), which was promulgated by the SCNPC on April 29, 1998 and last revised on April 29, 2021, the fire protection design or construction of a construction project must conform to the national fire protection technical standards for project construction. The construction project fire safety design examination and acceptance system shall be implemented for a construction project that needs a fire protection design under the national fire protection technical standards for project construction.

Upon completion of construction of a development project which is required to apply for fire safety inspection and acceptance as stipulated by the housing and urban-rural development authority of the State Council, the developer shall apply to the housing and urban-rural development authority for fire safety inspection and acceptance. For development projects other than those stipulated in the preceding paragraph, the developer shall, after inspection and acceptance, report it to the housing and urban-rural development department for archival purposes, and the housing and urban-rural development department shall conduct a spot check. A construction project that is subject to a fire protection as-built acceptance according to law but fails to undergo or pass the fire protection as-built acceptance shall be forbidden to be put into use. Any other construction project that fails to pass a spot check shall cease to be used.

The Administrative Measures on Licensing of Urban Drainage (城鎮污水排入排水管網許可管理辦法), which was promulgated by the Ministry of Housing and Urban-rural Development on January 22, 2015 and amended on December 1, 2022 and came into effect on February 1, 2023, provides that enterprises, institutions and individual industrial and commercial households engaging in industry, construction, catering industry, medical industry and discharging sewage into the urban drainage network must apply for and obtain a License for Urban Drainage (排水許可證).

Administrative Measures for Pollutant Discharge Licensing (Trial) (排污許可管理辦法(試行)), which was promulgated by the Ministry of Environmental Protection (repealed) on 10 January 2018, and amended on 22 August 2019, stipulate that the enterprises, public institutions and other production operators (hereinafter referred to as the “pollutant discharge entities”) included in the catalog of classified management of pollutant discharge licenses for stationary pollution sources shall apply for and obtain a pollutant discharge permit as per the prescribed time limit; and those are not included in the catalog are not required to do so for the time of being. In addition, Ministry of Ecology and the Environment has promulgated Administrative Measures for Pollutant Discharge Licensing on April 1, 2024 and will take effect on July 1, 2024, which provides comprehensive provisions for the management of discharge permits.

Pursuant to the Classified Management Catalog of Pollutant Discharge Permits for Stationary Sources of Pollution (2019 Edition) (固定污染源排污許可分類管理名錄(2019年版)), which was promulgated by the Ministry of Ecology and Environment on December 20, 2019 and became effective on the same day, a pollutant discharge entity subject to registration management is not required to apply for a pollutant discharge permit. It shall fill in the pollutant discharge registration form on the management information platform of state pollutant discharge permits, and register with its basic information, pollutant discharge route, pollutant discharge standards implemented, pollution prevention and control measures adopted, and other information.

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According to the Regulations on the Management of Medical Waste (醫療廢物管理條例), which was promulgated by the State Council on June 16, 2003 and amended on January 8, 2011, and the Implementation Measures of the Management of Medical Waste (醫療衛生機構醫療廢物管理辦法), which was promulgated by the MOH on October 15, 2003 and came into effect on the same day, medical or health institution shall register medical wastes, manage medical wastes under classification and undertake management of duplicate forms for transfer of hazardous waste in accordance with the Catalogue of Classified Medical Wastes (醫療廢物分類目錄), and deliver medical wastes to an entity for centralized disposal of medical wastes and licensed by a relevant environment protection administrative department for dispose. Sewage generated by any health institution and excretion of its patients or suspected patients of infectious diseases shall be sterilized in strict accordance with the relevant provisions, and shall not be discharged into sewage disposal systems until the discharging standards are met.

Pursuant to the Law of the People's Republic of China on Prevention and Control of Radioactive Pollution (放射性污染防治法) promulgated by the SCNPC on June 28, 2003 and became effective on October 1, 2003, stipulates that, an entity generating radioactive waste liquid must, in accordance with the requirements of the national standards on the prevention and control of radioactive pollution, dispose or store the radioactive waste liquid which shall not be discharged to the environment. An entity generating radioactive solid wastes shall, in accordance with the provisions of the competent administrative department of environmental protection under the State Council, deliver the radioactive solid wastes it generates to the entity disposing the radioactive solid wastes for disposition after having them treated, and shall assume the disposition expense.

In accordance with the Regulations on the Safety Management of Radioactive Waste (放射性廢物安全管理條例) promulgated by the State Council on December 20, 2011 and came into effect on March 1, 2012, China adopts the classified management of radioactive waste. According to the characteristics and the potential hazardous exposure of the human health and environment, radioactive wastes are divided into high-level radioactive waste, medium-level radioactive waste and low-level radioactive waste. Entities of utilization of nuclear technology shall conduct relevant treatment procedures of the liquid radioactive waste (which was generated but could not be discharged after purifications), and then transformed to solid radioactive waste. Entities of utilization of nuclear technology shall deliver disused radioactive sources and other solid radioactive wastes generated by them to any qualified entity for centralized storage, or to a solid radioactive waste disposing entity possessing the applicable licenses for disposal.

REGULATIONS RELATING TO WILD ANIMAL PROTECTION

In February 24, 2020, the SCNPC promulgated Decision on Comprehensively Banning Illegal Wildlife Trade, Eliminating the Habit of Indiscriminate Wildlife Consumption, and Effectively Safeguarding the Lives and Health of the Population (關於全面禁止非法野生動物交易、革除濫食野生動物陋習、切實保障人民群眾生命健康安全的決定). In September 30, 2020, the National Forestry and Grassland Administration promulgated Notice on Standardizing the Scope of Classified Management of wild Animals that are Banned for Consumption (關於規範禁食野生動物分類管理範圍的通知) to restrict the use of wild medicinal animal resource. Under such policies, although prohibited from cultivation for the purpose of providing food, certain

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wild animals are allowed for cultivation for medicinal purpose. In March 2023, the National Forestry and Grassland Administration and the Ministry of Agriculture and Rural Affairs promulgated Measures for Quarantine of Wild Animals (野生動物檢疫辦法), which wild animals that need to be utilized for non-food purposes due to special circumstances such as medicinal use shall be quarantined and qualified in accordance with the relevant provisions before they can be utilized.

LAWS AND REGULATIONS ON CORPORATION AND PUBLIC INSTITUTIONS

Regulation Relating to Corporation

The PRC Company Law (中華人民共和國公司法) was promulgated on December 29, 1993 by the SCNPC, last amended on December 29, 2023 and will come into effect on July 1, 2024. All companies established in the PRC are subject to the PRC Company Law. The PRC Company Law regulates the establishment, operation, corporate structure, and management of corporate entities in China and classifies companies into limited liability companies and limited companies by shares.

REGULATIONS RELATING TO FOREIGN INVESTMENT

General Policies

The Company Law of the People’s Republic of China (中華人民共和國公司法), which was promulgated by the SCNPC on December 29, 1993 and came into effect on July 1, 1994, amended on December 25, 1999 and came into effect on the same day, amended on August 28, 2004 and came into effect on the same day, amended on October 27, 2005 and came into effect on January 1, 2006, amended on December 28, 2013 and came into effect on March 1, 2014, amended on October 26, 2018 and came into effect on the same day, and amended on December 29, 2023 and will come into effect on July 1, 2024, provides that companies established in China may take the form of limited liability company or joint stock company with limited liability. Each company has the status of a legal person and owns the assets itself. The Company Law applies to foreign-invested companies unless relevant laws provide otherwise.

On March 15, 2019, the 2nd meeting of the 13th SCNPC approved the Foreign Investment Law of the People’s Republic of China (中華人民共和國外商投資法) (the “**FIL**”), which became effective on January 1, 2020. According to the FIL, the “foreign investment” refers to investment activities carried out directly or indirectly by foreign natural persons, enterprises or other organizations (the “**Foreign Investors**”), including the following: (i) Foreign Investors establishing foreign-invested enterprises in China alone or collectively with other investors; (ii) Foreign Investors acquiring shares, equities, properties or other similar rights of Chinese domestic enterprises; (iii) Foreign Investors investing in new projects in China alone or collectively with other investors; and (iv) Foreign Investors investing through other ways prescribed by laws and regulations or the State Council. The State adopts the management system of pre-establishment national treatment and negative list for foreign investment. The pre-establishment national treatment refers to granting to foreign investors and their investments, in the stage of investment access, the treatment no less favorable than that granted to domestic investors and their investments; the negative list refers to special administrative measures for access of foreign investment in specific fields as stipulated by the

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State. The State will give national treatment to foreign investments outside the negative list. The negative list will be released by or upon approval by the State Council. After the FIL came into effect, the FIL replaced trio of laws regulating foreign investment in the PRC, namely, the *PRC Equity Joint Venture Law* (中華人民共和國中外合資經營企業法), the *Wholly Foreign-Owned Enterprise Law* (中華人民共和國外資企業法) and the *PRC Cooperative Joint Venture Law* (中華人民共和國中外合作經營企業法), became the legal foundation for foreign Investment in the PRC.

Investment activities in the PRC by foreign investors are principally governed by the Catalog of Industries for Encouraging Foreign Investment (the “**Encouraging Catalog**”), and the Special Management Measures (Negative List) for the Access of Foreign Investment (the “**Negative List**”), which were promulgated and are amended from time to time by the Ministry of Commerce of the PRC (the “**MOFCOM**”) and NDRC. The Encouraging Catalog and the Negative List lay out the basic framework for foreign investment in the PRC, classifying businesses into three categories with regard to foreign investment: “encouraged”, “restricted” and “prohibited”. Industries not listed in the Encouraging Catalog and the Negative List are generally deemed as falling into a fourth category “permitted”. The NDRC and MOFCOM promulgated the Catalog of Industries for Encouraging Foreign Investment (2022 Version) (鼓勵外商投資產業目錄(2022年版)), on October 26, 2022 and became effect on January 1, 2023, and the Special Management Measures (Negative List) for the Access of Foreign Investment (2024 Version) (外商投資准入特別管理措施(負面清單)(2024年版)) (the “2024 Negative List”), on September 6, 2024 and came into effect on November 1, 2024, to replace the previous encouraging catalog and negative list thereunder. According to the 2021 Negative List, medical institutions are limited to joint venture and may not conduct prohibited scientific research and technical services.

On December 30, 2019, the MOFCOM and the State Administration for Market Regulation jointly promulgated the Measures on Reporting of Foreign Investment Information (外商投資信息報告辦法), which took effect on January 1, 2020 and replaced the Interim Measures for the Administration of Record-filing on the Incorporation and Changes in Foreign-invested Enterprises (外商投資企業設立及變更備案管理暫行辦法). Foreign investors carrying out investment activities in the PRC directly or indirectly shall submit investment information to the commerce administrative authorities pursuant to the Measures on Reporting of Foreign Investment Information.

Foreign Investment in Medical Institution

The Interim Administrative Measures on Sino-Foreign Equity Medical Institutions and Sino-Foreign Cooperative Medical Institutions (中外合資、合作醫療機構管理暫行辦法), which was jointly promulgated by the MOH and the Ministry of Foreign Trade and Economic Cooperation on May 15, 2000 and came into effect on July 1, 2000, and its Supplementary Provisions allow foreign investors to partner with Chinese medical entities to establish a medical institution in China by means of equity joint venture or cooperative joint venture. Establishment of equity joint venture or cooperative joint venture shall meet certain requirements, including the total investment sum shall not be less than RMB20 million and

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the equity percentage of the Chinese partner in the joint venture shall not be less than 30%. Establishment of equity joint venture or cooperative medical institutions shall be subject to approval by relevant authorities.

The Administrative Measures on Sino-Foreign Equity and Cooperative Medical Institutions in the Sichuan Province (《四川省中外合資、合作醫療機構管理辦法》), which was promulgated by the Health Department of Sichuan (currently known as the Health Commission of Sichuan Province) and Sichuan Provincial Department of Commerce on March 15, 2012, became effective on April 15, 2012 and was amended on January 16, 2015, stipulates that the equity ratio or beneficiary interests of the Chinese party of Sino-foreign joint ventures and cooperative medical institutions shall not be less than 10%.

REGULATIONS RELATING TO OVERSEAS LISTINGS

On July 6, 2021, the Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law (關於依法從嚴打擊證券違法活動的意見) was jointly issued by the General Office of the CPC Central Committee and the General Office of the State Council, which steps up scrutiny of overseas listings by companies and calls for strengthening cooperation in cross-border regulation, amending relevant laws and regulations on cyber security, cross-border data transmission and confidential information management, including the confidentiality requirement and file management related to the issuance and listing of securities overseas, enforcing the primary responsibility of the enterprises for information security of Chinese-based overseas listed companies and promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by Chinese-based overseas-listed companies.

On February 17, 2023, the CSRC promulgated the Trial Administrative Measures of 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**”) and five relevant guidelines, which came into effect on March 31, 2023. The Overseas Listing Trial Measures provide that (i) domestic companies that seek to offer or list securities overseas, both directly and indirectly, should complete a filing procedure and submit relevant information to the CSRC; in the event of subsequent offering and occurrence of certain major events, domestic companies shall also complete relevant filing procedures and submit information to the CSRC; if a domestic company fails to complete the filing procedures, omits any material fact, falsifies any content or contains any misleading statement in its filing documents, such domestic company may be subject to administrative penalties, such as an order to rectify, warnings, fines, and its controlling shareholders, actual controllers, the person directly in charge and other directly liable persons may also be subject to administrative penalties, such as warnings and fines; and (ii) where an issuer makes an application for initial public offering and listing in an overseas market, the issuer shall file with the CSRC within three business days after such application is submitted.

The CSRC and other three relevant government authorities promulgated the Provisions on Strengthening the Confidentiality and Archives Administration of Overseas Securities Offering and Listing by Domestic Companies (關於加強境內企業境外發行證券和上市相關保密和檔案管理工作的規定) (the “**Provision on Confidentiality**”) on February 24, 2023, and came into effect on March 31, 2023. Pursuant to the Provision on Confidentiality, when a domestic company

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provides or publicly discloses the documents and materials involving state secrets and working secrets of state organs to the relevant securities companies, securities service institutions, overseas regulatory authorities and other entities and individuals, or provides or publicly discloses such the documents and materials through its overseas listing subjects, it shall report to the competent department with the examination and approval authority for approval, and file with the same level secrecy administration department. Domestic companies providing accounting archives or copies thereof to entities and individuals such as securities companies, securities service institutions and overseas regulatory authorities shall perform the relevant procedures according to relevant regulations. The working papers formed within the territory of the PRC by the securities companies and securities service institutions that provide related services for the overseas offering and listing of domestic enterprises shall be kept within the territory of the PRC. Cross-border transferring of such working papers shall go through the examination and approval formalities in accordance with the relevant regulations.

REGULATIONS RELATING TO LABOR

The Labor Law of PRC (中華人民共和國勞動法), which was promulgated by the SCNPC on July 5, 1994, came into effect on January 1, 1995, and was amended on August 27, 2009 and December 29, 2018, provides that an employer shall develop and improve its rules and regulations to safeguard the rights of its workers. Labor safety and health facilities must comply with relevant national standards. Workers engaged in special operations shall have received specialized training and obtained the pertinent qualifications.

The Labor Contract Law of PRC (中華人民共和國勞動合同法), which was promulgated by the SCNPC on June 29, 2007, came into effect on January 1, 2008, and was amended on December 28, 2012, and came into effect on July 1, 2013, and the Regulation on the Implementation of the Employment Contract Law of PRC (中華人民共和國勞動合同法實施條例) which was promulgated and came into effect on September 18, 2008 by the State Council, regulates the relations of employer and the employee, and contains specific provisions involving the terms of the labor contract.

The Social Insurance Law of PRC (中華人民共和國社會保險法), which was promulgated by the SCNPC on October 28, 2010 and came into effect on July 1, 2011, and was amended on December 29, 2018, regulates basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and medical insurance, and has elaborated in detail the legal obligations and liabilities of employers who do not comply with relevant laws and regulations on social insurance.

According to the Interim Regulation on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例), the Regulations on Work-Related Injury Insurance (工傷保險條例), the Regulations on Unemployment Insurance (失業保險條例) and the Trial Measures on Employee Maternity Insurance of Enterprises (企業職工生育保險試行辦法), enterprises in China must provide benefit plans for their employees, which include basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and medical insurance. An enterprise must provide social insurance by processing social insurance registration with local social insurance agencies, and must pay or withhold relevant social insurance premiums for or on behalf of employees.

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The Regulations on the Administration of Housing Provident Fund (住房公積金管理條例), which was promulgated on April 3, 1999 and came into effective on the same date, and was amended on March 24, 2002 and March 24, 2019, stipulates that housing provident fund contributions paid by an individual employee and housing provident fund contributions paid by his or her employer shall all belong to the individual employee.

REGULATIONS ON MANAGEMENT OF LEASE HOUSING

The Administrative Measures on Leasing of Commodity Housing (商品房屋租賃管理辦法), which was promulgated by the Ministry of Housing and Urban-Rural Development on December 1, 2010 and came into effect on February 1, 2011, stipulates that lessors and lessees shall complete property leasing registration and filing formalities within 30 days from execution of the property lease contract with the development (real estate) department of the PRC Government of the centrally-administered municipality, municipality or county where the leased property is located. Organizations who violate the relevant provisions of this regulation shall be ordered by the development (real estate) department of the PRC Governments of centrally-administered municipalities, municipalities or counties to make correction within a stipulated period; where an organization fails to make correction within the stipulated period, a fine ranging from RMB1,000 to RMB10,000 shall be imposed.

REGULATIONS ON TAXATION

Enterprise Income Tax

According to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the “EIT Law”), which was promulgated by the National People’s Congress on March 16, 2007, came into effect on January 1, 2008 and amended by the SCNPC on February 24, 2017 and December 29, 2018, and the Implementation Regulations on the EIT Law (中華人民共和國企業所得稅法實施條例), which was promulgated by the State Council on December 6, 2007 and came into effect on January 1, 2008, and amended by the State Council on April 23, 2019 and came into effect on the same date, a uniform income tax rate of 25% will be applied to domestic enterprises, foreign-invested enterprises and foreign enterprises that have established production and operation facilities in China. These enterprises are classified as either resident enterprises or non-resident enterprises. Resident enterprises refer to enterprises that are established in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within the PRC. Non-resident enterprises refer to enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but who (whether or not through the establishment of institutions in the PRC) derive income from the PRC. Under the EIT Law and relevant implementing regulations, a uniform corporate income tax rate of 25% is applicable. However, if non-resident enterprises have not established institutions or places in the PRC, or if they have established institutions or places in the PRC but there is no actual relationship between the relevant income derived in the PRC and the institutions or places set up by them, enterprise income tax is set at the rate of 10%.

According to the Circular of the Ministry of Finance and the State Administration of Taxation on the Relevant Tax Policies in Respect of Medical and Hygiene Institutions (財政部、國家稅務總局關於醫療衛生機構有關稅收政策的通知), which was promulgated by the MOF

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and the SAT on July 10, 2000 and became effective on the same date and further revised by the MOF on May 18, 2009 and became effective on January 1, 2009, medical services income obtained by the NMIs at the price set by the state shall be exempted from any taxes. In respect of those medical services income which is not obtained at the price set by the state, this exemption policy shall not apply. Taxes on the income obtained by the Profit Medical Institutions shall be imposed according to the relevant provisions.

Value-added Tax

The Provisional Regulations of the PRC on Value-added Tax (增值稅暫行條例), which was promulgated by the State Council on December 13, 1993, came into effect on January 1, 1994, and amended on November 10, 2008, February 6, 2016 and November 19, 2017, and the Detailed Implementing Rules of the Provisional Regulations on Value-added Tax (增值稅暫行條例實施細則), which was promulgated by MOF on December 25, 1993 and came into effect on the same date, and was amended on December 15, 2008 and October 28, 2011, came into effect on November 1, 2011 set out that all taxpayers selling goods or providing processing, repairing or replacement services, sales of services, intangible assets and immovable assets and importing goods in China shall pay a value-added tax.

According to the Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting Value added Tax Rates (財政部、國家稅務總局關於調整增值稅稅率的通知) issued on April 4, 2018 and became effective on May 1, 2018, the deduction rates of 17% and 11% applicable to the taxpayers who have VAT taxable sales activities or imported goods are adjusted to 16% and 10%, respectively. According to the *Notice of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs on Relevant Policies for Deepening Value Added Tax Reform* (關於深化增值稅改革有關政策的公告) issued on March 20, 2019 and became effective on April 1, 2019, the value added tax rate was reduced to 13% and 9%, respectively.

According to the *Full Launch of the Pilot Scheme on Levying Value-added Tax in Place of Business Tax* (關於營業稅改徵增值稅試點若干政策的通知) issued on March 23, 2016 and effective on May 1, 2016 and the *Announcement on the Continued Implementation of VAT-Exemption and Other Policies Relating to Medical Services* (關於延續實施醫療服務免徵增值稅等政策的公告) issued and effective on September 25, 2023 which were both promulgated by the Ministry of Finance and the State Administration of Taxation, the medical services provided by medical institutions are exempted from value-added tax (VAT).

Withholding Tax and International Tax Treaties

Pursuant to the EIT Law and its implementation rules, if a non-resident enterprise has not set up an organization or establishment in the PRC, or has set up an organization or establishment but the income derived has no actual connection with such organization or establishment, it will be subject to a withholding tax on its PRC-sourced income at a rate of 10%. According to the Treaty on the *Avoidance of Double Taxation and Tax Evasion between Mainland and Hong Kong* (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) (the “**Tax Treaty**”) entered into between Mainland China and the Hong Kong Special

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Administrative Region, the withholding tax rate in respect to the payment of dividends by a PRC enterprise to a Hong Kong enterprise is reduced to 5% from a standard rate of 10% if the Hong Kong enterprise directly holds at least 25% of the PRC enterprise.

The *Notice on the Several Issues of the Implementation of Tax Treaty* (國家稅務總局關於執行稅收協定股息條款有關問題的通知), which was promulgated by the SAT on February 20, 2009 and came into effect on the same date, stipulates that the non-resident taxpayer or the withholding agent is required to obtain and keep sufficient documentary evidence proving that the recipient of the dividends meets the relevant requirements for enjoying a lower withholding tax rate under a tax treaty if the main purpose of an offshore transaction or arrangement is to obtain a preferential tax treatment.

According to the *Administrative Measures on Non-resident Taxpayers to Enjoy the Treatment under Tax Treaties* (非居民納稅人享受稅收協定待遇管理辦法) promulgated by the SAT on October 14, 2019 and came into effect on January 1, 2020, where a non-resident taxpayer self-assesses and concludes that it satisfies the criteria for claiming treaty benefits, it may enjoy treaty benefits at the time of tax declaration or at the time of withholding through the withholding agent, simultaneously gather and retain the relevant materials for future inspection, and accept follow-up administration by the tax authorities. There are also other conditions for enjoying the reduced withholding tax rate according to other relevant tax rules and regulations.

According to the *Circular on Several Issues regarding the “Beneficial Owner” in Tax Treaties* (關於稅收協定中“受益所有人”有關問題的公告), which was issued on February 3, 2018 by the SAT, effective as of April 1, 2018, when determining the applicant’s status of the “beneficial owner” regarding tax treatments in connection with dividends, interests or royalties in the tax treaties, several factors, including without limitation, whether the applicant is obligated to pay more than 50% of its income in twelve months to residents in third country or region, whether the business operated by the applicant constitutes the actual business activities, and whether the counterparty country or region to the tax treaties does not levy any tax or grant tax exemption on relevant incomes or levy tax at an extremely low rate, will be taken into account, and it will be analyzed according to the actual circumstances of the specific cases. This circular further provides that applicants who intend to prove his or her status as the “beneficial owner” shall submit the relevant documents to the relevant tax bureau according to the Administrative Measures for Non-Resident Enterprises to Enjoy Treatments under Tax Treaties.

REGULATIONS RELATING TO FOREIGN EXCHANGE

The principal regulation governing foreign currency exchange in China is the *Foreign Exchange Administration Regulations of the PRC* (中華人民共和國外匯管理條例), which were promulgated by the State Council on January 29, 1996, came into effect on April 1, 1996, and amended on January 14, 1997 and August 5, 2008, set out that foreign exchange receipts of domestic institutions or individuals may be transferred to China or deposited abroad and that the State Administration of Foreign Exchange (the “SAFE”) shall specify the conditions for transfer to China or overseas and other requirements in accordance with the international receipts, payments status and requirements of foreign exchange control. Foreign exchange receipts for current account transactions may be retained or sold to financial institutions

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engaged in the settlement or sale of foreign exchange. Domestic institutions or individuals that make direct investments abroad, are engaged in the distribution, sale of valuable securities or derivative products overseas should register according to SAFE regulations. Such institutions or individuals subject to prior approval or record-filing with relevant authorities shall complete the required approval or record-filing prior to foreign exchange registration. The exchange rate for RMB follows a managed floating exchange rate system based on market demand and supply.

The Regulations on the Administration of the Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》), which was promulgated by the People’s Bank of China on June 20, 1996 and came into effect on July 1, 1996, provides that foreign exchange receipts under the current account of foreign-invested enterprises may be retained to the fullest extent specified by the foreign exchange bureau. Any portion in excess of such amount shall be sold to a designated foreign exchange bank or through a foreign exchange swap center.

The SAFE Circular 75, which was promulgated by the SAFE on October 21, 2005, and came into effective on November 1, 2005. Under SAFE Circular 75, Chinese residents must register with the relevant local SAFE branch prior to their establishment or control of an offshore entity established for the purpose of overseas equity financing involving onshore assets or equity interests held by them, and must also make filings with SAFE thereafter upon the occurrence of certain material capital changes. The registration and filing procedures under SAFE Circular 75 are prerequisites for other approval and registration procedures necessary for capital inflow from the offshore entity, such as inbound investments or shareholders loans, or capital outflow to the offshore entity, such as the payment of profits or dividends, liquidating distributions, equity sale proceeds, or the return of funds upon a capital reduction.

The SAFE Circular 37, which has replaced SAFE Circular 75, was promulgated by the SAFE on July 4, 2014 and came into effect on the same date, states that (i) a PRC resident, including a PRC resident natural person or a PRC legal person, shall register with the local branch of the SAFE before it contributes the assets of or its equity interest into a special purpose vehicle for the purpose of investment and financing and (ii) when the special purpose vehicle undergoes change of basic information, such as change in PRC resident natural person shareholder, name or operating period, or occurrence of a material event, such as change in share capital of a PRC resident natural person, performance of merger or split, the PRC resident shall register such change with the local branch of the SAFE in a timely manner.

The *Notice of the SAFE on Further Improving and Adjusting Policies Relating to Foreign Exchange Administration in Direct Investment* (國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知), which was promulgated by the SAFE on November 19, 2012, came into effect on December 17, 2012, amended on May 4, 2015 and came into effect on the same day, amended on October 10, 2018 and came into effect on the same day, and partially repealed on December 30, 2019, expands on the reform of the foreign exchange administration system, simplifies the administrative approval procedures, and improves foreign exchange administration in direct investment by repealing or adjusting certain approval items for foreign exchange administration in direct investment.

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According to the *Circular of the State Administration of Foreign Exchange on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises* (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知) promulgated by SAFE on March 30, 2015, amended on December 30, 2019 and came into effect on the same day, voluntary settlement of foreign exchange (the “**voluntary settlement**”) is implemented for foreign exchange capital funds of foreign-invested enterprises. Voluntary settlement means that the foreign exchange capital funds which have been confirmed by SAFE as cash contribution for equity interest (or have been registered as capital contribution in cash via a bank) in the capital account of the foreign-invested enterprise may carry out a settlement at the bank as and when required according to actual operation needs of the enterprise. The ratio of voluntary settlement of foreign exchange capital funds of a foreign-invested enterprise is set at 100% for the time being. The Renminbi funds arising from the settlement of foreign exchange shall be placed in a special account for administration. If the foreign-invested enterprise has further payment needs, it is still required to truthfully produce relevant authentic certification materials to the bank for review according to regulations. The Renminbi funds obtained from the capital funds and foreign exchange settlement of the foreign-invested enterprise are prohibited from the following uses: (i) shall not be used directly or indirectly for expenses incurred outside the scope of operation or prohibited by laws and regulations of the PRC; (ii) unless otherwise required by laws and regulations, shall not be used directly or indirectly in securities investment; (iii) shall not be used directly or indirectly for lending as entrusted loans denominated in Renminbi (except permitted by the scope of operation), for repayment of inter-company borrowings (including third-party advances) and for repayment of Renminbi-denominated bank loans which have been re-lent to third parties; and (iv) except for foreign-invested real estate enterprises, such Renminbi funds shall not be used to pay for the relevant expenses for the purchase of real estate properties which are not for its own use.

The *Circular on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account* (關於改革和規範資本項目結匯管理政策的通知) (the “**Circular 16**”) was promulgated by SAFE on June 9, 2016. Pursuant to Circular 16, enterprises registered in the PRC may also convert their foreign debts from foreign currency to Renminbi on a self-discretionary basis. Circular 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope or prohibited by PRC Laws, while such converted Renminbi shall not be provided as loans to its non-affiliated entities.

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On October 23, 2019, the SAFE promulgated the *Notice for Further Advancing the Facilitation of Cross-border Trade and Investment* (國家外匯管理局關於進一步促進跨境貿易投資便利化的通知), which, among other things, allows all Foreign Investment Enterprises to use Renminbi converted from foreign currency-denominated capital for equity investments in China, as long as the equity investment is genuine, does not violate applicable laws, and complies with the negative list on foreign investment. However, since this circular is newly promulgated, it is unclear how the SAFE and competent banks will carry it out in practice. According to the *Circular of SAFE on Optimizing Foreign Exchange Administration to Support the Development of Foreign-related Business* (國家外匯管理局關於優化外匯管理支持涉外業務發展的通知) (the “SAFE Circular 8”) promulgated on April 10, 2020 and came into effect on June 1, 2020 by the SAFE, the reform of facilitating the payments of incomes under the capital accounts shall be promoted nationwide. Under the prerequisite of ensuring true and compliant use of funds and compliance and complying with the prevailing administrative provisions on use of income from capital projects, enterprises that satisfy the criteria are allowed to use income under the capital account, such as capital funds, foreign debt and overseas listing, etc., for domestic payment, without the need to provide proof materials for veracity to the bank beforehand for each transaction.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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Our Group’s history can be traced back to 2018 when Mr. Cui co-founded our Group in the PRC. Since our inception, we have focused on the provision of TCM healthcare services empowered by our TCM Brain. We independently developed our proprietary TCM Brain, an AI-assisted TCM clinical decision support system designed to support our physicians in providing accurate, personalized and effective treatments for patients. According to the CIC Report, we ranked first in the AI-empowered TCM healthcare service market in mainland China in terms of AI-empowered revenue with a market share of 1.5% in 2023.

OUR KEY MILESTONES

The following is a summary of our Group’s key business development milestones:

Year	Milestone
2018	Mr. Cui co-founded our Group in the PRC. Our Company was incorporated in the Cayman Islands. We successfully introduced the first version of the TCM Brain.
2019	Wenzhi TCM Health was established in the PRC. We established our first offline physical clinic, marking the start of our offline clinic network.
2020	We formed a group of physicians specializing in the treatment of severe conditions (重症組醫師) with an aim to strategically focus on providing comprehensive solutions for cancer and severe conditions as well as difficult and complex conditions.
2021	We obtained our internet medical license (互聯網醫療牌照) and rolled out our online diagnosis services. We founded Jingyi Academy, a vibrant TCM community captivating TCM enthusiasts through our original TCM contents.
2022	We launched the Wenzhi Qingyang (問止輕養) brand primarily providing a wide selection of TCM healthcare products.
2023	Our TCM Brain passed the clinical consistency studies at the Sun Yat-sen Memorial Hospital of Sun Yat-sen University, a Class III Grade A hospital in mainland China. We were one of the brands selected for China Central Television’s “Inheriting the Craftsman Spirit and Building the Power of National Style” project (中國中央電視台《傳承工匠精神 • 鑄就國潮力量》專案)

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Year	Milestone
	The registered community members of our Jingyi Academy exceeded 100,000.
2024	<p>China Top Brands Magazine (《中國名牌》雜誌社), managed by Xinhua News Agency (新華通訊社), recognized us as one of 2023’s Excellent Case of Corporate ESG Social Contribution (2023企業ESG社會貢獻度優秀案例).</p> <p>Our TCM Brain successfully passed an expert assessment of the Institute of Information on Traditional Chinese Medicine under the China Academy of Chinese Medical Sciences (中國中醫科學院中醫藥信息研究所), which is the only ministry-affiliated comprehensive scientific research institute in China that is engaged in the research and teaching of TCM information.</p> <p>We were shortlisted in the 2024 Software Industry Quality Development Support Program (First Batch) Proposed Funding Project (2024年軟件產業高質量發展扶持計劃(第一批)擬資助項目) and awarded approximately RMB1.0 million by the Industry and Information Technology Bureau of Shenzhen Municipality.</p> <p>We were recognised as a 2024 Shenzhen Bao’an District Science Education Base (2024年深圳市寶安區科普基地) by the Shenzhen Bao’an District Association of Science and Technology (深圳市寶安區科學技術協會), which selected organizations that promoted scientific and technological knowledge, advocated scientific methods, promoted scientific ideas and the importance of science.</p> <p>We were recognized in the ninth “Guangdong Famous Brands” selected brands (第九批「廣東知名品牌」入選品牌) by the Guangdong Enterprise Brand Construction Promotion Association Guangdong Famous Brand Evaluation Committee (廣東省企業品牌建設促進會廣東知名品牌評價專業委員會).</p> <p>Our subsidiaries, Wenzhi TCM Health and Wenzhi Technology were shortlisted as Specialized and Innovative Small and Medium-sized Enterprises in Shenzhen (深圳市專精特新中小企業).</p>

HISTORY AND DEVELOPMENT OF OUR COMPANY AND OUR MAJOR SUBSIDIARIES

Our Company

Incorporation and early shareholding changes

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on June 19, 2018 and is the holding company of our Group. At the time of its incorporation, our Company had an authorized share capital of US\$50,000 divided into 500,000,000 Ordinary Shares of a par value of US\$0.0001 per Ordinary Share. Immediately after

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

incorporation, one Ordinary Share was issued and allotted to an initial subscriber, who on the same day transferred the same to TCMTech Holdings (an investment holding vehicle wholly owned by Mr. Cui) at par value. On the same day, TCMTech Holdings and TCMSci Holdings Limited (“TCMSci”) subscribed for 41,366,681 Ordinary Shares and 3,182,045 Ordinary Shares of our Company at par value. TCMSci was wholly owned by Mr. Li Haiwen (李海文), a former employee of our Group and an Independent Third Party. On September 7, 2018, our Company allotted and issued 12,728,182 Ordinary Shares at par value to TCMInnov (an investment holding vehicle wholly owned by Dr. Chang Nan-Hsig, our non-executive Director and co-founder). Immediately following such allotment and issuance, our Company was owned as to 72.2%, 22.2% and 5.6% by TCMTech Holdings, TCMInnov and TCMSci, respectively.

On July 2, 2018, our Shareholders passed resolutions granting our co-founders the rights (“**Founder Rights**”) to acquire Ordinary Shares, pursuant to which (i) Mr. Cui had the right to request our Company to issue 15,000,000 Ordinary Shares at US\$0.0001 per Ordinary Share to TCMTech Holdings; and (ii) Dr. Lin, our co-founder and the chief medical officer (首席醫學官) of our Group, had the right to request our Company to issue 10,300,000 Ordinary Shares at US\$0.0001 per Ordinary Share to him personally or to his designated entity, respectively. On May 21, 2024, upon the full exercise of Mr. Cui and Dr. Lin’s Founder Rights, our Company allotted and issued 15,000,000 Ordinary Shares and 10,300,000 Ordinary Shares to TCMTech Holdings and TCMAI (an investment holding vehicle wholly owned by Dr. Lin), respectively.

Series A-1 and A-2 Financing

On September 7, 2018, our Company entered into a share subscription agreement with, among others, ParmaWay, Lanchi Ventures, and ZhenFund, pursuant to which (i) ParmaWay subscribed for 4,220,000 Series A-1 Preference Shares at a consideration of US\$206,824 (“**Series A-1 Financing**”); and (ii) Lanchi Ventures and ZhenFund subscribed for 14,500,000 Series A-2 Preference Shares and 4,003,091 Series A-2 Preference Shares at a consideration of US\$1,184,420 and US\$326,989, respectively (“**Series A-2 Financing**”). For details of the Series A-1 Financing and Series A-2 Financing, see “— [REDACTED] Investments.”

Series A-3 Financing

On March 20, 2019, our Company entered into a share subscription agreement with, among others, ParmaWay, Lanchi Ventures and TCMTech Holdings, pursuant to which ParmaWay, Lanchi Ventures and TCMTech Holdings subscribed for 4,298,340 Series A-3 Preference Shares, 9,551,868 Series A-3 Preference Shares and 477,593 Series A-3 Preference Shares at a consideration of US\$900,000, US\$2,000,000 and US\$100,000, respectively (“**Series A-3 Financing**”). For details of the Series A-3 Financing, see “— [REDACTED] Investments.”

Share repurchase in April 2019

On April 22, 2019, our Company repurchased 8,728,182 Ordinary Shares from TCMInnov at nominal consideration. Dr. Chang Nan-Hsig, as one of our co-founders, had provided strategic advice to us during our Group’s early development. Such repurchase was made because Dr. Chang Nan-Hsig decided to focus on his other personal engagements and cease his

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involvement in our Group’s business, and accordingly agreed to reduce his shareholding in our Company at nominal consideration, which was determined based on arm’s length negotiations among the parties with reference to the status of our business at that time.

Series A-4 Financing

On January 14, 2022, our Company entered into a share subscription agreement with, among others, ParmaWay and Lanchi Ventures, pursuant to which ParmaWay and Lanchi Ventures subscribed for 10,746,813 Series A-4 Preference Shares and 2,863,639 Series A-4 Preference Shares at a consideration of US\$3,948,000 and US\$1,052,000 respectively (“**Series A-4 Financing**”). For details of the Series A-4 Financing, see “— [REDACTED] Investments.”

Share repurchase in January 2022

On January 14, 2022, our Company repurchased 3,750,000 Ordinary Shares from TCMInnov at a consideration of US\$300,000. Such repurchase price was determined based on arm’s length negotiations among the parties taking into consideration factors such as our Group’s business status at the time of the repurchase as well as Dr. Chang Nan-Hsig’s historical contributions during our Group’s early development. The consideration was fully settled on September 13, 2022. Such repurchase was made because Dr. Chang Nan-Hsig agreed to further reduce his shareholding in our Company given that he had ceased his involvement in our Group’s business.

On the same day, our Company repurchased 3,182,045 Ordinary Shares from TCMSci at nominal consideration. Such repurchase was made because Mr. Li Haiwen resigned and left our Group, thus he agreed to waive his shareholding in our Company at nominal consideration, which was determined based on arm’s length negotiations among the parties. Following the repurchase, TCMSci ceased to be a Shareholder.

Share allotments to our employees in July 2024 pursuant to the 2018 ESOP

Pursuant to the 2018 ESOP, we granted 7,040,000, 100,000 and 100,000 share options (“**ESOP Options**”) to our employees, Mr. Chang Tsan-Hung (張燦宏), Mr. Wang Jen Ching (王人慶) and Mr. Yao Peng (姚鵬) (“**ESOP Grantees**”), respectively, to subscribe for Ordinary Shares at the exercise price of US\$0.0001 per Ordinary Share. On July 1, 2024, our Company allotted and issued 7,240,000 Ordinary Shares to TCMally, a platform to hold the Ordinary Shares issued by our Company upon the exercise of ESOP Options for the benefit of the ESOP Grantees. As of the Latest Practicable Date, TCMally was owned as to 97.24%, 1.38% and 1.38% by Mr. Chang Tsan-Hung, Mr. Wang Jen Ching and Mr. Yao Peng, respectively, none of whom were our core connected persons. No further options or awards will be granted under the 2018 ESOP.

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Series [REDACTED] Financing

On November 22, 2024, our Company entered into a share subscription agreement with, among others, Juli Fund and LCV Pioneer Fund, pursuant to which Juli Fund and LCV Pioneer Fund subscribed for 3,067,633 and 3,067,633 Series [REDACTED] Preference Shares at a consideration of US\$6,000,000 and US\$6,000,000, respectively (“Series [REDACTED] Financing”). For details of the Series [REDACTED] Financing, see “— [REDACTED] Investments.”

Shareholding structure of our Company

Set out below is a summary of the shareholding structure of our Company as of the Latest Practicable Date and immediately before the completion of the [REDACTED]:

Shareholders	Number of Shares held	Approximate shareholding percentage
TCMTech Holdings	56,844,275	43.41%
Lanchi Ventures	26,915,507	20.55%
ParmaWay	19,265,153	14.71%
TCMAI	10,300,000	7.87%
TCMally	7,240,000	5.53%
ZhenFund	4,003,091	3.06%
Juli Fund	3,067,633	2.34%
LCV Pioneer Fund	3,067,633	2.34%
TCMInnov	250,000	0.19%
Total	130,953,292	100.00%

Voting Proxy Arrangement

By an agreement dated September 7, 2018 and a supplemental clarification agreement dated November 19, 2024 (the “Agreements”), Mr. Cui and Dr. Chang Nan-Hsig have confirmed and agreed that since September 7, 2018, (i) Dr. Chang Nan-Hsig would irrevocably and unconditionally entrust to Mr. Cui and/or TCMTech Holdings to exercise the voting rights of the Shares held by TCMInnov; (ii) Mr. Cui and/or TCMTech Holdings shall have the right to exercise the voting rights of the Shares held by TCMInnov at Shareholders’ meetings on all matters submitted to the Shareholders for deliberation or sign Shareholders’ written resolutions on behalf of TCMInnov; (iii) TCMInnov may also choose to attend the general meeting of Shareholders or sign Shareholders’ written resolutions, in which case, Dr. Chang Nan-Hsig shall procure TCMInnov to exercise its voting rights and sign the Shareholders’ written resolutions in accordance with the direction of Mr. Cui and/or TCMTech Holdings; and (iv) Dr. Chang Nan-Hsig shall not entrust the voting rights of the Shares held by TCMInnov to any other party except Mr. Cui and/or TCMTech Holdings (the “Voting Proxy Arrangement”). Pursuant to the Agreements, the Voting Proxy Arrangement further applies to the voting rights of any Shares which Dr. Chang Nan-Hsig and/or TCMInnov may acquire directly or indirectly from time to time and the Agreements can only be terminated with the consent of Mr. Cui.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Under the Voting Proxy Arrangement, Mr. Cui and TCMTech Holdings were entitled to control the exercise of the voting rights of the Shares held by TCMInnov. As such, as of the Latest Practicable Date, Mr. Cui, through TCMTech Holdings was entitled to control the exercise of approximately 43.60% of the voting rights in our Company. Immediately following the completion of the [REDACTED] (without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED]), Mr. Cui through TCMTech Holdings will be entitled to control the exercise of approximately [REDACTED] of the voting rights in our Company.

Our Major Subsidiaries

The corporate information of our major subsidiaries that made a material contribution to our results of operations during the Track Record Period and/or hold licenses which are material to our operations are set forth below:

Name of company	Date of establishment	Place of establishment	Interest of our Group as of the Latest Practicable Date	Principal business
TCMTech HK	July 10, 2018	Hong Kong	100.00%	Investment holding
Beijing TECHTCM	August 16, 2018	PRC	100.00%	Onshore holding company of our PRC subsidiaries
Wenzhi TCM Health	March 21, 2019	PRC	100.00% ⁽¹⁾	Provision of online TCM healthcare services
Wenzhi Technology	September 26, 2021	PRC	100.00%	Provision of TCM Brain subscription services
Guangzhou Wenzhi	March 27, 2020	PRC	100.00% ⁽¹⁾	Provision of online TCM healthcare services
Wenzhi Internet Hospital	August 27, 2021	PRC	100.00% ⁽²⁾	Provision of online TCM medical services
Xiamen Wenzhi	December 12, 2022	PRC	100.00% ⁽¹⁾	Provision of TCM healthcare services
Wenzhi Baizhi	July 11, 2023	PRC	100.00% ⁽²⁾	Provision of TCM healthcare services
Zhengzhou Wenzhi	July 13, 2023	PRC	100.00% ⁽¹⁾	Provision of TCM healthcare services
Changsha Wenzhi	November 8, 2023	PRC	100.00% ⁽¹⁾	Provision of TCM healthcare services
Wenzhi Qiuwei	March 12, 2024	PRC	100.00% ⁽²⁾	Provision of TCM healthcare services
Jinan Wenzhi	April 8, 2024	PRC	100.00% ⁽¹⁾	Provision of TCM healthcare services

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Notes:

- (1) As of the Latest Practicable Date, Wenzhi TCM Health’s registered shareholders were Beijing TECHTCM as to 70.00% and Mr. Cui as to 30.00%. On September 4, 2024, Beijing TECHTCM, Mr. Cui and Wenzhi TCM Health entered into the Contractual Arrangements in respect of Mr. Cui’s shareholding in Wenzhi TCM Health, pursuant to which our Group obtained full control of Wenzhi TCM Health and can receive all of the economic interest returns generated by Wenzhi TCM Health and its subsidiaries, including Guangzhou Wenzhi, Xiamen Wenzhi, Zhengzhou Wenzhi, Changsha Wenzhi and Jinan Wenzhi. For details, see “Contractual Arrangements.”
- (2) As of the Latest Practicable Date, Wenzhi Internet Hospital’s registered shareholders were Beijing TECHTCM as to 90.00% and Mr. Cui as to 10.00%. On October 30, 2023, Beijing TECHTCM, Mr. Cui and Wenzhi Internet Hospital entered into the Contractual Arrangements in respect of Mr. Cui’s shareholding in Wenzhi Internet Hospital, pursuant to which our Group obtained full control of Wenzhi Internet Hospital and can receive all of the economic interest returns generated by Wenzhi Internet Hospital and its subsidiaries, including Wenzhi Baizhi and Wenzhi Qiuwei. For details, see “Contractual Arrangements.”

Wenzhi TCM Health

Wenzhi TCM Health was established in the PRC on March 21, 2019 as a limited liability company with a registered capital of RMB10 million. At the time of its establishment, Wenzhi TCM Health was wholly owned by Xiaocheng Suwen, which was then controlled by Beijing TECHTCM through the Previous Contractual Arrangements.

In 2024, Wenzhi TCM Health underwent a series of shareholding changes as part of the Reorganization. For details, see “— Reorganization.” Following the Reorganization, Wenzhi TCM Health’s registered shareholders were Beijing TECHTCM as to 70.00% and Mr. Cui as to 30.00%, respectively. On September 4, 2024, Beijing TECHTCM, Mr. Cui and Wenzhi TCM Health entered into the Contractual Arrangements in respect of Mr. Cui’s shareholding in Wenzhi TCM Health, pursuant to which our Group obtained full control of Wenzhi TCM Health and can receive all of the economic interest returns generated by Wenzhi TCM Health. For details, see “Contractual Arrangements.”

Wenzhi Technology

Wenzhi Technology was established in the PRC on September 26, 2021 as a limited liability company with an initial registered capital of RMB1 million. At the time of its establishment, Wenzhi Technology was wholly owned by Mr. Luo Zhiqiang (羅志強), an Independent Third Party. On March 3, 2022, Mr. Luo Zhiqiang and Xiaocheng Suwen entered into an equity transfer agreement, pursuant to which Mr. Luo Zhiqiang transferred his entire equity interest in Wenzhi Technology to Xiaocheng Suwen. The consideration was RMB500, which was determined with reference to the net asset value of Wenzhi Technology as at December 31, 2021, and was fully settled on March 7, 2022. On the same day, Xiaocheng Suwen subscribed for registered capital of RMB9 million and Wenzhi Technology’s registered capital was increased from RMB1 million to RMB10 million. Upon the completion of the equity transfer and capital increase, Wenzhi Technology was wholly owned by Xiaocheng Suwen and was consolidated into our Group by virtue of the Previous Contractual Arrangements.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

On March 3, 2022, Xiaocheng Suwen and Beijing TECHTCM entered into an equity transfer agreement, pursuant to which Xiaocheng Suwen transferred its entire equity interest in Wenzhi Technology to Beijing TECHTCM at a consideration of RMB1. The consideration was determined with reference to the net asset value of Wenzhi Technology as at February 28, 2022, which was fully settled on April 6, 2022. Since then and as of the Latest Practicable Date, Wenzhi Technology was wholly owned by Beijing TECHTCM.

Guangzhou Wenzhi

Guangzhou Wenzhi was established in the PRC on March 27, 2020 as a limited liability company with a registered capital of RMB1 million. On November 25, 2021, Guangdong Chuangshi Inheritance Investment Development Co., Ltd. (廣東創世傳承投資發展有限公司) (“**Guangdong Chuangshi**”), an Independent Third Party, and Xiaocheng Suwen entered into an equity transfer agreement, pursuant to which Guangdong Chuangshi transferred its entire equity interest in Guangzhou Wenzhi to Xiaocheng Suwen at nil consideration, which was determined with reference to the net asset value of Guangzhou Wenzhi as at November 25, 2021. Upon the completion of the equity transfer, Guangzhou Wenzhi was wholly owned by Xiaocheng Suwen and its financial results were consolidated into our Group by virtue of the Previous Contractual Arrangements. On October 11, 2023, Xiaocheng Suwen and Wenzhi TCM Health entered into an equity transfer agreement, pursuant to which Xiaocheng Suwen transferred its entire equity interest in Guangzhou Wenzhi to Wenzhi TCM Health at nil consideration, which was determined with reference to the net asset value of Guangzhou Wenzhi as at September 30, 2023. Upon the completion of the equity transfer, and as of the Latest Practicable Date, Guangzhou Wenzhi was wholly owned by Wenzhi TCM Health.

Wenzhi Internet Hospital

Wenzhi Internet Hospital was established in the PRC on August 27, 2021 as a limited liability company with a registered capital of RMB50 million. At the time of its establishment, Wenzhi Internet Hospital was wholly owned by Xiaocheng Suwen and was consolidated into our Group by virtue of the Previous Contractual Arrangements.

In October 2023, Wenzhi Internet Hospital underwent shareholding changes as part of the Reorganization. For details, see “— Reorganization.” Following the Reorganization, Wenzhi Internet Hospital’s registered shareholders were Beijing TECHTCM as to 90.00% and Mr. Cui as to 10.00%, respectively. On October 30, 2023, Beijing TECHTCM, Mr. Cui and Wenzhi Internet Hospital entered into the Contractual Arrangements in respect of Mr. Cui’s shareholding in Wenzhi Internet Hospital, pursuant to which our Group obtained full control of Wenzhi Internet Hospital and can receive all of the economic interest returns generated by Wenzhi Internet Hospital and its subsidiaries. For details, see “Contractual Arrangements.”

All other major subsidiaries have been wholly controlled, directly or indirectly, by our Company since their respective inceptions.

MAJOR ACQUISITIONS, DISPOSALS AND MERGERS

During the Track Record Period, we have not conducted any acquisitions, disposals or mergers that we consider to be material to us.

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[REDACTED] INVESTMENTS

Overview

During the period from September 2018 to November 2024, our Company obtained several rounds of investments from the [REDACTED] Investors.

The following table summarizes the key terms and other details of the [REDACTED] Investments:

	Series A-1 Financing	Series A-2 Financing	Series A-3 Financing	Series A-4 Financing	Series [REDACTED] Financing
Date of agreement	September 7, 2018	September 7, 2018	March 20, 2019	January 14, 2022	November 22, 2024
Total amount of consideration paid	US\$206,824	US\$1,511,409	US\$3,000,000	US\$5,000,000	US\$12,000,000
Total number of Shares subscribed	4,220,000	18,503,091	14,327,801	13,610,452	6,135,266
Date of full settlement of the consideration	September 12, 2018	September 11, 2018	March 21, 2019	January 20, 2022	November 25, 2024
Shareholding in our Company held by the [REDACTED] Investors immediately following completion of the [REDACTED]	See “— Reorganization — Corporate Structure Immediately After the [REDACTED]” for the shareholding in our Company held by the [REDACTED] Investors immediately following completion of the [REDACTED].				
Cost per Share	US\$0.05	US\$0.08	US\$0.21	US\$0.37	US\$1.96
[REDACTED] to the [REDACTED]⁽¹⁾	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Basis of determining the consideration	The consideration for the [REDACTED] Investments were determined based on arm’s length negotiations between our Company and the [REDACTED] Investors after taking into consideration of, among others, (i) the timing of investments, (ii) the status and prospect of our business at the time of investment, and (iii) the business resources, strategic cooperation opportunities and benefits that the [REDACTED] Investors could bring to our Company at the relevant time of the investment.				
Use of proceeds	We utilized proceeds from the [REDACTED] Investments for business expansion, capital expenditures and general working capital of our Group. As of the Latest Practicable Date, approximately 24.0% of the net proceeds from the [REDACTED] Investments were utilized.				
Strategic benefits to our Group	It was believed at the relevant time of the investment that our Company could benefit from the additional capital provided by the [REDACTED] Investors’ investments in our Company and the [REDACTED] Investors’ knowledge and experience. We could take advantage of the [REDACTED] Investors’ industry resources and networks, while broadening our shareholder base. The series of investments made by the [REDACTED] Investors in our Company reflected their consistent confidence in the business of our Group and served as an endorsement of our performance and future prospects.				

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	Series A-1 Financing	Series A-2 Financing	Series A-3 Financing	Series A-4 Financing	Series [REDACTED] Financing
Lock-up period	Each of the [REDACTED] Investors is subject to a lock-up period of six months after the [REDACTED].				

Note:

- (1) The [REDACTED] to the [REDACTED] is calculated based on (i) the [REDACTED] of [REDACTED], being the mid-point of the [REDACTED] range; and (ii) the exchange rate of US\$1: HKD[7.7737], assuming all Preference Shares are converted into Ordinary Shares on a one-to-one ratio.

[REDACTED] Investors’ Special Rights

All Preference Shares shall be converted into Ordinary Shares of our Company upon the [REDACTED] on a one-to-one ratio.

The principal special rights granted to the [REDACTED] Investors include right to nominate directors, protective provisions, redemption rights, information rights, price adjustment rights, liquidation preference rights, right of first refusal and co-sale rights. The redemption rights have been terminated prior to the date of the submission of the [REDACTED] application by our Company in respect of the [REDACTED]. All the other special rights will be terminated upon the [REDACTED] in compliance with the Guide for New Listing Applicants.

Information about the [REDACTED] Investors

Lanchi Ventures and LCV Pioneer Fund

Lanchi Ventures is an exempted limited partnership registered in the Cayman Islands on February 29, 2016. As of the Latest Practicable Date, the general partner of Lanchi Ventures was BRV Aster Partners II, L.P., whose general partner was BRV Aster Partners II Limited (“**Lanchi Partners**”). Lanchi Partners was controlled by Mr. Tan Jui Kuang. Lanchi Ventures mainly invests in AI, robotics, new energy, consumer and healthcare. To the best knowledge of our Directors, each of the limited partners of Lanchi Ventures is an Independent Third Party holding less than one-third of the interests therein.

LCV Pioneer Fund is an exempted limited partnership registered in the Cayman Islands on May 2, 2024. As of the Latest Practicable Date, the general partner of LCV Pioneer Fund was LCV Pioneer Partners, L.P., whose general partner was LCV Pioneer Partners Limited (“**LCV Pioneer Partners**”). LCV Pioneer Partners was controlled by Mr. Tan Jui Kuang. LCV Pioneer Fund mainly invests in the technology sector. To the best knowledge of our Directors, the limited partner of LCV Pioneer Fund is an Independent Third Party.

ParmaWay

ParmaWay is a BVI business company incorporated in the BVI on November 21, 2016 with limited liability. As of the Latest Practicable Date, ParmaWay was wholly owned by Ms. Chin Lu Huey. Ms. Chin Lu Huey has eight years of investment experience in the field of equity and private investment, focusing on education, medical and technology sectors. Immediately following the completion of the [REDACTED], ParmaWay will be a substantial shareholder and connected person of our Company.

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ZhenFund

ZhenFund is an exempted limited partnership registered in the Cayman Islands on January 15, 2018, with a focus on investing in start-ups in various industries. As of the Latest Practicable Date, ZhenFund’s general partner was Zhen Partners Management (MTGP) V, L.P., whose general partner was Zhen Partners Management (TTGP) V, Ltd. (“**Zhen Partners**”). Zhen Partners was owned as to 30.00% by Zhen International Ltd., which was wholly owned by Best Love Charming Limited. Best Love Charming Limited was wholly owned by the trustee of Mr. Xu Xiao Ping’s family trust, of which he was the settlor. Other members of Zhen Partners all held less than 30.00% of the interests therein. Each of the limited partners of ZhenFund is an Independent Third Party holding less than one-third of the interests therein.

Juli Fund

Juli Fund is a limited partnership fund registered in Hong Kong on September 13, 2024. As of the Latest Practicable Date, the general partner of Juli Fund was Lipan Limited, which held 0.83% of the partnership interests therein. Lipan Limited was wholly owned by Ms. Pan Shuhong (潘書鴻), who, to the best knowledge of our Directors, is an Independent Third Party. Juli Fund had two limited partners, namely, Ms. Pan Shuhong, who held 44.59% of the partnership interest therein, and Ai De Limited, which held 54.58% of the partnership interest therein. Ai De Limited was wholly owned by Ms. Zhu Zinan (朱梓楠), who, to the best knowledge of our Directors, is an Independent Third Party. Juli Fund mainly invests in TCM and health sectors.

Compliance with Guidance

On the basis that (i) the consideration for the [REDACTED] Investments was irrevocably settled more than 28 clear days before the date of our first submission of the [REDACTED] application to the Stock Exchange, and (ii) no special rights of the [REDACTED] Investors will exist after the [REDACTED], the Sole Sponsor confirms that the [REDACTED] Investments are in compliance with the [REDACTED] Investment Guidance (as defined in the Guide for New Listing Applicants issued by the Stock Exchange).

PUBLIC FLOAT

Immediately upon the completion of the [REDACTED] (assuming the [REDACTED] is not exercised), Shares held by the following Shareholders will not be counted towards the public float:

- (i) TCMTech Holdings, a company wholly owned by Mr. Cui, our executive Director, chairman of the Board and chief executive officer, holding [REDACTED] of the total issued share capital of our Company;
- (ii) TCMInnov, a company wholly owned by Dr. Chang Nan-Hsig, our non-executive Director, holding [REDACTED] of the total issued share capital of our Company;

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- (iii) Lanchi Ventures and LCV Pioneer Fund, both controlled by Mr. Tan Jui Kuang, a substantial shareholder of the Company, collectively holding approximately [REDACTED] of the total issued share capital of our Company; and
- (iv) ParmaWay, holding approximately [REDACTED] of the total issued share capital of our Company and therefore a substantial shareholder.

Save as disclosed above, to the best of our Directors’ knowledge, each of the other [REDACTED] Investors and Shareholders (i) is not a core connected person of our Group; (ii) has not been financed directly or indirectly by a core connected person of our Group for the subscription of Shares; and (iii) is not accustomed to take instructions from a core connected person of our Group in relation to the acquisition, disposal, voting or other disposition of the Shares registered in his/her/its name or otherwise held by him/her/it, and such Shares held by them will be counted towards the public float for the purposes of Rule 8.08 of the Listing Rules. The public float of our Company will be approximately [REDACTED] upon the [REDACTED] (assuming the [REDACTED] is not exercised).

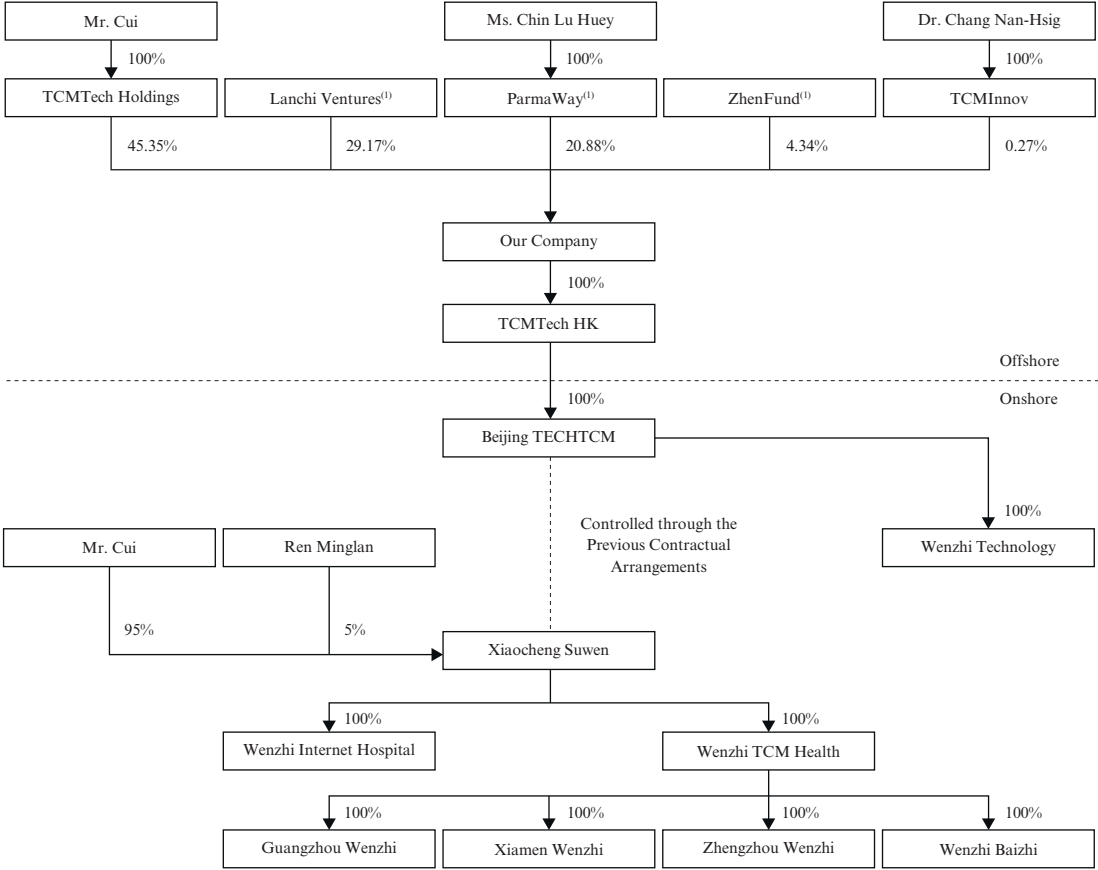
REORGANIZATION

In preparation for the [REDACTED], we underwent the following Reorganization.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Corporate structure immediately before the Reorganization

The following chart sets forth our Group’s corporate and shareholding structure immediately prior to the Reorganization:



Note:

(1) For details on Lanchi Ventures, ParmaWay and ZhenFund, see “— [REDACTED] Investments — Information about the [REDACTED] Investors.”

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Reorganization

1. Previous Contractual Arrangements in connection with Xiaocheng Suwen

In order to maintain effective control over our business operations, in September 2018, our Group, Xiaocheng Suwen and the registered shareholders of Xiaocheng Suwen entered into the Previous Contractual Arrangements and Xiaocheng Suwen together with its subsidiaries were consolidated into our Group. Under the Previous Contractual Arrangements, our Group had effective control over the financial and operational matters of, and was entitled to, all the economic benefits derived from Xiaocheng Suwen and its subsidiaries.

While the Previous Contractual Arrangement were in effect, Xiaocheng Suwen and its subsidiaries were primarily engaged in the provision of (i) TCM healthcare services; (ii) TCM lifestyle products; and (iii) TCM Brain subscription services. According to the Provisional Measures for the Administration on Sino-Foreign Equity and Cooperative Medical Institutions (中外合資、合作醫療機構管理暫行辦法), foreign investors are not allowed to hold more than 70.00% of the equity interest in a medical institution. Further, according to the Administrative Measures on Sino-Foreign Equity and Cooperative Medical Institutions in the Sichuan Province (四川省中外合資、合作醫療機構管理辦法), the equity ratio or interests attributable to foreign investors in Sino-foreign cooperative medical institutes shall not be more than 90.00% in the Sichuan Province. As advised by our PRC Legal Advisor, our Company, as a foreign entity, should not hold, either directly or indirectly, more than (i) 90.00% equity interest in our Company’s medical institutions located in the Sichuan Province; and (ii) 70.00% equity interest in our Company’s medical institutions located in other provinces. To prepare for the [REDACTED] and to comply with the “narrowly tailored” requirements, taking into consideration our business needs, our Group decided to terminate the Previous Contractual Arrangements with Xiaocheng Suwen and enter into the Contractual Arrangements instead.

2. Reorganizing our operating entities in the Sichuan Province and entering into the Contractual Arrangements with Wenzhi Internet Hospital

Wenzhi Internet Hospital and Wenzhi Baizhi are primarily engaged in the provision of TCM healthcare services in the Sichuan Province. On October 7, 2023, Wenzhi TCM Health and Wenzhi Internet Hospital entered into an equity transfer agreement, pursuant to which Wenzhi TCM Health transferred 100.00% of its equity interest in Wenzhi Baizhi to Wenzhi Internet Hospital for a consideration of RMB1. The consideration was nominal as it was an intra-group transfer within our Group and has been fully settled. Following the equity transfer, Wenzhi Baizhi was owned as to 100.00% by Wenzhi Internet Hospital.

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On October 30, 2023, Xiaocheng Suwen transferred 90.00% and 10.00% of its equity interest in Wenzhi Internet Hospital to Beijing TECHTCM and Mr. Cui at a consideration of RMB1 and RMB1, respectively. The consideration was nominal as it was an intra-group transfer within our Group and has been fully settled. On October 30, 2023, Beijing TECHTCM, Mr. Cui and Wenzhi Internet Hospital entered into the Contractual Arrangements in respect of Mr. Cui’s shareholding in Wenzhi Internet Hospital, pursuant to which our Group had effective control over the financial and operational matters of Wenzhi Internet Hospital and was entitled to all the economic benefits derived from Wenzhi Internet Hospital. For further details of the Contractual Arrangements, see “Contractual Arrangements — Our Contractual Arrangements.”

3. Shareholding changes in Wenzhi TCM Health and entering into the Contractual Arrangements with Wenzhi TCM Health

On September 6, 2024, Xiaocheng Suwen transferred 1.00% of its equity interest in Wenzhi TCM Health to HK United, for a consideration of RMB119,852.2. The consideration was determined based on Wenzhi TCM Health’s net asset value as at April 30, 2024 and was fully settled on September 6, 2024. Such equity transfer converted Wenzhi TCM Health into a sino-foreign joint venture, which was owned as to 99.00% by Xiaocheng Suwen and 1.00% by HK United.

On September 24, 2024, Xiaocheng Suwen transferred 68.97% of its equity interest in Wenzhi TCM Health to Beijing TECHTCM for a consideration of RMB296,571 which was determined based on arm’s length negotiations among the parties and was fully settled on September 24, 2024.

On September 25, 2024, Xiaocheng Suwen transferred 30.03% of its equity interest in Wenzhi TCM Health to Mr. Cui for a consideration of RMB129,129, which was determined based on arm’s length negotiations among the parties and was fully settled on September 25, 2024.

On September 4, 2024, Beijing TECHTCM, Mr. Cui and Wenzhi TCM Health entered into the Contractual Arrangements in respect of Mr. Cui’s shareholding in Wenzhi TCM Health, which took effect when the transfer of registered capital of 30.03% equity interest in Wenzhi TCM Health to Mr. Cui was completed. Pursuant to the Contractual Arrangements, our Group had effective control over the financial and operational matters of Wenzhi TCM Health and was entitled to all the economic benefits derived from Wenzhi TCM Health. For further details of the Contractual Arrangements, see “Contractual Arrangements — Our Contractual Arrangements.”

On October 17, 2024, Xiaocheng Suwen subscribed for registered capital of RMB10,000 in Wenzhi TCM Health and then it transferred its equity interest in Wenzhi TCM Health to Beijing TECHTCM. On December 11, 2024, HK United transferred 1.00% of its equity interest in Wenzhi TCM Health to Beijing TECHTCM for a consideration of RMB119,852.2, which was determined based on Wenzhi TCM Health’s net asset value as at April 30, 2024 and was fully settled on December 11, 2024. Following the transfer, Wenzhi TCM Health was owned as to 70.00% and 30.00% by Beijing TECHTCM and Mr. Cui, respectively, and controlled by our Company through the Contractual Arrangements.

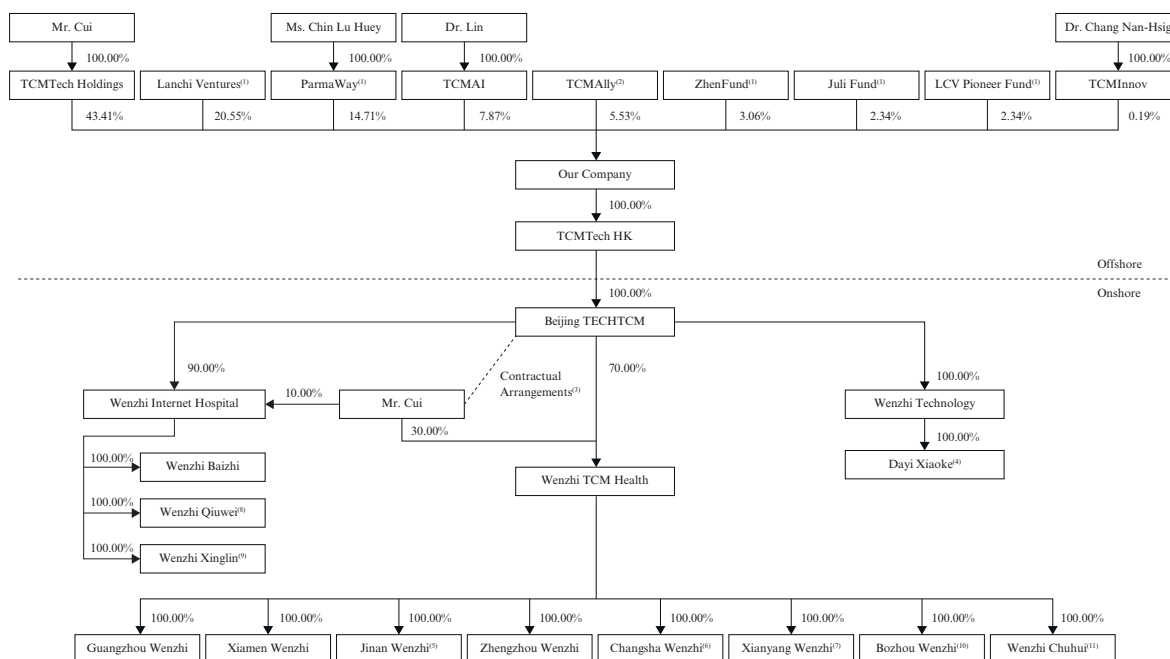
HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

4. Termination of the Previous Contractual Arrangements

On November 21, 2024, the Previous Contractual Arrangements was terminated and Xiaocheng Suwen was deconsolidated from our Group as a result.

Corporate structure after the Reorganization and before the [REDACTED]

The following chart sets forth the shareholding structure of our Group immediately following the completion of the Reorganization and up to the Latest Practicable Date:



Notes:

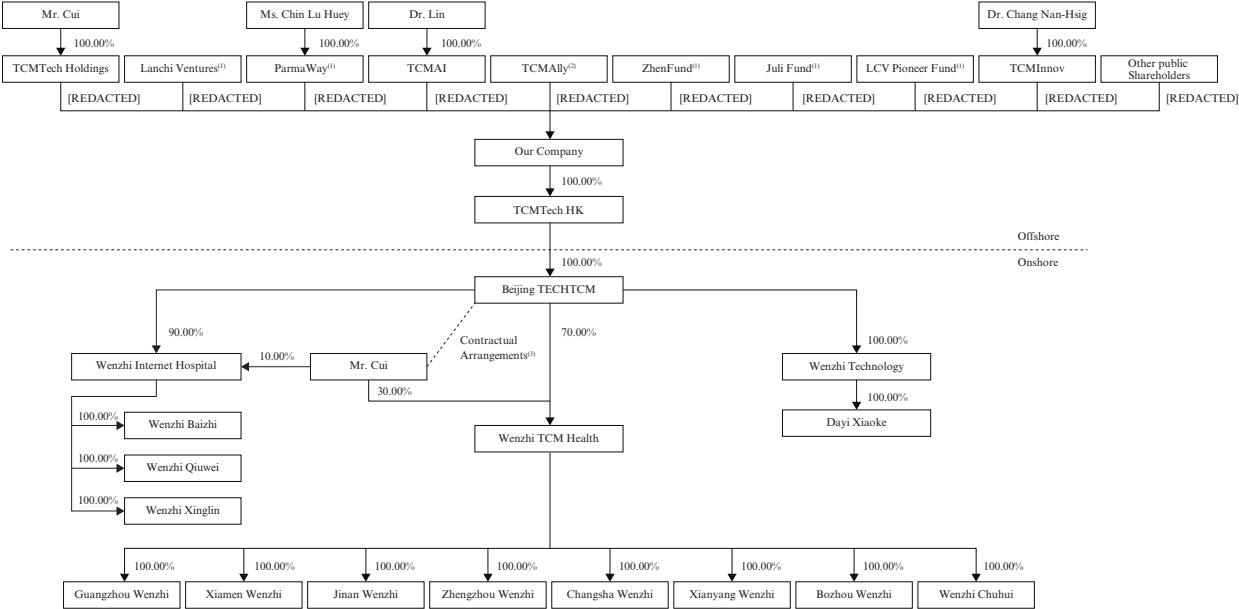
- (1) For details on Lanchi Ventures, ParmaWay, ZhenFund, Juli Fund and LCV Pioneer Fund, see “[REDACTED] Investments — Information about the [REDACTED] Investors.”
- (2) TCMAlly is a company incorporated in the BVI on May 29, 2024. As of the Latest Practicable Date, TCMAlly was owned as to 97.24%, 1.38% and 1.38% by our employees Mr. Chang Tsan-Hung, Mr. Wang Jen Ching and Mr. Yao Peng, respectively, each of whom is an Independent Third Party. Therefore, immediately upon the completion of the [REDACTED], the Shares held by TCMAlly will be counted towards the public float of our Company under Rule 8.08 of the Listing Rules.
- (3) In order to prepare for the [REDACTED], to comply with the “narrowly tailored” requirements, and maintain effective control over all of our operations, we entered into the Contractual Arrangements. For further details on the Contractual Arrangements, see “Contractual Arrangements.”
- (4) Dayi Xiaoke was established in the PRC as a limited liability company on January 23, 2024.
- (5) Jinan Wenzhi was established in the PRC as a limited liability company on April 8, 2024.
- (6) Changsha Wenzhi was established in the PRC as a limited liability company on November 8, 2023.
- (7) Xianyang Wenzhi was established in the PRC as a limited liability company on December 5, 2023.
- (8) Wenzhi Qiuwei was established in the PRC as a limited liability company on March 12, 2024.
- (9) Wenzhi Xinglin was established in the PRC as a limited liability company on May 16, 2024.
- (10) Bozhou Wenzhi was established in the PRC as a limited liability company on September 3, 2024.
- (11) Wenzhi Chuhui was established in the PRC as a limited liability company on October 14, 2024.

THIS DOCUMENT IS IN DRAFT FORM. THE INFORMATION CONTAINED HEREIN IS INCOMPLETE AND IS SUBJECT TO CHANGE. THIS DOCUMENT MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Corporate Structure Immediately After the [REDACTED]

The following chart sets forth the shareholding structure of our Group immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised):



Notes:

- (1) For details on Lanchi Ventures, ParmaWay, ZhenFund, Juli Fund and LCV Pioneer Fund, see “— [REDACTED] Investments — Information about the [REDACTED] Investors.”
- (2) TCMally is a company incorporated in the BVI on May 29, 2024. As of the Latest Practicable Date, TCMally was owned as to 97.24%, 1.38% and 1.38% by our employees Mr. Chang Tsan-Hung, Mr. Wang Jen Ching and Mr. Yao Peng, respectively, each of whom is an Independent Third Party. Therefore, immediately upon the completion of the [REDACTED], the Shares held by TCMally will be counted towards the public float of our Company under Rule 8.08 of the Listing Rules.
- (3) In order to prepare for the [REDACTED], to comply with the “narrowly tailored” requirements, and maintain effective control over all of our operations, we entered into the Contractual Arrangements. For further details on the Contractual Arrangements, see “Contractual Arrangements.”

COMPLIANCE WITH PRC LAWS AND REGULATIONS

Our PRC Legal Advisor has confirmed that (i) the establishment of our subsidiaries in the PRC and their subsequent shareholding changes as described above have complied with the relevant PRC laws and regulations in all material respects; and (ii) all necessary approvals, permits and licences required under PRC laws and regulations in connection with the Reorganization have been obtained and the Reorganization has complied with all applicable PRC laws and regulations in all material respects.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

SAFE registration

According to the Circular Concerning Relevant Issues on the Foreign Exchange Administration of Offshore Investing and Financing and Round-Trip Investing by Domestic Residents through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (“SAFE Circular 37”), which was promulgated by the SAFE and became effective on July 4, 2014, PRC residents are required to register with competent local SAFE branches regarding establishing or controlling offshore companies. Pursuant to the Circular on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (“SAFE Circular 13”), which was promulgated by the SAFE and became effective on June 1, 2015, the aforesaid registration shall be directly reviewed and handled by qualified banks instead of the local branch of the SAFE.

As confirmed by our PRC Legal Advisor, Mr. Cui, a PRC resident, has duly completed the process of relevant registration as required under SAFE Circular 37 and SAFE Circular 13.

M&A Rules

On August 8, 2006, the Rules on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the “M&A Rules”) was jointly issued by the MOFCOM, the State Assets Supervision and Administration Commission, the State Administration of Taxation, the SAIC, the CSRC and the SAFE, which became effective on September 8, 2006. The M&A Rules were subsequently amended on June 22, 2009. According to the M&A Rules, a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic non-foreign invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a domestic enterprise through an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise. Where a domestic company, enterprise or natural person intends to acquire its or his/her related domestic company in the name of an offshore company which it or he/she lawfully established or controls, the acquisition shall be subject to the examination and approval of the MOFCOM, and an offshore special purpose vehicle formed for listing purposes and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange, especially in the event that the special purpose vehicle acquires equity interests in PRC companies using shares of offshore companies as the consideration.

As advised by our PRC Legal Advisor, since Wenzhi TCM Health had converted into a sino-foreign joint venture enterprise prior to the time when Beijing TECHTCM acquired equity interest in it from Xiaocheng Suwen (the “Equity Transfer”), the Equity Transfer is not subject to the M&A Rules, and approval from MOFCOM is not required under the M&A Rules. However, there is uncertainty as to how the M&A Rules will be interpreted or implemented and whether the MOFCOM and other related government authorities would promulgate future PRC laws, regulations or rules contrary to the M&A Rules.

BUSINESS

OUR MISSION

To innovate TCM through technologies and prioritize curative effect.

OUR VISION

To cure terminal, severe and complex medical conditions through TCM.

OVERVIEW

Who We Are

We are the largest AI-empowered TCM healthcare service provider in mainland China in terms of AI-empowered revenue in 2023, according to the CIC Report. According to the same source, we are the only AI-empowered TCM healthcare service provider that has commercialized its proprietary technologies on a large scale. We have also achieved the highest year-on-year growth in revenue in 2023 among 2023’s top five AI-empowered TCM healthcare service providers in mainland China.

We have independently developed the TCM Brain (中醫大腦), an AI-assisted TCM clinical decision support system, equipped with the largest clinical knowledge graph in the TCM healthcare service industry globally, which is the core of our clinical consultation and prescription process. We specialize in the treatment of cancer and severe conditions as well as difficult and complex conditions while maintaining a strong foundation in general practice. With our proprietary TCM Brain as the technical foundation, we are committed to harnessing AI to improve the outcome of TCM treatment, break through the bottleneck on the treatment of cancer and severe conditions, address difficult and complex conditions, and revitalize TCM.

We founded Jingyi Academy (精一書院), the largest TCM community globally in terms of the cumulative number of registered community members as of September 30, 2024, according to the CIC Report, which has been attracting both TCM practitioners and enthusiasts through the sharing of a wealth of TCM knowledge, including ancient and modern TCM classics and our original TCM content. It not only promotes TCM culture but also enhances our brand awareness and market position.

We have developed a comprehensive TCM business model that addresses our customers’ full range of needs from illness treatments, health maintenance, to learning and practicing TCM knowledge. During the Track Record Period, we generated revenue from (i) TCM healthcare services, (ii) TCM lifestyle products, and (iii) TCM Brain subscription services.

BUSINESS

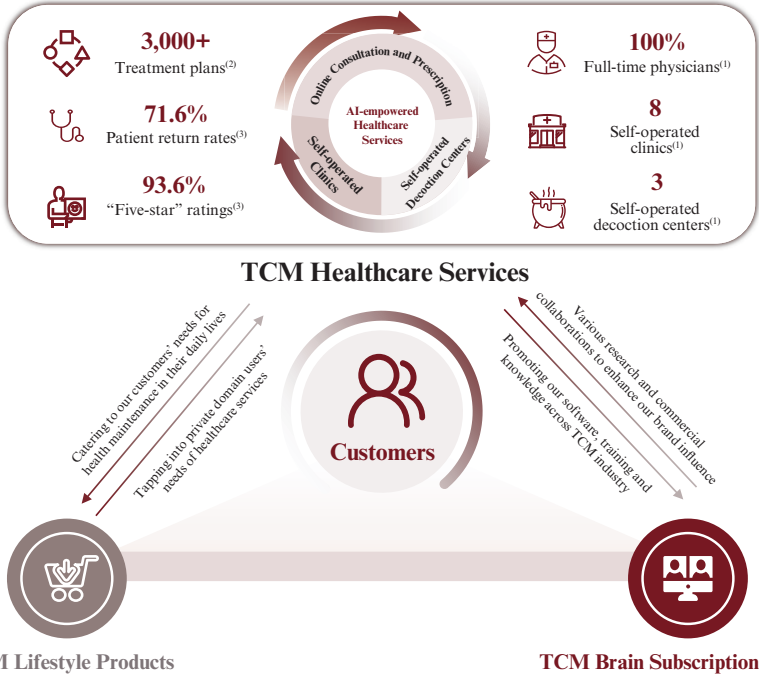
TCM healthcare services. We primarily generate our revenue from TCM healthcare services which encompass a full range of TCM consultation, prescription, treatment and follow-up services provided through our online platform and offline clinics. We also offer high-quality decoction services through our self-operated decoction centers. To maintain service quality and management efficiency, all of our physicians are full-time employees. We have strategically structured our TCM healthcare services into three practices, namely (i) cancer and severe conditions, (ii) difficult and complex conditions and (iii) general practice. As of September 30, 2024, we had formulated effective treatment plans for more than 3,000 types of medical conditions and symptoms, and accumulated over one million real-world clinical cases. All of these real-world clinical cases are annotated with data of follow-up queries.

TCM lifestyle products. We offer TCM healthcare products such as edible herbal powder products and herbal personal care products under our Wenzhi Qingyang (問止輕養) brand. We also offer online recorded courses under our “Dr. Lin’s Mini Courses” (大醫小課) channel and a series of TCM publications. Our aim is to attract and engage a broader audience and enhance our market presence through offering compelling and practical TCM-related knowledge. According to the CIC Survey, approximately 70.0% of the respondents had purchased either our TCM healthcare products or our online recorded TCM courses, whereas approximately 25.0% of the respondents had purchased both.

TCM Brain subscription services. We offer a subscription-based version of our proprietary TCM Brain under our Wenzhi AI Alliance initiative to various customers including individual practitioners, medical institutions and other corporate customers. We believe our TCM Brain subscription services have the potential of encouraging the adoption of AI in the TCM healthcare service industry.

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The diagram below illustrates our major business segments:



Notes:

- (1) As of the Latest Practicable Date.
- (2) As of September 30, 2024.
- (3) For the nine months ended September 30, 2024.

Our values and accomplishments have been widely recognized by customers and participants across the TCM healthcare service industry. We have achieved high patient loyalty and satisfaction rates during the Track Record Period as evidenced by our growing patient return rates. In 2022, 2023 and the nine months ended September 30, 2024, our patient return rates, reached 61.2%, 69.1% and 71.6%, respectively, while according to the CIC Report, the industry average patient return rate is typically within the range of 30.0% to 40.0%. Based on our internal follow-up feedback system, among our top 50 most frequently treated medical conditions and symptoms, an average of 93.8% of patients reported effective outcomes during follow-up assessments during the Track Record Period. In 2022, 2023, and the nine months ended September 30, 2024, 93.8%, 92.7%, and 93.6% of patients, respectively, rated our services with the highest “five-star” evaluation in our internal follow-up feedback system.

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Furthermore, according to the CIC Survey, we have received positive feedback from our customers in their most concerned areas, such as treatment outcome, convenience, physician expertise and service quality. The survey indicated that approximately 87.2% of the respondents expressed varying degrees of satisfaction in terms of improvements in their conditions. In particular, approximately 90.0% of the respondents with cancer and severe conditions were satisfied with the outcomes of our treatment. Approximately 82.2% of the respondents with cancer and severe conditions indicated that they would continue to seek medical treatment from us in the future.

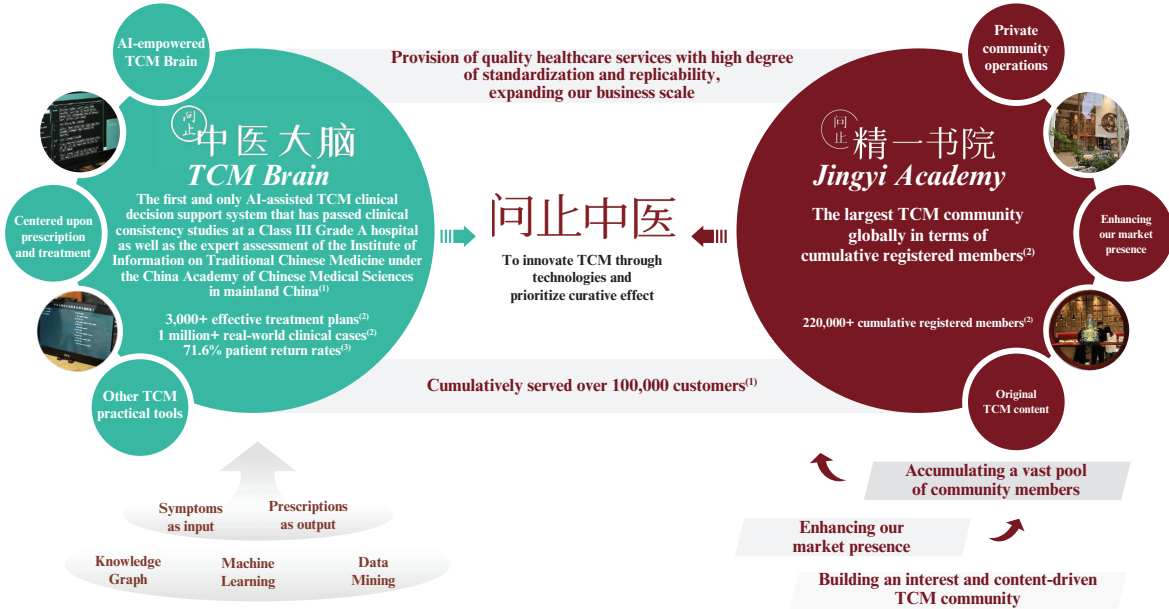
With the aim of promoting TCM culture, we actively participate in various areas of clinical and academic research, cultural heritage succession and social welfare, and our efforts have been recognized by government agencies and mainstream media. We were awarded governmental certifications such as National High and New Tech Enterprise in mainland China. We were one of the brands selected for China Central Television’s “Inheriting the Craftsman Spirit and Building the Power of National Style” project (中國中央電視台《傳承工匠精神 • 鑄就國潮力量》專案) in 2023. We have established a joint laboratory with the Institute of Information on Traditional Chinese Medicine under the China Academy of Chinese Medical Sciences (中國中醫科學院中醫藥信息研究所). We have also been granted the title of “2023 Excellent Cases of Corporate ESG Social Contribution” (2023企業ESG社會貢獻度優秀案例) by Xinhua News Agency in 2024. Furthermore we have been shortlisted in the 2024 Software Industry Quality Development Support Program (First Batch) Funding Project (2024年軟件產業高質量發展扶持計劃(第一批)資助項目) and awarded approximately RMB1.0 million by the Industry and Information Technology Bureau of Shenzhen Municipality. Our subsidiaries, Wenzhi TCM Health and Wenzhi Technology, were shortlisted as Specialized and Innovative Small and Medium-sized Enterprises in Shenzhen (深圳市專精特新中小企業) on December 30, 2024.

Our Business Pillars

According to the CIC Report, the TCM healthcare service industry in mainland China is highly fragmented. While there is huge potential for development and integration, there are pain points on both the supply and demand sides. On the supply side, TCM healthcare services highly depend on scarce highly skilled and experienced TCM physicians. According to the CIC Report, there were only approximately 700,000 licensed TCM physicians in mainland China in 2023, amongst whom less than 5% were senior TCM physicians. This is markedly insufficient to meet the massive demand. In addition, the remuneration of TCM physicians generally accounts for a large proportion of total costs of TCM medical institutions. On the demand side, patients are generally geographically dispersed and there is still limited awareness of the benefits of TCM. As a result, TCM healthcare service providers often face high customer acquisition costs and low treatment adherence. Therefore, it is crucial to have a customer acquisition channel centered upon building customers’ awareness and trust towards TCM.

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Our two business pillars, namely TCM Brain and Jingyi Academy, address the pain points on both supply and demand sides as illustrated in the diagram below:



Notes:

- (1) As of the Latest Practicable Date.
- (2) As of September 30, 2024.
- (3) For the nine months ended September 30, 2024.

TCM Brain

We have independently developed the TCM Brain, an AI-assisted TCM clinical decision support system equipped with the largest clinical knowledge graph in the TCM healthcare service industry globally. As the core of our business, the TCM Brain is extensively applied in our TCM healthcare services. Our TCM Brain is the first and only AI-assisted TCM clinical decision support system that has passed clinical consistency studies at a Class III Grade A hospital in mainland China as well as the expert assessment of the Institute of Information on Traditional Chinese Medicine under the China Academy of Chinese Medical Sciences as of the Latest Practicable Date, according to the CIC Report.

As of September 30, 2024, our TCM Brain has accumulated over 100 million parameters and over 10,000 TCM formulas (方剂), covering more than 3,000 types of medical conditions and symptoms. It includes over one million real-world clinical cases each annotated with data of follow-up queries and over one million labeled tongue images. This represents the largest clinical TCM knowledge graph in the TCM healthcare service industry globally according to the CIC Report.

This AI-empowered approach enables our physicians to perform an in-depth and all-rounded consultation while minimizing reliance on their personal knowledge and experience. Instead, we have cultivated a team of committed and tech-savvy TCM physicians who are adept at integrating our TCM Brain and traditional TCM techniques. We engineered

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the TCM Brain to be highly intuitive and user-friendly, helping ensure an efficient and seamless onboarding experience. According to the CIC Survey, approximately 53.4% of the respondents (which included our physicians and physicians of other medical institutions under our Wenzhi AI Alliance initiative) reported they could effectively use the TCM Brain within one week after they begin to use it and approximately 77.7% of them could do so within one month. Furthermore, approximately 94.6% of the respondents indicated that the TCM Brain enhanced their ability to handle more complex medical conditions. We believe training TCM practitioners to use the TCM Brain practically increases the supply of high-quality practitioners and thus empowers the TCM healthcare service industry.

Jingyi Academy

We have built an interest and content-driven community that focuses on building trust, raising awareness, and promoting TCM culture. In May 2021, we established the Jingyi Academy, a vibrant TCM community captivating TCM enthusiasts through our original TCM contents. As of September 30, 2024, our Jingyi Academy had attracted over 220,000 cumulative number of registered community members, which mainly consisted of TCM enthusiasts and qualified TCM practitioners, making it the largest TCM community globally, according to the CIC Report. Through this community, our members have gained a better understanding and appreciation of the principles and benefits of TCM. Furthermore, many of our community members naturally evolve into TCM advocates within their social circles. This leads to significant word-of-mouth referrals, effectively attracting their friends and family to become our members and continuously expanding our community.

Dr. Lin, co-founder of our Company and a protégé of renowned TCM practitioner Mr. Ni Haisha (倪海廈), is the center of our community. He uses the TCM Brain to distill TCM knowledge from books of ancient and modern TCM masters, and combines such knowledge with our years of experience in the TCM healthcare service industry and provides high-quality and diversified TCM content for our community members. Meanwhile, our community members also share their insights through our community platform. Our community activities are mainly conducted online, supplemented by offline activities such as face-to-face discussion sessions, summer camps and academic summits. For example, in July 2023, we collaborated with the China Medicine Education Association (中國醫藥教育協會) to jointly promote a TCM cultural heritage program, establishing strong market recognition and visibility. Leveraging our active community operation and the continuous accumulation of community members, our Jingyi Academy has become a nationally influential dissemination channel and communication platform for high-quality TCM content, which has enabled a wider audience to understand the story of our brand and enhanced our brand value.

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Our Market Opportunities

We believe that the TCM healthcare service market in mainland China is in its prime as TCM has become increasingly prevalent among modern healthcare solutions. The healthcare service market in mainland China is expected to grow due to factors such as the aging society, the rise of health awareness and the increase in savings and spending power of aged populations. In particular, given its increasing penetration rate in the healthcare system driven by the rise of China’s cultural influence, the increase in awareness of TCM and the implementation of favorable governmental policies, the TCM healthcare service market is characterized by its long-run growth potential. According to the CIC Report, the number of outpatient visits for TCM healthcare services in mainland China is expected to increase from approximately 2.2 billion in 2023 to approximately 3.0 billion in 2028, with a CAGR of approximately 6.9%; the size of the TCM healthcare service market reached approximately RMB960.6 billion in 2023 in terms of revenue, and it is expected to reach approximately RMB1,713.4 billion in 2028, with a CAGR of 12.3%; and the penetration rate of TCM in the overall healthcare system was 18.9% in 2023, and is expected to further increase to 24.8% in 2028.

AI empowers various aspects of TCM, alleviating industry pain points and creating huge market opportunities for rapid growth. AI technology can independently learn from vast numbers of real-world clinical cases across multiple medical conditions as well as draw on experiences from ancient TCM books and texts. As AI’s learning capabilities advance, it becomes increasingly capable of tackling cancer and severe conditions as well as difficult and complex conditions, thereby expanding the boundaries of TCM healthcare services. At the same time, the application of AI and other cutting-edge technologies to TCM standardizes the consultation and prescription processes, which further expands the knowledge bases and experience of TCM physicians. This gradually reduces the dependence on senior TCM physicians, cultivating a sustainable supply of high-quality TCM physicians on a large scale. As a result, the TCM healthcare service industry can evolve from the competition over scarce TCM talents to the development of high-quality healthcare services across the industry.

In recent years, the Chinese government has introduced numerous policies encouraging the application of AI. For example, in July 2024, the National Administration of Traditional Chinese Medicine and the National Data Administration jointly issued the “Several Opinions on Promoting the Development of Digital Traditional Chinese Medicine (關於促進數字中醫藥發展的若干意見),” which encourages the gradual integration of emerging technologies such as AI and big data into various aspects of TCM, particularly to enhance TCM healthcare service capabilities. According to the CIC Report, the size of the AI-empowered TCM healthcare service market in mainland China was approximately RMB10.9 billion in 2023 and is expected to reach RMB86.9 billion in 2028, with a CAGR of 51.4%, and the penetration rate of AI-empowered TCM healthcare services within the TCM healthcare service market has gradually increased from less than 0.1% in 2019 to 1.1% in 2023 and is expected to further increase to 5.1% in 2028.

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According to the CIC Report, we are the largest AI-empowered TCM healthcare service provider in mainland China in terms of AI-empowered revenue in 2023, with a market share of 1.5%. We achieved high revenue growth and solid profitability during the Track Record Period. Our revenue increased by 204.0% from RMB62.2 million in 2022 to RMB189.0 million in 2023 and increased by 33.8% from RMB129.4 million for the nine months ended September 30, 2023 to RMB173.1 million for the nine months ended September 30, 2024. Furthermore, we have achieved the highest year-on-year growth in revenue in 2023 among 2023’s top five AI-empowered TCM healthcare service providers in mainland China, according to the CIC Report. Our adjusted net profit increased by 735.2% from RMB5.2 million in 2022 to RMB43.0 million in 2023, and increased by 137.4% from RMB20.9 million for the nine months ended September 30, 2023 to RMB49.5 million for the nine months ended September 30, 2024.

Our Value Propositions

We are dedicated to revitalizing TCM while upholding the principles of sustainable development with social responsibility. We believe that our comprehensive TCM business model will benefit all participants in the TCM medical and healthcare ecosystem, provide patients with a full range of TCM healthcare services, alleviate the pain points of unbalanced TCM medical resources, promote the development of TCM healthcare service for the general public and create social value.

Value propositions to patients

- *Treatment outcome and service quality.* We are committed to alleviating the pain and illnesses suffered by patients and improve their health through TCM. Through continuous training of our TCM Brain, we are able to provide patients with standardized consultation experience, accurate prescriptions and customized treatment plans. According to the CIC Survey, approximately 87.2% of the respondents expressed varying degrees of satisfaction with the improvement in their conditions. In particular, approximately 90.0% of the respondents with cancer and severe conditions were satisfied with the outcome of our treatment. We ensure our patients receive high-quality decocting pieces through our Wenzhi Herbal Alliance (問止本草大地聯盟), which is an initiative for establishing stringent procurement standards and fostering closer relationships with upstream TCM decocting pieces suppliers and TCM herb farmers. Follow-up services, as part of our all-rounded healthcare services, are also provided by our team of physicians and medical assistants to patients on an ongoing basis.
- *Convenience and accessibility.* Patients often face inconveniences and difficulties in accessing TCM healthcare services, such as difficulty in locating suitable TCM physicians, long commutes and long waiting times. With our online consultation network, supported by our strategically located offline clinics and self-operated decoction centers, we provide patients with an accessible consultation and treatment experience. In particular, our mature and established online consultation capability provides patients across the country with access to high-quality TCM healthcare services in a timely manner. We have also donated the subscription version of our TCM Brain to remote regions in mainland China and jointly established medical bases and TCM training centers with local governmental departments.

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Value propositions to TCM physicians and healthcare organizations

- *Professional training.* We provide continuous and solid professional training for our physicians. Our TCM Brain provides physicians with a vast amount of TCM knowledge and clinical practice experience, which allows them to, professionally, broaden their knowledge base, accumulate experience, and improve their consultation and diagnostic skills, and, personally, realize long-term sustainable career development. We have also developed a series of TCM-related practical tools, such as acupuncture points, TCM formulas and dialectics and external treatment illustrations, which are open to the public and TCM practitioners free-of-charge. As of September 30, 2024, the cumulative number of users for our practical tools reached over two million. In addition, we have set up scholarships and employment bases in universities such as Henan University of Chinese Medicine, Shandong University of Traditional Chinese Medicine, Hubei University of Chinese Medicine and Chengdu University of Traditional Chinese Medicine to cultivate quality talents for the TCM healthcare service industry.
- *Promotion of the application of AI in TCM.* We have initiated the Wenzhi AI Alliance, which promotes the use of AI technology across the industry. Through this initiative, we have established various research and commercial collaborations with government bodies, universities, research institutions, hospitals, and other organizations. TCM healthcare organizations and individual practitioners can subscribe to our TCM Brain to improve their treatment outcome and service capabilities, which promotes the digitalization and application of AI in TCM healthcare services.

Value propositions to the TCM healthcare service industry

- *Transformation of the industry with technology.* We are committed to breaking through the bottleneck of modern medicine in the treatment of terminal, severe and difficult medical conditions through the application of AI, improving the treatment outcome of TCM, and revitalizing the value of TCM. Our TCM Brain is not only widely used in our own clinical consultation and prescription process, but also facilitates the gradual transformation of the TCM healthcare service industry from the traditional renowned physician-led model to a technology-empowered model.
- *Revitalization of TCM.* Through Jingyi Academy, we aim to raise awareness and recognition of the TCM culture by the general public. We have also organized a series of online and offline cultural promotional activities to distill difficult-to-understand ancient TCM texts and make them accessible to a wider audience. We also became a partner for the inheritance of TCM with the China Medicine Education Association (中國醫藥教育協會) in 2023.

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- *Foundation for clinical and academic research.* We are devoted to the integration of TCM academics with cutting-edge technologies. We have carried out a series of research collaborations, such as the joint establishment of the TCM Artificial Intelligence Laboratory with the Institute of Information on Traditional Chinese Medicine under the China Academy of Chinese Medical Sciences, for the purpose of examining and analyzing real-world clinical data with the TCM brain. We have also established the Joint Innovation Center of TCM Artificial Intelligence with Shaanxi University of Chinese Medicine to promote advancements in various specialties.
- *Standardizing TCM practice.* With the assistance of the TCM Brain, we are dedicated to the standardization of TCM theories and the formulation of a standardized process for modern TCM consultation, prescription and treatment. Through the Wenzhi Herbal Alliance initiative and our self-operated decoction centers, we have also established high standards for the supply chain of TCM healthcare services including procurement of decocting pieces.

OUR STRENGTHS

We strive to enhance our strengths and competitive edge. We believe the following competitive strengths could enable us to achieve rapid and sustainable growth and maintain our industry position in the market.

Largest AI-empowered TCM healthcare service provider in mainland China

We are the largest AI-empowered TCM healthcare service provider in mainland China, specializing in the treatment of cancer and severe conditions as well as difficult and complex conditions while maintaining a strong foundation in general practice. According to the CIC Report, we are the largest AI-empowered TCM healthcare service provider in mainland China in terms of AI-empowered revenue in 2023, with a market share of 1.5% and our year-on-year revenue growth in 2023 was the highest among 2023’s top five AI-empowered TCM healthcare service providers in mainland China.

Since our inception in 2018, we have been actively exploring the application of AI technologies to empower TCM, enriching the means of consultation, prescriptions, treatment and innovating business expansion models. The TCM healthcare service market faces pain points of insufficient supply of quality TCM healthcare services due to the high dependence on scarce experienced TCM physicians and high customer acquisition costs due to the geographical dispersion and lack of loyalty of patients. We have developed, continuously upgraded and optimized our TCM Brain. As of the Latest Practicable Date, our team of physicians had served over 100,000 patients with the assistance of our TCM Brain.

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Taking the revitalization of TCM as our mission, we founded Jingyi Academy for studying classical TCM texts and original materials, sharing TCM knowledge and promoting TCM culture. Through Jingyi Academy, we organize a variety of online and offline discussion and sharing activities, thereby facilitating the promotion of TCM culture and enhancing our brand influence. Our community members help generate word-of-mouth referrals for us and continuously attract their friends and relatives to become our members. As of September 30, 2024, our Jingyi Academy was the largest TCM community globally according to the CIC Report.

Proprietary AI-empowered TCM Brain advancing TCM through technological innovation

We adhere to the use of AI technologies to innovate and revitalize TCM. We apply our self-developed TCM Brain to our clinical consultation and prescription process in our TCM healthcare services. The underlying system of the TCM Brain, powered by knowledge graphs and machine learning technology, encompasses four main modules, namely Clinical Management (臨證管理), Prescription Brain (方劑大腦), Acupuncture Brain (針灸大腦), and Learning Brain (學習大腦). With these modules, the TCM Brain is applied in different scenarios throughout the whole cycle of TCM healthcare services, including collection of symptoms data, intelligent analysis of patients’ conditions, suggestion of prescription and management of consultation appointments and follow-up queries. With the aid of the TCM Brain, we provide patients with a convenient and efficient consultation experience and assist physicians to deliver a systematic consultation process and finalize the prescription. Our TCM Brain is equipped with autonomous learning and evolution capabilities. We adopt a three-step training process, namely pre-training, fine-tuning, and reward training to continuously enhance its capabilities. Our independently developed Brain.AI testing platform with more than 10,000 testing scenarios meticulously curated from real-world data from our frontline clinical practices is deployed to ensure the treatment outcome and safety of TCM Brain.

As of the Latest Practicable Date, our TCM Brain is the first and only AI-assisted TCM clinical decision support system that has passed clinical consistency studies at a Class III Grade A hospital in mainland China, the Sun Yat-sen Memorial Hospital of Sun Yat-sen University, as well as the expert assessment of the Institute of Information on Traditional Chinese Medicine under the China Academy of Chinese Medical Sciences. The TCM Brain is also equipped with the largest clinical knowledge graph of TCM globally, according to the CIC Report, with more than 100 million parameters, over 10,000 TCM formulas, and treatment plans for more than 3,000 types of medical conditions and symptoms as of September 30, 2024. It can be used to assist physicians to tackle severe and complex conditions through the real-time analysis of symptoms, pairs of medicinal herbs, prescriptions and dosage. We have provided TCM healthcare services to over 100,000 customers and accumulated over one million prescriptions labelled by follow-up queries with the TCM Brain since its first application in 2019. During the Track Record Period, among the top 50 most frequently treated medical conditions and symptoms treated by us, an average of 93.8% of patients reported effective outcomes during follow-up assessments, according to our internal follow-up feedback system. According to the CIC Survey, approximately 78.8% of the respondents have received medical treatment at other medical institutions, and approximately 80.9% of such respondents were more satisfied with our treatment results, indicating the favorable treatment outcome and patient satisfaction achieved through our TCM Brain. To facilitate the research and development of AI technology in the

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TCM healthcare service industry, we initiated the Wenzhi AI Alliance which promotes the common use of AI across the industry. Through this initiative, we have established various collaborations with government authorities, universities, research institutions, hospitals, and other organizations. We believe such initiatives have enhanced our brand influence while assisting more TCM medical institutions and individual practitioners in improving their service capabilities, which in turn helps us gain industry recognition and endorsement. For example, we have established a joint laboratory with the Institute of Information on Traditional Chinese Medicine under the China Academy of Chinese Medical Sciences. We are also actively advancing research projects in TCM modernization and intelligence with the Shaanxi University of Chinese Medicine.

Comprehensive and high-quality TCM healthcare services satisfying customers’ healthcare needs

Focusing on our customers’ healthcare needs, we adhere to the notion of “treating illness when sick, maintaining health when well” which includes:

- *Specialized capabilities in treating severe and complex conditions with a strong foundation in general practice.* Recognizing the pressing demand for specialized and high-quality treatments beyond general practice, we have strategically focused on providing comprehensive solutions for cancer and severe conditions as well as difficult and complex conditions. To satisfy such demands, we have adopted a modern TCM approach emphasizing sub-specialization and condition-specific treatments, ensuring professional depth and expertise in addressing different medical conditions. While maintaining a strong foundation in general practice, our offerings are distinguished by our specialized capabilities in treating severe and complicated conditions. As of the Latest Practicable Date, we had established and operated our TCM healthcare services under three practices, namely (i) cancer and severe conditions, (ii) difficult and complex conditions and (iii) general practice. Utilizing the essence of classical TCM formulas and treatment methods, as well as the systematic analysis of consultation and prescription process with the assistance of the TCM Brain, we have accumulated valuable real-world clinical data for a wide range of medical conditions. As of September 30, 2024, we have treatment plans for more than 3,000 types of medical conditions and symptoms. During the Track Record Period, the cumulative percentage of cases handled by our three practices in terms of number of patients from us were 20.8%, 29.7% and 49.5%, respectively.

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- *Seamless integration of online and offline presence meeting the needs of nationwide customers with high efficiency.* We have established an online and offline TCM healthcare services network catering nationwide patients. Our offline clinics are centered on “medical treatment + health maintenance + interactive communication,” offering face-to-face consultations and other on-site services. As of the Latest Practicable Date, we operated eight clinics in Shenzhen, Guangzhou, Xiamen, Chengdu, Zhengzhou, Changsha and Jinan. By thoroughly evaluating local physician supply and demand conditions, our clinics have shown outstanding performance during the Track Record Period. Based on historical data, they typically achieve breakeven within one month of opening and recover investment costs within three months. Meanwhile, we have also established a comprehensive online healthcare services platform. On this platform, our patients can provide basic information and describe their symptoms to our physicians through various methods, including uploading images, inputting symptoms, answering questions, and video calls. Through systematic reconfirmation and customized Q&A, we filter for effective information, with which our physicians prescribe treatments based on their clinical experience taking the TCM Brain’s suggestion into account. We also provide regular follow-up queries services to track patient progress. Our highly integrated online and offline model effectively improves our service capacity, offering patients more diverse, convenient and efficient treatment options.
- *Diversified TCM-inspired lifestyle product portfolio.* In addition to healthcare services, we also recognize a growing demand in maintaining health through TCM. In response, we provide a wide selection of TCM-inspired lifestyle products primarily under our Wenzhi Qingyang brand. As of September 30, 2024, our product offering covered more than 90 SKUs, enriching our business matrix and strengthening our brand influence. We use customer surveys and interviews to understand user preferences, which guide our product development and timely SKU adjustments. For example, products with high user engagement are generally more popular. In response, we developed the native herbs (原生本草) series, allowing customers to mix and match herbs according to their own physical condition under our guidance. This increases participation and user experience, leading to positive feedback. Through our research and feedback system, we usually conduct monthly adjustments to the combination of our SKUs with the addition of new products and taking down products with less sales to maintain the strength of our product lines.

Our comprehensive services have achieved wide acceptance among our customers. In 2022, 2023, and the nine months ended September 30, 2024, 93.8%, 92.7%, and 93.6% of customers, respectively, rated our healthcare services with the highest “five-star” evaluation in our internal follow-up feedback system. The system also indicates that, during the Track Record Period, word-of-mouth referrals by existing customers accounted for over 20.0% of the sources of new customers. According to the CIC Survey, approximately 82.2% of the respondents with cancer and severe conditions indicated that they would continue to seek medical treatment from us in the future, which shows that customers are satisfied with the outcome of our treatment and their experience with us.

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A vibrant TCM community bolstering our brand recognition

At the core of our branding strategy is an interest and content-driven community that focuses on building trust, raising awareness, and promoting the preservation and dissemination of TCM culture. This community has successfully captivated both TCM practitioners and enthusiasts, who promote TCM culture and our healthcare services, continually expanding our community through word-of-mouth referrals. By fostering this community of TCM supporters, we have created a sustainable cycle of cultural promotion and customer acquisition, reinforcing our position at the forefront of the TCM revival. Our Jingyi Academy exemplifies this strategy, providing a community for TCM knowledge dissemination and brand influence enhancement. As of September 30, 2024, our Jingyi Academy has attracted over 220,000 registered community members, making it the largest TCM community globally, according to the CIC Report.

To promote the application of TCM in daily life scenarios and provide opportunities for enthusiasts to learn and share TCM knowledge, we also offer a range of online recorded courses under our “Dr. Lin’s Mini Courses” channel, regular online and offline sharing of TCM practices, and knowledge exchange activities such as sharing sessions. A highlight of our offerings is the “Tracing Medical Veins” (醫脈尋蹤) program, launched in April 2024. This nationwide initiative explores TCM’s history across multiple provinces, including visiting TCM historical sites and sharing first-hand experiences. As of September 30, 2024, the program had visited 23 cities in 13 provinces and organized offline TCM culture sharing sessions in 14 cities. The program’s goal is to explore and promote TCM culture and history.

By building our vibrant TCM community and actively promoting TCM, we have significantly enhanced our brand visibility and influence, which we believe will in turn attract a large volume of potential long-term and high-quality clientele, positioning us favorably in achieving long-term sustainable growth.

High-quality full-time physicians with a reliable physician supply

Qualification and expertise of our medical professionals are vital to our high-quality healthcare services. As of September 30, 2024, we have a team of 83 full-time physicians, of which 24 specialized in treating cancer and severe conditions as well as difficult and complex conditions and 59 were general practitioners, who graduated from well-known Chinese medical universities or TCM colleges. Aligning with our corporate culture, our physicians are passionate and committed to TCM healthcare services with a strict sense of mission and responsibility. We enjoy streamlined recruitment processes and enhanced brand recognition among emerging TCM professionals through initiatives such as setting up “Joint Talent Training Units” (聯合人才培養單位) and “Graduate Employment Base” (畢業生就業基地) programs, which are generally collaborative arrangements with educational institutions aimed to develop tailored curricula, provide hands-on training, and establish our Company as a preferred employer for graduates.

Having gone through our recruitment processes with compulsory training, the newly admitted physicians are required to undergo a six-month probation period during which we assess and evaluate their performance on an on-going basis. Our physicians leverage their professional knowledge and clinical experience with the assistance of the TCM Brain to provide customers with in-depth and all-rounded TCM healthcare services through our extensive online

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and offline network. This approach helps effectively alleviate the industry pain point of insufficient and unstable availability of TCM healthcare services which is largely caused by the high reliance on scarce senior TCM physicians.

Our TCM Brain continuously empowers our physicians. It plays an important role in efficiently enabling our team of physicians, as well as those participating in our Wenzhi AI Alliance, to handle more complex medical conditions. Results of the CIC Survey reveals that a swift adoption of the TCM Brain is common among its users: (i) approximately 53.4% of the respondents (which included our physicians and physicians of other medical institutions under our Wenzhi AI Alliance) reported being able to effectively use the TCM Brain within one week after they begin to use it, and (ii) approximately 77.7% of the respondents indicated they could do so within one month. Furthermore, approximately 94.6% of the respondents indicated that the TCM Brain has enhanced their ability to handle more complex medical conditions.

Stringent and standardized quality control procedures

We firmly believe that a stable and high-quality TCM healthcare services and medication is crucial to our competitiveness.

We have formulated and implemented various standardized medical quality control procedures and clinical practice guidelines, which cover all major aspects of our medical practice, including pre-consultation, consultation, prescription and medical records keeping. The standardization of these procedures is further enhanced by our TCM Brain and HIS. We regularly monitor adherence to these protocols through quality control indicators such as compliance with treatment guidelines and chart review outcomes. We have established a tiered system to ensure the safety and quality of the healthcare services provided by our physicians. We have also established a medical supervisory committee headed by medical directors (醫療主任), to review detailed performance of our employees and oversee the medical practice of our Group. All our physicians are full-time employees, which allows for better management of medical practices and quality control. In addition, we implement regular training programs for our physicians and other medical professionals to ensure they maintain high standards of service and care.

Our Wenzhi Herbal Alliance initiative, encompassing over 50 core herb varieties as of the Latest Practicable Date, fosters relationships with suppliers meeting our stringent standards. As of the Latest Practicable Date, we directly procured more than 470 kinds of the relatively more common and storable TCM decocting pieces from suppliers who process the decocting pieces in accordance with the procurement standards stipulated by us. This ensures access to high-quality, authentically sourced herbs while maintaining strong industry relationships. Our strict procurement standards, reputation, and volume allow us to selectively obtain high-quality decocting pieces at favorable prices. After prescriptions are issued, we then offer a flexible and patient-centric service providing either convenient decoction services or efficient direct shipping of the prescription, tailored to each patient’s specific needs and preferences. As of the Latest Practicable Date, we operated three decoction centers in Shenzhen, Chengdu and Jinan, covering the southern, southwestern and northeastern regions of mainland China. In 2022, 2023 and the nine months ended September 30, 2024, the number of prescriptions received and processed by our decoction centers were approximately 57,600, 163,600 and 154,000, respectively.

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Visionary and experienced management team and strong shareholder support

Our visionary and professional management team contributes to our success. Our co-founder and CEO, Mr. Cui, has extensive and in-depth industry and management experience. Prior to founding the Company, Mr. Cui had accumulated extensive experience in management consulting and private equity. Under the leadership of Mr. Cui, we have built a cohesive management team with comprehensive and in-depth coverage of experience in the areas of TCM, science, technology, operations and management. Our chief medical officer, Dr. Lin, has extensive experiences in both AI research and development as well as TCM practice. Dr. Lin’s earlier working experiences include working for Cisco and Juniper in Silicon Valley. Furthermore, he has been involved in academia and clinical practice of TCM for years. Currently, Dr. Lin serves as a scientist in the Joint Laboratory of the Institute of Information on Traditional Chinese Medicine under the China Academy of Chinese Medical Sciences, and as the vice president of the Information Professional Committee of the World Federation of Chinese Medicine Societies. He also serves as a visiting professor at Shaanxi University of Chinese Medicine and a professor at the University of East-West Medicine in California, USA.

Our strong corporate culture and long-term planning for our employees’ career development have continued to attract many aspiring young people who are interested in the field of TCM practice using science and technology, with both professional TCM background and AI application technology capability.

Since our inception, we have also attracted leading investors, such as Lanchi Ventures and ZhenFund. As our major institutional shareholders, they have been providing long-term support and various resources including financial capital and industry insights, allowing us to drive technological advancement and strengthen our market presence.

OUR STRATEGIES

In order to strengthen our competitive advantages and comprehensively promote the growth of our Company, we plan to adopt the following strategies:

To invest in upgrading and optimizing our AI systems and the recruitment and training of technical talents

We plan to increase our investment in research and development to support our technological development. Through AI algorithm optimization, technological iteration, big data processing and analysis, and expansion of its scope of applicable scenarios, we intend to further strengthen the TCM Brain. This includes reinforcing its core prescription module while enriching other modules such as acupuncture, expanding treatment coverage, especially for cancer and severe conditions as well as difficult and complex conditions. At the same time, we will continue to optimize the TCM Brain testing platform’s capacity for self-learning and iteration, comprehensively improving the system’s safety, stability, treatment effectiveness and efficiency. Furthermore, we will explore the development of advanced technologies that integrate AI with TCM, including sophisticated machine learning models and big data analytics, to extend our reach to more applicable scenarios, such as health management, TCM education, condition tracking and doctor-patient interaction.

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We highly value professionals with diverse expertise, particularly technological experts who have a background in TCM or medicine. We believe these talents are crucial in facilitating the seamless integration of technology and TCM, thereby maximizing the accuracy and treatment outcome of the TCM Brain. We plan to recruit more such multidisciplinary talents and provide them with systematic training with an aim to design and refine a more efficient, user-friendly TCM Brain by leveraging the synergies between our real-world clinical experience and continuous AI iteration.

To strengthen the quality of our TCM healthcare services and expand the scope of applicable scenarios

We plan to invest in various areas to continuously improve our service and product capabilities, which include:

- ***Development of condition-specific specialties (專病專治).*** Catering to the practical needs of customers for specialized treatment, we will consolidate our existing specialized treatment capabilities, explore further sub-specialization and set up specialized treatment centers for difficult and complex conditions and chronic conditions. We will provide full support in terms of hardware facilities and staffing and continue to provide customers with better and comprehensive diagnosis and treatment and services. In addition, recognizing the importance and urgency of post-treatment rehabilitation, we plan to establish rehabilitation centers to provide customers with long-term chronic illnesses, such as stroke, cerebral palsy, and ALS, with comprehensive rehabilitation guidance, including acupuncture, medicinal therapy, physical rehabilitation exercises, and psychological care.
- ***Optimization of our online and offline network.*** We plan to enhance the breadth and depth of our online and offline network to improve the accessibility of TCM healthcare services, thereby expanding our business scale and market penetration. For our online network, we plan to continuously improve our online consultation process to enhance the efficiency of information collection and the accuracy of analysis by the TCM Brain, and to enhance our customer experience through interface and function optimization. For our offline network, we will also strategically select tier one and tier two cities to set up new offline TCM clinics based on the regional supply of physicians and demand of TCM healthcare services, to establish TCM clinics with advanced facilities, diversified services and fully integrated cultural spaces and interactive experiences, to upgrade our services and continuously increase our market presence.
- ***Expansion of our team of physicians.*** We plan to invest more in the recruitment and trainings of TCM talents, in order to build a team of enthusiastic and professional TCM physicians. We will establish talent referral and joint training programs with renowned universities and local governments to encourage and discover more talents who are interested in practicing TCM to join our team. We will also focus on recruiting a wide range of talented individuals through the development of a set of comprehensive and scientific criteria. For our existing team of physicians, we will strengthen training and assessment mechanisms for them to advance in their clinical practice and improve customers’ experience with us.

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To further develop Jingyi Academy

We plan to strengthen the prominent role of Jingyi Academy as the largest TCM community globally in aspects such as TCM cultural promotion, knowledge sharing and talent cultivation, which include:

- ***Expansion of our community.*** We will attract more registered community members through various means of promotion such as thematic activities, precision marketing, and private domain traffic attraction, captivating professional TCM practitioners, TCM enthusiasts and their friends and relatives. We plan to refine our community members categorization based on the background of members and geographical distribution, such that they may find the most suitable means to share knowledge and communicate among themselves. Word-of-mouth referrals from existing community members will also drive new members to join and thus continuously enrich our TCM community with members from diversified backgrounds.
- ***Enrichment of original content.*** We will further explore ancient and modern TCM texts and scriptures to introduce more original TCM content that is relatable to the daily lives of our community members. Furthermore, we will invite more TCM experts from the industry and academia to provide our members with interesting and interactive knowledge sharing and communication opportunities on a regular basis.
- ***Expansion to overseas audience.*** We plan to further promote Jingyi Academy in overseas regions in the future. We will explore the possibility of using Chinese culture as the basis and TCM as the media to attract overseas members who are passionate about TCM to join the TCM community and expand the influence of Jingyi Academy.

To strengthen our supply chain, expand our decoction centers and explore the development of in-house preparations

We plan to further evaluate the sources of planting, harvesting and preparation of medicinal herbs, develop systematic and highly standardized quality control and monitoring specifications, establish joint-quality control production bases with upstream herbs plantations, farmers and manufacturers, and enrich the varieties of medicinal herbs covered by our Wenzhi Herbal Alliance and the scale of our procurement of decocting pieces. The optimization of our supply chain and standardization of our procurement process will allow us to manage our procurement costs in times of market price fluctuations at the source, reduce our overall procurement costs and control the quality of our decocting pieces in a more timely and accurate manner.

We plan to set up more decoction centers across mainland China through strategic site selection, such as selecting key cities in Northern China, Northwestern China and Northeastern China, to achieve effective regional coverage. This will effectively shorten the delivery time of our medication and enhance our customer experience. We will also expand the capacity and coverage of our existing decoction centers by installing more advanced and comprehensive equipment, as well as recruiting and deploying more professional staff.

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In addition, we plan to introduce in-house preparations in the future through a complete set of standardized procedures for research and development, safety evaluation, quality control and follow-up feedback, in order to complement our internal diagnostic and therapeutic use and improve the overall treatment outcome of our healthcare services. See “Business — Development of In-house Preparations.”

To raise our brand awareness and industry influence

Adhering to the notions of promoting TCM culture and revitalizing TCM, we will continue to raise our brand awareness, enhance our industry appeal and influence, and promote the steady and rapid growth of our business by enriching our marketing content and opening more promotional channels. We will expand the reach of our private domain and enrich our original content. For example, we will introduce more online recorded TCM courses that are relevant to the daily life of the general public to our “Dr. Lin’s Mini-Course” channel and expand more offline activities to attract participation from our audience. To achieve sustainable and efficient customer acquisition while effectively controlling costs, we plan to promote TCM culture and our brand through cooperation with more digital media and channels.

We take it as our responsibility to contribute to the development of the TCM healthcare service industry ecosystem. We will continue to establish long-term and diversified partnerships with local governments, medical institutions, research institutes and universities on the research and development and training of AI models, construction of specialized diagnosis and treatment rooms and cultivation of TCM physicians.

To expand into high-value overseas markets

We plan to gradually tap into overseas markets. We will explore Asian countries and regions with relatively large Chinese populations, high acceptance of TCM, strong purchasing power and willingness to pay for TCM healthcare services and products, as well as an adequate number of local TCM physicians, to gradually open up our overseas markets. In expanding our overseas markets, we will also examine in detail the local market conditions and understand the local legal and regulatory healthcare requirements, so as to prudently expand our business and establish strategic partnerships with local suppliers, hospitals and clinics.

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OUR BUSINESSES

During the Track Record Period, we generated our revenue primarily from (i) TCM healthcare services, (ii) TCM lifestyle products, and (iii) TCM Brain subscription services. The following table sets forth a breakdown of our revenue, in absolute amounts and as percentages of total revenue, for the periods indicated.

	Year ended December 31,				Nine months ended September 30,			
	2022		2023		2023		2024	
	<i>(RMB'000, except for percentages)</i>							
					<i>(unaudited)</i>		<i>(unaudited)</i>	
TCM healthcare services	50,421	81.1	167,247	88.5	115,414	89.2	154,906	89.4
TCM lifestyle products	6,062	9.8	13,598	7.2	8,259	6.4	10,324	6.0
TCM Brain subscription services	5,686	9.1	8,153	4.3	5,707	4.4	7,908	4.6
Total	62,169	100.0	188,998	100.0	129,380	100.0	173,138	100.0

TCM healthcare services, being our core business, contributed approximately 81.1%, 88.5%, 89.2% and 89.4% of our total revenue for the years ended December 31, 2022, 2023 and the nine months ended September 30, 2023 and 2024, respectively. During the same periods, we treated a total of approximately 21,200, 50,500, 38,400 and 39,900 patients, respectively. Leveraging our proprietary TCM Brain, an AI-assisted TCM clinical decision support system, we specialize in the treatment of cancer and severe conditions as well as difficult and complex conditions. In 2022, 2023 and the nine months ended September 30, 2024, the total number of patients were approximately 6,300, 10,100, and 6,500, respectively, for our cancer and severe conditions practice and approximately 7,600, 16,400 and 10,300, respectively, for our difficult and complex conditions practice in the same periods. During the same periods, the patient return rates were 66.1%, 72.2% and 74.4%, respectively, for our cancer and severe conditions practice and 62.7%, 73.5% and 76.4%, respectively, for our difficult and complex conditions practice, as compared to the patient return rates for all our patients of 61.2%, 69.1% and 71.6%, respectively. Our TCM healthcare services cover the whole clinical process of consultation, prescription, treatment and follow-up services, over which we maintain a high degree of control through our self-operated online and offline TCM healthcare service network. For further details of our TCM healthcare services, see “ — Our AI-empowered TCM Healthcare Services.”

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Taking advantage of our technological advancement and accumulation of TCM knowledge, we have also developed other TCM-related businesses targeting to promote healthy lifestyle, share TCM knowledge, and promote TCM culture. We offer TCM lifestyle products, covering a variety of TCM healthcare products, online recorded TCM courses and books, as well as TCM Brain subscription services. For further details of our other TCM-related businesses, see “— Other Revenue Sources.”

OUR AI-EMPOWERED TCM HEALTHCARE SERVICES

Overview

We provide customers with comprehensive TCM healthcare services through our integrated online and offline TCM healthcare service network. Our TCM healthcare services include pre-consultation preparations, AI-assisted clinical consultation, TCM prescription, medication and decoction services.

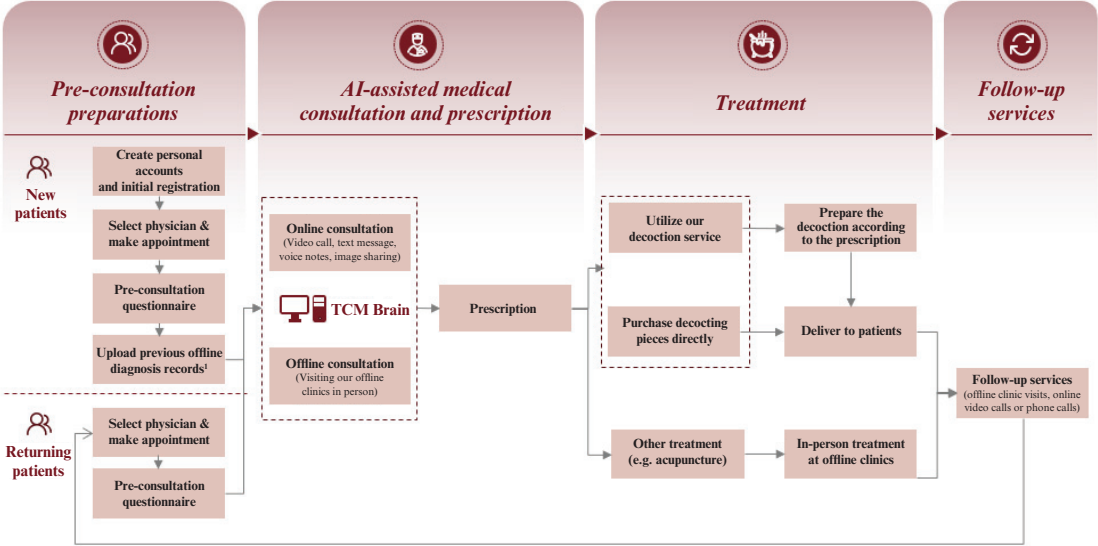
We have adopted a modern TCM approach emphasizing sub-specialization and condition-specific treatments, ensuring professional depth and expertise in addressing different medical conditions. We are dedicated to providing professional TCM medical prescription and treatment, with a focus on thorough, personalized consultations. We believe our commitment to comprehensive offerings allows us to deliver more precise prescriptions, optimized treatment plans, and improved outcomes for our patients with a wide range of medical needs.

As of the Latest Practicable Date, we had established and operated our TCM healthcare services under three practices, namely (i) cancer and severe conditions, (ii) difficult and complex conditions and (iii) general practice. While maintaining a strong foundation in general practice, our TCM healthcare services are distinguished by our specialized capabilities in treating cancer and severe conditions as well as difficult and complex conditions. We have strategically focused on providing specialized and high-quality treatment solutions for cancer and severe conditions as well as difficult and complex conditions, leveraging our proprietary TCM Brain, an AI-assisted TCM clinical decision support system. Our cancer and severe conditions practice focuses on the handling of cancer and other life-threatening medical conditions which generally require relatively long treatment periods such as different types of cancer, blood disorders, severe liver conditions, uremia and kidney conditions, severe heart conditions and cardiopulmonary failure, and encephalopathy. Our difficult and complex conditions practice focuses on the handling of medical conditions that are generally difficult to be completely cured and may last for life, such as persistent skin conditions, nodules, tinnitus, glaucoma, coronary heart disease and neurological disorders. We further divide our general practice into eleven specialized departments, such as Cardiovascular, Pulmonary and Respiratory, Gastroenterology and Hepatobiliary, and Endocrinology. We believe such strategic sub-specialization allows us to leverage our medical expertise more effectively so as to provide tailored and targeted therapeutic regimens for specific treatment areas.

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Business flow

The flowchart below illustrates the process of our TCM healthcare services:



Note 1: First-time customers opting for online consultations must upload their previously issued initial diagnosis records from offline medical institutions in accordance with applicable PRC Law

Pre-consultation preparations

Pre-consultation stage primarily involves a series of online preparatory steps through our online portals on our WeChat account and WeChat mini program, where customers can create their personal accounts, input personal details, select physicians, make appointments and fill in a standardized pre-consultation questionnaire to briefly describe their symptoms. We offer flexible options, allowing customers to choose online consultations or offline face-to-face consultations at our clinics according to their preferences. Initial registration and account creation are compulsory for first-time customers, who are required to verify their identities through the provision of full names and identification card details. In addition, first-time customers opting for online consultations must upload their previously issued initial diagnosis records from offline medical institutions in accordance with applicable PRC Law. During the initial registration, an electronic medical record is created on our system for each new customer, which will be updated continuously upon subsequent consultations by our physicians. With the assistance of our triage consultant, our customers can select the applicable treatment areas, specialized departments and physicians, choose the schedule for clinical consultation, and fill in the pre-consultation questionnaire prior to the consultation with our physicians.

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In the pre-consultation questionnaire, customers provide information such as medication usage record, symptom descriptions, physical condition, sleeping quality, mood assessment, dietary habits, and urinary and defecation details. They can also upload facial and tongue images which our TCM Brain analyzes with real-time image analytics to deduce relevant symptoms for further analysis. It usually takes approximately 15 minutes to thoroughly complete the pre-consultation questionnaire. We believe such rigorous information collection process allows our physicians to have a comprehensive understanding of the patient’s condition and their specific concerns that enables our physicians to deliver high-quality and personalized care. In addition, with the guidance of the standardized pre-consultation questionnaire, customers can describe and sort out their own symptoms more accurately. Given the ever-changing nature of customers’ conditions, we require customers to fill in the pre-consultation questionnaire each time they make appointments for our TCM healthcare services. The TCM Brain processes inputs made by our physicians, and generates related symptoms and suggested follow-up questions to aid our physicians in the subsequent consultation and prescription process.

Our streamlined pre-consultation preparation process, particularly the processing of the completed pre-consultation questionnaires assisted by our TCM Brain, allows us to offer customers a hassle-free and efficient consultation experience. Our physicians, with the assistance of the TCM Brain, can quickly identify and understand patient conditions before the appointment, enabling a comprehensive and focused subsequent consultation.

AI-assisted medical consultation and prescription

Our signature AI-empowered medical consultation and prescription form the foundation of our comprehensive TCM healthcare services and differentiate us from our competitors. Leveraging our online and offline presence, we are able to provide different modes of medical consultation to our customers according to their individual needs and preferences. Customers can choose either offline face-to-face consultation at our clinics or online medical consultation.

For offline consultations, customers visit our clinics in person and are guided to consultation rooms. Our physicians conduct traditional TCM examinations and input the customers’ symptoms into the TCM Brain. Online consultations are primarily conducted through video calls, supplemented by multi-media communication tools such as text messages, voice notes, and image sharing. This comprehensive approach allows for a thorough examination and discussion of symptoms, even in a remote setting. Similar to face-to-face consultation, customers describe their symptoms and physical condition verbally to our physicians, who enter the information into the TCM Brain. Each patient is typically allocated for a timeslot of approximately 30 minutes for their medical consultation, which is much longer than the typical consultation time in the TCM healthcare service industry, according to the CIC Report. This allows our physicians to have sufficient time to understand each patient’s symptoms and medical condition, which enables them to provide more accurate and personalized treatment plans for the patients.

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During the consultation process our physicians engage in a detailed question and answer exchange with the customers to fully understand their symptoms and medical conditions. As the physicians input this additional information into the TCM Brain, the system continuously analyzes the data and narrows down the potential scope of prescription.

The TCM Brain processes pre-consultation data, physician inputs, and consultation details in real-time using our proprietary AI algorithms and our vast database of previous prescriptions. Based on the evolving information entered, it dynamically suggests supplemental follow-up questions for the physicians, in order to further pinpoint the prescription. It also proposes potentially related symptoms for the physicians’ consideration.

This AI-empowered approach enables our physicians to perform an in-depth and all-rounded consultation while minimizing reliance on individual physicians’ subjective experience. Upon the entry of all relevant information obtained in the consultation process, the TCM Brain generates a list of suggested prescriptions. Our physicians review these suggestions alongside their professional judgment to finalize the prescription.

Treatment

TCM treatment centers upon the usage of TCM medication which, depending on the patients’ needs and condition, is typically supported by auxiliary treatment methods such as acupuncture and moxibustion, the scraping therapy and the cupping therapy, according to the CIC Report. After the consultation and prescription process, our physicians decide on the appropriate treatment in the form of medication and, in some cases, acupuncture based on the TCM Brain’s suggestion. Physicians can adjust and fine-tune the prescription for each customer in accordance with their particular symptoms and concerns.

We provide flexible and convenient ways for customers to receive their prescribed medication. While customers can choose to obtain our prescriptions and procure medication elsewhere, the vast majority of our customers opted to receive their medication directly from our decoction centers during the Track Record Period to enjoy our one-stop TCM solution. Our decoction centers prepare the prescribed TCM medication, primarily in the form of medicinal decoctions made from prescribed decocting pieces, and arrange the medicinal decoction to be delivered to our customers. Recognizing the delicate and complicated process of TCM medicine decoction, our professional decoction services ensure the consistent quality and effectiveness of the medicinal decoction for our customers who procure medication directly from our decoction centers. For further details of our decoction centers and decoction service, see “— Integrated TCM Healthcare Service Network — Offline clinic and decoction center network.”

In the event that our physicians determine acupuncture to be the appropriate treatment method for the customers, our physicians can either perform the treatment on-the-spot with customers at our clinics or, for online customers, make appointments with customers to visit our clinics for the treatment.

BUSINESS

Our commitment to responsible healthcare is evident in our medication prescription practices. We optimize our treatment plans based on the conditions of the patient. Through flexible prescription periods and regular patient follow-ups, we allow for timely adjustments to treatment plans which minimize risks associated with prolonged medication use without proper medical supervision. We believe this approach not only optimizes treatment outcome but also demonstrates our prioritization of patient safety and well-being and reflects our commitment to responsible medication management.

Our standardized consultation and prescription procedure powered by the TCM Brain allows us to achieve favorable treatment outcome. According to the CIC Survey, approximately 87.2% of the respondents expressed varying degrees of satisfaction with improvements in their conditions. In particular, approximately 90.0% of the respondents with cancer and severe conditions were satisfied with the outcome of our treatment. For details, see “— Customer Service and Feedback.”

Follow-up services

We maintain comprehensive digital medical records for each of our customers, including consultation results, prescriptions, medication usage and previous acupuncture sessions. TCM emphasizes a holistic and dynamic approach, where therapeutic regimens need to be adapted to the patient’s ever-changing bodily patterns and constitutions. Therefore, in TCM treatment, follow-up queries and re-consultations are particularly crucial for monitoring progress, adjusting TCM formulas, and achieving optimal therapeutic outcomes over time.

We have established a systematic yet flexible follow-up process, similar to our initial consultation options, allowing patients to receive follow-ups through offline clinic visits, online video calls or phone calls based on their individual preferences. Our system automatically reminds our medical assistants to arrange the first follow-up query three days after customers receive their medication, reminding patients to adhere to the medication as prescribed on time and addressing any potential issues the patients may have. One day before the expected end of the medication course, the medical assistant is reminded to arrange further follow-ups to invite the patient for a re-consultation and coordinate with physicians for additional appointments if needed.

In addition to system reminders, our physicians and medical assistants proactively follow up to remind patients to adhere to dosage instructions and schedule additional follow-ups and re-consultations based on each patient’s condition. Such timely and efficient follow-up mechanism allows us to continuously monitor each patient’s recovery progress and adjust treatment plans accordingly. We believe timely and effective patient follow-ups are key to ensuring adherence to the treatment process, improving treatment outcomes, strengthening physician-patient relationships and reinforcing customer loyalty, which significantly differentiates us from our competitors. We have achieved high patient loyalty and satisfaction rates during the Track Record Period. In 2022, 2023 and the nine months ended September 30, 2024, our patient return rates reached 61.2%, 69.1% and 71.6%, respectively.

BUSINESS

OUR TCM BRAIN

Our proprietary self-developed TCM Brain is an AI-assisted TCM clinical decision support system that combines knowledge graph, data mining and machine learning technologies. It is designed to support our physicians in providing accurate, personalized and effective treatments for patients.

The origins of this innovative system can be traced back to 2008, when our co-founder and chief medical officer, Dr. Lin, embarked on developing a stand-alone Chinese classic medicinal prescription formulas expert system (單機版中醫經方專家系統) for TCM diagnosis and treatment, a prototype version of the TCM Brain, under the guidance of the TCM master, Mr. Ni Haisha (倪海廈). Leveraging years of experience at Silicon Valley companies and a deep-rooted passion for TCM, Dr. Lin pioneered the foundations of what would become the TCM Brain. For a detailed biography of Dr. Lin, see “Directors and Senior Management — Senior management.” Through years of dedicated development and iteration, the core of today’s TCM Brain has integrated the representative academic schools of TCM, and revolves around sophisticated knowledge graphs, data mining, and machine learning models systemically trained on an unparalleled dataset. We have strengthened the TCM Brain’s machine learning capability through implementing neural network methodology, significantly enhancing its autonomous learning and evolution capabilities. Compared to former models without neural networks, this enhancement offers more direct computation, refined result feedback, shorter training time and faster updates.

At the heart of our TCM Brain lies an extensive repository of high-quality data. As of September 30, 2024, the clinical knowledge graph of our TCM Brain had accumulated over 100 million parameters and over 10,000 TCM formulas, covering more than 3,000 types of medical conditions and symptoms and it had accumulated over one million real-world clinical cases each annotated with data of follow-up queries, which is the largest in the TCM healthcare service industry globally, according to the CIC Report. This comprehensive database encompasses a wealth of information, including patient profiles, medical condition and symptom phrases, electronic medical records, prescriptions, tongue and facial diagnostic images, pictures of affected areas, as well as catalogue of herbs used for TCM medication. By continuously ingesting and learning from this vast array of real-world evidence, our AI-empowered TCM Brain grows increasingly proficient at understanding and recommending personalized TCM treatment plans. Notably, the data from our ongoing TCM healthcare services gets continuously fed into the TCM Brain, which in turn supports and enhances our healthcare offerings, creating a virtuous cycle of improvement.

BUSINESS

We adopt a three-step training and learning model for our TCM Brain, namely (i) pre-training, (ii) fine-tuning and (iii) reward training. In the pre-training stage, our medical research and development team collects a large amount of TCM data with various modalities including text, images and tabular data. The textual data includes TCM books, TCM classics, and clinical cases of renowned TCM practitioners. Using this textual data, we have constructed an extensive TCM knowledge graph that serves as a foundation for the TCM Brain and enables it to effectively grasp the massive TCM clinical factual knowledge and establish linkages among different entities in the knowledge graph, such as medical conditions, symptoms, diagnoses, syndromes, prescriptions, medicinal herbs, dosages, meridians, acupoints, tongue diagnoses, pulse diagnoses, and the correlation and characteristic value among these knowledge and concepts. Through the integration of different data modalities, the adoption of cross-modal learning and the customization of outputs for various downstream tasks, the TCM Brain serves as a cornerstone for assisting physicians in the processes of diagnosis.

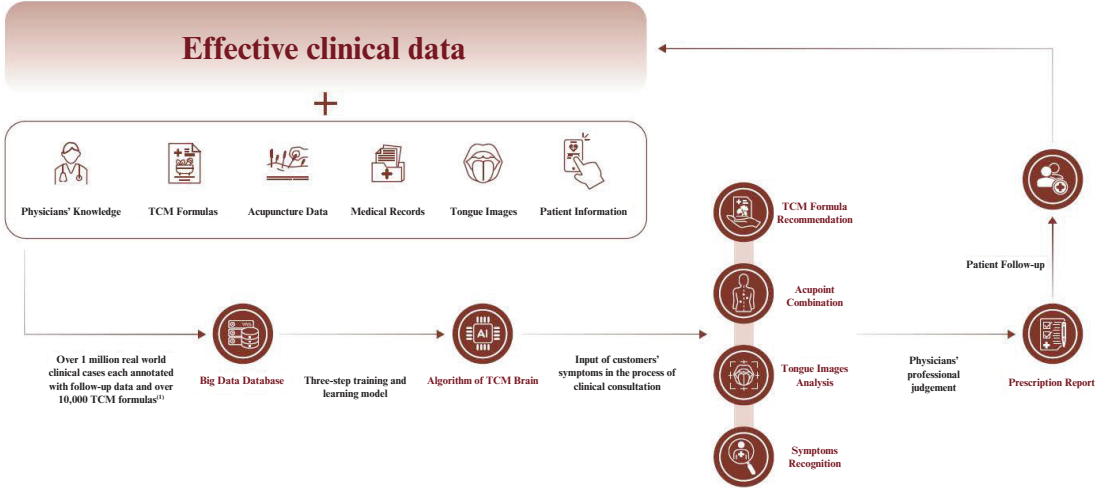
Based on the pre-trained models, our medical research and development team fine-tunes the TCM Brain by incorporating real-world data collected from our frontline clinical practices to optimize the weights in the models of TCM Brain. Such fine-tuning process enhances the ability of the TCM Brain to effectively process condition-specific data and cases, ultimately boosting its capabilities in supporting our physicians’ treatment decisions.

Finally, we adopt the reinforcement learning with human feedback (RLHF) technique, which involves manually providing positive or negative feedback to the model based on the effectiveness of treatment outcomes, to perform reward training for the purposes of optimizing our diagnoses and treatment of specific medical conditions or symptoms and incorporating experiences of renowned TCM practitioners into the TCM Brain.

Our medical research and development team collects clinical cases and post-treatment follow-up data, rewards the model positively or negatively according to the merits of follow-up data, and continuously adjusts the TCM Brain’s internal policies for the computation of recommended prescriptions, in order to strengthen the decision-making ability of the TCM Brain in the diagnoses and treatment of specific medical conditions or symptoms, as well as to align the computational results of the TCM Brain with the diagnoses of experienced human physicians. Through the iterative training and learning process, the TCM Brain can be upgraded and optimized on an on-going basis.

BUSINESS

The diagram below illustrates the basic infrastructure and operation process of our TCM Brain:



Note:

(1) As of September 30, 2024.

To keep improving treatment outcomes and safety of our TCM Brain, we have introduced the Brain.AI testing platform as a quality assurance tool. Our primary objective is to ensure that each retrained iteration of the TCM Brain not only preserves previously acquired knowledge but also seamlessly integrates newly acquired information. The testing scenarios in this platform are meticulously curated from real-world data sourced directly from our frontline clinical practices. Covering a comprehensive spectrum of medical conditions and symptoms within the domain of TCM, these scenarios encompass both positive cases showcasing favorable treatment outcomes and negative cases indicating minimal impact. This rigorous testing framework guarantees that the updated TCM Brain maintains its ability in handling positive cases while surpassing its preceding version in handling negative cases.

We take pride in our operation model featuring the application of the TCM Brain, which (i) continuously analyzes and makes use of the real-world clinical data accumulated in our practice to standardize the prescriptions given by our physicians and improve customers' satisfaction of the treatment provided by us; (ii) expands the scope of our TCM healthcare services with the accumulation of the prescriptions for major and common as well as rare medical conditions; and (iii) enlarges the knowledge bases for our physicians and empowers them to effectively tackle cancer and severe conditions as well as difficult and complex conditions in the early stage of their practice, and thereby reduces our reliance on senior TCM physicians.

BUSINESS

Our TCM Brain is the first and only AI-assisted TCM clinical decision support system that has passed clinical consistency studies at a Class III Grade A hospital in mainland China as well as the expert assessment of the Institute of Information on Traditional Chinese Medicine under the China Academy of Chinese Medical Sciences as of the Latest Practicable Date, according to the CIC Report. In addition, according to the CIC Report, our TCM Brain is the only clinically mature AI-assisted TCM clinical decision support system globally. We have been shortlisted in the 2024 Software Industry Quality Development Support Program (First Batch) Proposed Funding Project and awarded approximately RMB1.0 million by the Industry and Information Technology Bureau of Shenzhen Municipality.

Composition and features of our TCM Brain

Our TCM Brain comprises four main modules, namely Clinical Management (臨證管理), Prescription Brain (方劑大腦), Acupuncture Brain (針灸大腦), and Learning Brain (學習大腦).

The Clinical Management module, which is seamlessly integrated with our HIS, streamlines the entire clinical workflow, enabling swift patient onboarding, efficient prescription management, continuous monitoring of treatment outcome, and prompted follow-up queries when necessary. The screenshot below sets forth the interface of the Clinical Management module of our TCM Brain:



BUSINESS

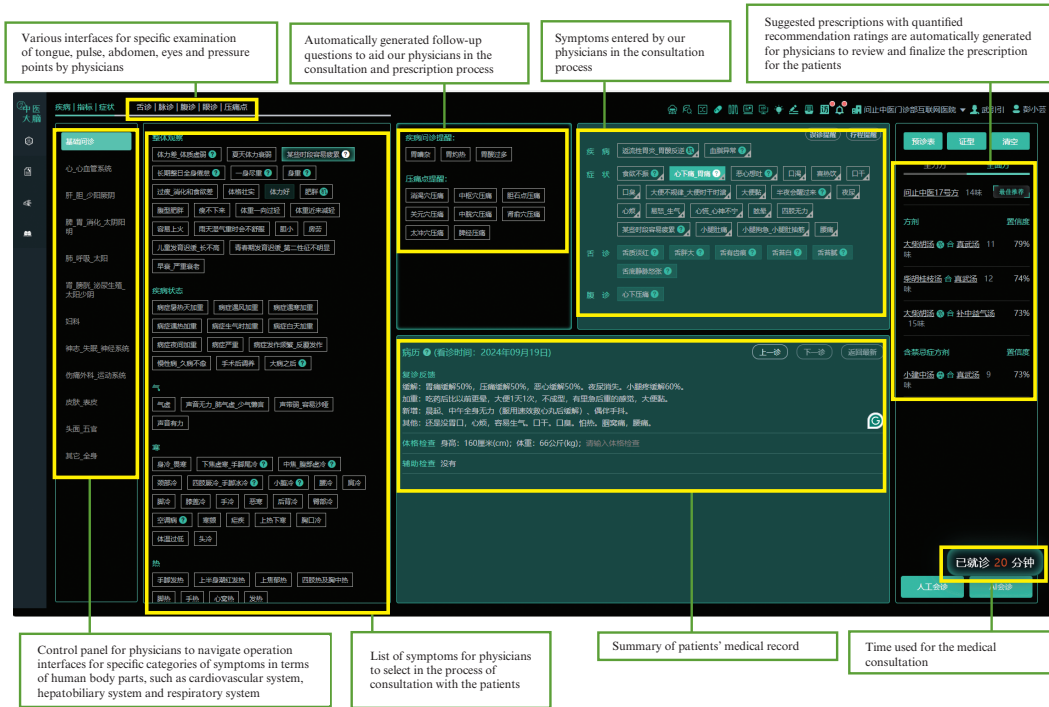
At the core of our TCM Brain lies the Prescription Brain module founded on an extensive TCM knowledge graph, which integrates TCM classical works and the profound insights of esteemed TCM practitioners, encompassing elements such as medical conditions, symptoms, diagnoses, prescriptions, and medicinal herbs. Harnessing the technologies of knowledge graph, feature extraction and machine learning, our TCM Brain processes and generates herbal prescriptions with precise dosages and personalized treatment plans tailored to the unique individual patients based on their specific diseases, symptoms and physique.

The Prescription Brain module has the following key features:

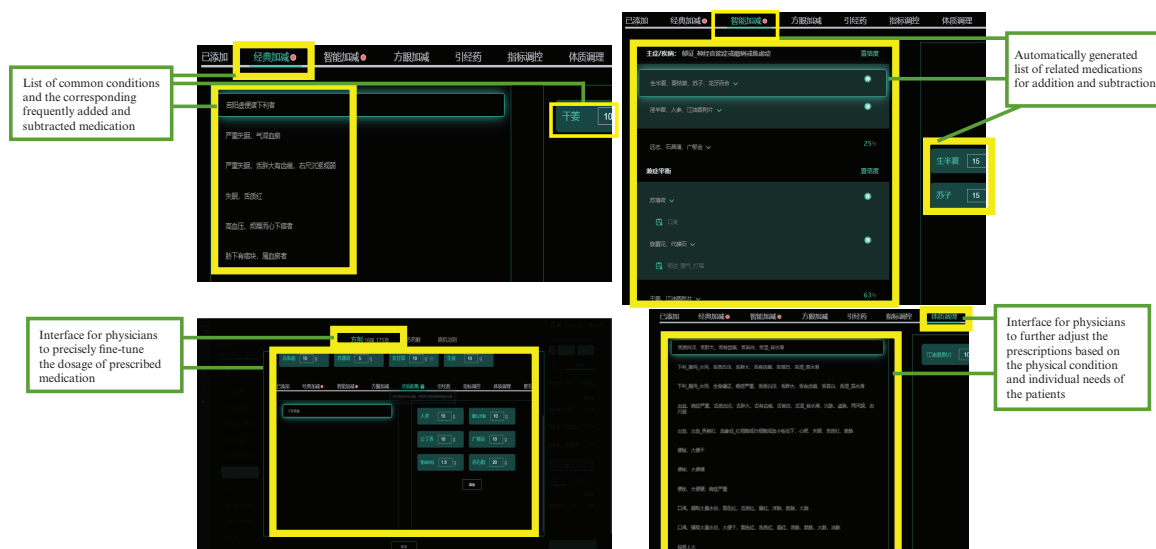
- *Comprehensive functions* — The Prescription Brain module is embedded with comprehensive functions to cover potential symptoms of patients to be examined in clinical consultations as well as specialized interfaces for physicians to conduct focused examination, such as examination of the patients’ tongue, pulse, abdomen, eyes and pressure points, with TCM techniques.
- *Intelligent with real-time analytical capabilities* — The Prescription Brain module is built upon big data and deep learning technologies. We possess multimodal processing capabilities through accumulation of real-life clinical data and real-time analysis of the data input by physicians on-the-spot in the process of consultation with customers. Our proprietary core algorithms based on our industry experience and technological iteration enable us to achieve analytical accuracy and efficiency. At the same time as the physicians input patients’ symptoms, the Prescription Brain module simultaneously and automatically generates and updates a list of related symptoms and follow-up questions to assist the physicians to conduct in-depth and thorough consultations before finalizing the prescriptions.
- *Intuitive and user-friendly interface* — The Prescription Brain module adopts an intuitive and easy-to-use interface where physicians can either select the applicable symptoms directly or type in relevant key words which can be processed and recognized by the system. The suggested prescriptions with quantified recommendation ratings are automatically generated for physicians to review and finalize the prescription for the customer.

BUSINESS

The screenshot below sets forth the interface of the Prescription Brain module of our TCM Brain:



The screenshots below set forth the interfaces for adjustment and fine-tuning of the prescription in the Prescription Brain module where, upon selection of the suggested prescription, physicians can fine-tune the prescription and customize individual treatment:



BUSINESS

The screenshots below set forth the interface of the Prescription Brain module for final prescription confirmation, where our physicians can review the prescription details, including the combination of medicinal herbs to be used and their respective function and medical effects, before finalizing the prescription:



The TCM Brain also features an Acupuncture Brain module dedicated to the principles and practices of acupuncture. This module guides physicians in selecting optimal acupoints based on a variety of traditional theories and systems such as the meridian system and specialized techniques like abdominal and scalp acupuncture.

Furthermore, the Learning Brain module serves as an educational resource, fostering continuous learning and knowledge enhancement for our physicians. It offers in-depth analyses of prescriptions, TCM formulas, herbs, and symptom patterns, empowering our physicians to continuously refine their TCM expertise.

Leveraging our technological advancement supported by the TCM Brain, we have also developed a series of practical tools, such as acupuncture points (針灸穴位), TCM formulas and dialectics (方劑辯證) and external treatment illustrations (外治圖解), which are offered to the public and TCM practitioners free of charge through our WeChat account and WeChat mini program. As of September 30, 2024, the cumulative number of users for our practical tools reached two million.

BUSINESS

INTEGRATED TCM HEALTHCARE SERVICE NETWORK

Overview of our online and offline model

We have established an extensive TCM healthcare service network integrating both online and offline service channels, which are complementary to each other. The synergies of our online and offline TCM healthcare solutions allow us to deliver high-quality TCM healthcare services and optimal customer experience to a broad customer base. We can consolidate our medical resources and expand our patient coverage in a cost-effective manner. Our physicians are duly registered to practice and provide healthcare services both offline at our clinics and through our online systems. Offline face-to-face consultations are typically conducted by our physicians with the customers in consultation rooms at our clinics, whereas online consultation is generally conducted by our physicians using telecommunication equipment such as cameras and monitors in their offices. As of the Latest Practicable Date, we operated eight offline physical clinics (including one outpatient department) in Shenzhen, Guangzhou, Xiamen, Chengdu, Zhengzhou, Changsha and Jinan and three decoction centers in Shenzhen, Chengdu and Jinan. As of September 30, 2024, we have extended our reach to customers located in 339 cities nationwide. In 2022, 2023 and the nine months ended September 30, 2023 and 2024, the total number of patients served by our online and offline network was approximately 21,200, 50,500, 38,400 and 39,900, respectively.

The following table sets forth a summary of our online and offline TCM healthcare services during the Track Record Period:

	Year ended December 31,		Nine months ended September 30,	
	2022	2023	2023	2024
	%	%	%	%
			<i>(unaudited)</i>	<i>(unaudited)</i>
<i>Revenue (RMB'000)</i>				
Online	47,289	93.8	154,687	92.5
Offline	<u>3,132</u>	<u>6.2</u>	<u>12,560</u>	<u>7.5</u>
Total	<u>50,421</u>	<u>100.0</u>	<u>167,247</u>	<u>100.0</u>
<i>Patient visits</i>				
Online	57,987	94.1	166,687	93.0
Offline	<u>3,659</u>	<u>5.9</u>	<u>12,522</u>	<u>7.0</u>
Total	<u>61,646</u>	<u>100.0</u>	<u>179,209</u>	<u>100.0</u>

BUSINESS

Online consultation, prescription and treatment

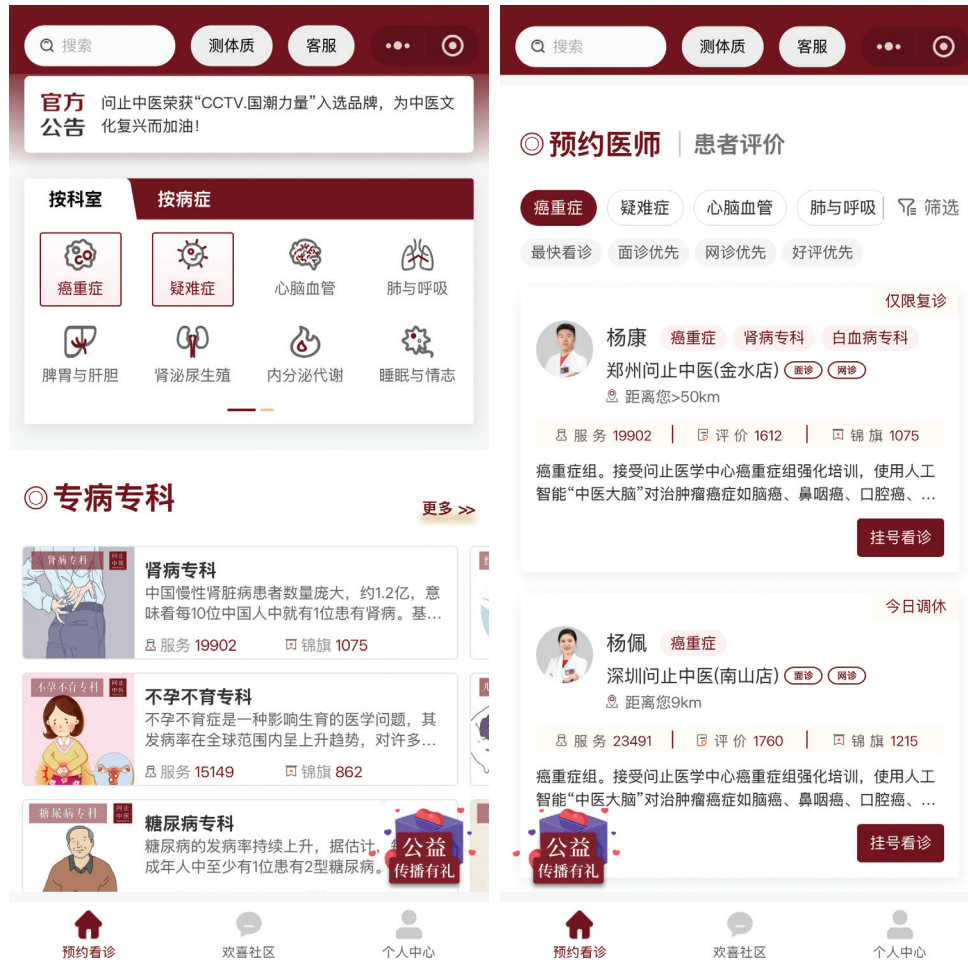
Traditionally, TCM practice has emphasized the importance of “inspection, auscultation and olfaction, inquiry, and palpation (望聞問切)” during in-person examinations. However, solely relying on physical face-to-face consultations may limit accessibility and fail to meet the evolving needs of patients. Leveraging our online services and AI capabilities, we have been at the forefront of challenging the notion that TCM diagnosis and treatment can only be provided through in-person physician examinations and promoting online TCM consultation and prescription.

Our online consultation and prescription services enable us to transcend geographical barriers and serve the general public across mainland China. Customers can conveniently check physician availability and book appointments online for consultations with their selected physicians. For the years ended December 31, 2022, 2023 and the nine months ended September 30, 2023 and 2024, our online consultation and prescription services contributed to approximately 93.8%, 92.5%, 94.1% and 89.4% of the revenue for our TCM healthcare services, respectively.

Our online TCM healthcare services follow identical standard operating procedures and there is no fundamental difference between the two, save for initial consultations for new patients and palpation which are only conducted in offline face-to-face consultation. For details, see “— AI-assisted medical consultation and prescription.”

BUSINESS

The screenshots below set forth the interfaces of our WeChat mini program:



BUSINESS

Set forth below are illustrations of our online consultation and prescription service:



Offline clinic and decoction center network

As of the Latest Practicable Date, we operated eight offline physical clinics and three decoction centers. For the years ended December 31, 2022, 2023 and the nine months ended September 30, 2023 and 2024, our offline clinics contributed to approximately 6.2%, 7.5%, 6.0% and 10.5% of the revenue for our TCM healthcare services, respectively.

We commence the opening of new offline clinics through comprehensive market research leveraging data from our online operations, which allows us to evaluate geographical distributions of online customers and demand for TCM healthcare services across regions. This data-driven approach allows us to strategically select markets for offline expansion and rapidly ramp up newly established clinics. Based on historical data, it took approximately an average of three months for us to set up a new clinic, including site selection, renovation, decoration, and final inspection. The average investment cost for our clinics opened during the Track Record Period was approximately RMB1.0 million. All of our clinics opened during the Track Record Period achieved breakeven within one month, and their typical average cash investment payback period was approximately three months.

The time of breakeven refers to the first month when a newly opened clinic’s revenue equals to or exceeds its operating expenses/costs, which mainly include rental expenses, utilities, property management fees, physician compensation, costs of decocting pieces, cost of decoction, cost of other medical supplies, and logistics costs. Cash investment payback period refers to the amount of time the cumulative net profit of the clinic covers its initial investment (being the amount of its registered capital). In calculating the breakeven period and cash investment payback period for our clinics, we take into account the net cash flows from both online and offline TCM healthcare services provided at the particular clinic. We have not acquired any clinics from third parties or closed any clinics during the Track Record Period.

BUSINESS

The following table sets forth the movement of the number of our offline clinics for the years/periods indicated:

	<u>For the year ended December 31,</u>		<u>For the nine months ended September 30,</u>
	<u>2022</u>	<u>2023</u>	<u>2024</u>
Number of clinics at the beginning of the period	1	2	6
Number of clinics opened during the period	1	4	1
Number of clinics closed during the period	—	—	—
Number of clinics at the end of the period	2	6	7

The following table illustrates the key information of each offline clinic:

Clinic	City	Date of opening	GFA <i>sq.m.</i>	Number of physicians as of September 30, 2024 ⁽¹⁾
Shenzhen Houhai Clinic (深圳問止中醫健康科技有限公司後海診所分公司)	Shenzhen	July 24, 2019	657.1	6
Guangzhou Clinic (廣州問止中醫門診部有限公司)	Guangzhou	March 1, 2022	210.0	3
Changsha Clinic (長沙芙蓉區問止中醫門診有限公司)	Changsha	March 1, 2024	512.0	2
Xiamen Clinic (廈門思明問止雪蓮中醫診所有限公司)	Xiamen	May 2, 2023	145.7	3
Chengdu Clinic (成都金牛問止白芷中醫診所有限公司)	Chengdu	June 1, 2023	715.1	8
Zhengzhou Clinic (鄭州問止中醫診所有限公司)	Zhengzhou	October 2, 2023	550.2	6
Shenzhen Zisu Clinic (深圳問止中醫健康科技有限公司紫蘇診所分公司)	Shenzhen	November 1, 2023	555.2	14

42⁽²⁾

BUSINESS

Notes:

- (1) The figures presented represent the distribution of physicians across our clinics as of a specific date which is subject to frequent changes as our physicians are mobile and may provide services at various clinics within our network, depending on our business needs and operational arrangements. As of September 30, 2024, all of our physicians had completed multi-site practice registration and were entitled to provide TCM healthcare services in our healthcare service network.
- (2) The total number of physicians was 83 as of September 30, 2024, among which 41 physicians only conducted online consultations.

Our clinics feature a standardized decor designed to deliver a warm and attentive experience. Each clinic spans around 200 to 700 sq.m. on average and includes consultation rooms and a dedicated space for Jingyi Academy, our online TCM community, where the public can study and explore TCM-related publications. The comfortable ambiance of our clinics is integral to our brand image of providing warm and compassionate care. We infuse timeless elements of Chinese traditional culture into the decor, offering a unique aesthetic experience that aligns with the recent rise of national style trends across fashion, interior design, and other cultural aspects. The following images show the appearances of our offline clinics and Jingyi Academy.



Set forth below is the illustration of our offline consultation and prescription service:



BUSINESS

Complementing our clinics, we provide customers with one-stop TCM healthcare solutions and hassle-free treatment experience through the provision of decoction services from our decoction centers. Decocting medicine is a delicate and complicated process which requires professional techniques and procedures. It is challenging for the general public to accurately master the decoction of medicine and prepare the medicinal decoctions due to their limited understanding of TCM, which may affect the effectiveness of the medication. Therefore, we generally advise our customers to use our decoction services and obtain the ready-to-use medication from our decoction centers. We do not charge additional fees for decoction services if customers elect to receive medication directly from us. As of September 30, 2024, our decoction centers were equipped with over 300 automatic decoction machines, which are capable of adjusting cooking temperatures and durations based on the specific properties of each prescription. In 2022, 2023 and the nine months ended September 30, 2024, the number of prescriptions received and processed by our decoction centers were approximately 57,600, 163,600 and 154,000, respectively. As of the Latest Practicable Date, we operated three decoction centers in Shenzhen, Chengdu and Jinan, covering the southern, southwestern and northeastern regions of mainland China, and had commenced the establishment of two new decoction centers in Shenzhen and Bozhou, which are expected to open in the first quarter of 2025.

Our decoction centers operate under a highly standardized set of procedures to ensure quality and consistency. The process begins with prescription review by both physicians and pharmacists. Licensed pharmacists then precisely measure and prepare the decocting pieces and herbs according to each prescription. Our decoction process involves customized soaking and cooking times, with temperature adjustments tailored to each prescription’s unique requirements. The finished medicinal decoctions are sealed at high temperatures to maintain quality before being cooled, packaged, and shipped to customers. Medications are generally despatched for delivery to the customers within 24 hours upon payment to ensure timely delivery of the prescribed medication to the customers.

As of September 30, 2024, we had 73 employees at our decoction centers, mainly comprised of licensed pharmacists, decocting staff and administrative staff. Our pharmacists play a crucial role in overseeing the entire decoction process, from selection of decocting pieces to quality control of the final decoction, ensuring our customers receive precisely prepared, high-quality medicinal decoctions tailored to their individual needs. Our decocting staff provide support to our pharmacists throughout the decoction process. Set forth below are pictures of our decoction centers.



Storage of decocting pieces



Medication sorting and preparation area



Automatic decoction machines

BUSINESS

MEDICAL PROFESSIONALS

Qualification and expertise of our medical professionals are vital to us and our success. In the long history of TCM, there has been an inherent challenge in the slow cultivation of TCM talents. The knowledge system of TCM is extremely complicated, requiring guidance from experienced experts and the accumulation of clinical wisdom over time. However, the traditional mode of TCM apprenticeship education is a lengthy process that produces a limited number of practitioners, making it difficult to meet growing clinical demands. According to the CIC Report, there were approximately 700,000 TCM physicians in mainland China in 2023 while less than 5% of them were senior TCM physicians. Moreover, the diverse diagnostic methods and philosophies among various TCM schools and experienced practitioners have posed obstacles to standardization and widespread learning.

Embracing the spirit of technological advancement and innovation, we are committed to cultivating TCM talents with an aim to address the supply-demand imbalance in the TCM healthcare service industry. All of our physicians are full-time employees, which significantly enhances our ability to maintain consistent, high-quality TCM healthcare services across our operations. This approach facilitates the implementation of our standardized training programs and comprehensive assessments for our physicians, allowing us to continuously improve and monitor their performance quality. As of December 31, 2022 and 2023 and September 30, 2024, we had 26, 57 and 83 full-time physicians, respectively. Our full-time physician model also enables us to foster a cohesive team culture, promote knowledge sharing, and ensure that all our physicians are aligned with our AI-empowered approach to TCM. This differentiates us from and increases our competitive edge over most other TCM healthcare service providers in the private sector that rely on part-time or network physicians and emphasize the clinical experience of senior TCM physicians. In particular, we do not engage, and therefore are not required to share revenue with, part-time or network physicians. By building a team of committed and tech-savvy physicians, who are adaptable to the application of our unique business model of advancing traditional TCM techniques with AI-assisted TCM clinical decision support system, we are able to provide a positive treatment experience to patients and reduce our reliance on scarce senior TCM physicians.

Despite the important role of our physicians in our business operations, we did not have any material reliance on any particular physician during the Track Record Period and up to the Latest Practicable Date. For the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2024, revenue attributable to our top five physicians was 45.0%, 26.1% and 17.5%, respectively, of our total revenue for the same periods, while revenue attributable to our top physician was 12.8%, 6.8% and 4.2%, respectively, of our total revenue for the same periods.

BUSINESS

As of September 30, 2024, apart from physicians, our medical staff consisted primarily of licensed pharmacists, decocting staff and other medical professionals. Our pharmacists are licensed and are primarily responsible for overseeing the entire decoction process, from herb selection to quality control of the final product, in accordance with the prescriptions obtained by individual customers. Our decocting staff provide support to our pharmacists throughout the decoction process. Our other medical professionals comprise primarily clinical medical assistants, who are primarily responsible for providing assistance to our medical directors in the management of our team of physicians, such as conducting service quality control, research and training, and performance appraisal, and administrative medical assistants, who are primarily responsible for assisting the patients to fill in the pre-consultation questionnaires, handling customers’ non-medical enquiries, sending reminders for follow-up queries and other general administrative matters. Our triage consultants, being part of our team of administrative medical assistants, assist our customers in the selection of the applicable treatment areas, specialized departments and physicians at the pre-consultation preparation stage.

We closely monitor the qualification registration and licensing records on a continuing basis to ensure that all physicians practicing at our clinics comply with all applicable requirements under PRC Law, in particular, each physician’s practice is within the scope of his or her qualification and license. During the Track Record Period and up to the Latest Practicable Date, we were not aware of any material complaints or penalties in relation to our physicians practicing in our clinics beyond the scope of their respective licenses.

Recruitment, retention evaluation and training of medical professionals

We generally recruit both qualified TCM university graduates and experienced practicing TCM professionals to be our physicians. We have designated teams of recruitment personnel in different cities in mainland China to recruit talents across the country. To enhance our talent pipeline, we have established strategic partnerships with multiple TCM higher education institutions. We believe these partnerships benefit us by providing access to a pool of top TCM talent through customized scholarship programs and facilitating early identification and cultivation of promising students. Through initiatives such as setting up “Joint Talent Training Units” (聯合人才培養單位) and “Graduate Employment Base” (畢業生就業基地) programs (which are generally collaborative arrangements with educational institutions aimed to develop tailored curricula, provide hands-on training, and establish our Company as a preferred employer for graduates), we enjoy streamlined recruitment processes and enhanced brand recognition among emerging TCM professionals.

Our new physicians are required to complete the training program at our headquarters in Shenzhen covering both theoretical and practical areas before they are formally placed in clinical practice. The training program primarily includes (i) internal clinical guidelines, covering the definition of diseases, diagnostic standards, treatment methods, and the complete process of TCM evidence-based treatment; (ii) standard operating procedures of our TCM Brain, which introduces in detail the operation process of TCM Brain, including clinical consultation, and how to accurately enter the patient’s symptoms and medical condition; and (iii) practical skills in relation to the conduct of initial consultation, follow-up query, physician-patient communication techniques and how to shape the physician’s professional image. As part of the training program, we design assessments and stress tests for new

BUSINESS

physicians to evaluate their training results, basic knowledge and general aptitude. Only those who obtain satisfactory results in our assessments and tests can be formally admitted as our physicians. The newly admitted physicians are required to undergo a six-month probation period during which we assess and evaluate their performance on an on-going basis.

We assign an experienced physician as team leader to each new physician for mentoring and supervising their work. The team leader is responsible for reviewing and confirming the new physician’s prescriptions before finalization. In the event that the new physician encounters difficult or uncertain cases, the team leader will provide specific guidance.

We strive to continuously improve and advance the quality of our physicians. New physicians are trained on a “specialize first, then generalize” (先專科後全科) strategy, which allows them to work in one or two specialties of general practice in their early stage of practice, and then expand to other specialties once they have mastered their initial specialties and gained more clinical experience through their practice. Afterwards, they may advance to cancer and severe conditions as well as difficult and complex conditions. As of September 30, 2024, out of our 83 physicians, 24 specialized in treating cancer and severe conditions as well as difficult and complex medical conditions and 59 were general practitioners. We also organize weekly training sessions for all physicians, who are required to attend either on-site or by video conference. In the weekly training session, selected cases from the previous week are shared, discussed and analyzed with specific points-to-note for our physicians. We target to improve physicians’ professional competence, ensure the quality of healthcare services, and strengthen physicians’ recognition of our corporate culture and values through continuous learning and training.

Through our stringent recruitment process, comprehensive training programs, and robust career development opportunities, we have enhanced our physicians’ loyalty and established a stable team of physicians. For the years ended December 31, 2022, 2023 and the nine months ended September 30, 2024, the average retention rate of our physicians who passed probation was 85.7%, 77.1% and 96.3%, respectively. The average retention rate denotes the number of physicians who passed probation in the respective periods and were under our employment as of the period ends over the total number of physicians who have passed probation in the same periods.

We mainly evaluate the performance of our physicians by individual patient load representing the number of patient visits to a specific physician during a specific period and patient return rate representing the percentage of patient visits made by returning patients to a specific physician during a specific period. A physician’s patient load positively correlates with his/her workload and contribution to our revenue. A high patient return rate, on the other hand, is considered by us to be a strong indicator of treatment effectiveness, as it suggests that patients are satisfied with the quality of care and willing to continue their treatment under the guidance of the same physician. This reflects continuity of care and the physician’s ability to build trust and rapport with patients. We consider that the performance of physicians directly affects the number of patients who are willing to attend follow-up visits, which also in turn affects the workload of the physicians. As a result of the attentive and professional care of our physicians and as a testament to their effective service, our patient return rate continued to increase during

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the Track Record Period. In 2022, 2023 and the nine months ended September 30, 2024, our number of returning patients were approximately 11,600, 29,900, and 27,600, respectively, and our patient return rate was 61.2%, 69.1% and 71.6%, respectively.

OTHER REVENUE SOURCES

During the Track Record Period, we also generated revenue from other business offerings, primarily comprising the TCM lifestyle products and TCM Brain subscription services.

TCM lifestyle products

In addition to our core TCM healthcare services, we offer a range of TCM lifestyle products, primarily including a variety of TCM healthcare products, online recorded courses, and books. For the years ended December 31, 2022, 2023 and the nine months ended September 30, 2023 and 2024, our revenue generated from the sale of these TCM lifestyle products amounted to RMB6.1 million, RMB13.6 million, RMB8.3 million and RMB10.3 million, respectively, representing 9.8%, 7.2%, 6.4% and 6.1% of our total revenue for the same periods, respectively. Our TCM lifestyle products are designed to extend the reach of our TCM expertise beyond clinical settings, providing customers with accessible ways to incorporate TCM principles into their daily lives. These products not only serve as additional revenue streams and enhance our brand presence and customer engagement in the broader TCM healthcare service market, but also creates cross-selling opportunities and synergies with our TCM healthcare services. Customers of our TCM healthcare services who are satisfied with our services are likely to explore our collection of TCM lifestyle products, whereas customers of our TCM lifestyle products can become more familiar with us and make use of our TCM healthcare services conveniently when needed. According to the CIC Survey, approximately 70.0% of the respondents had purchased either our TCM healthcare products or our online recorded TCM courses, while approximately 25.0% of the respondents had purchased both.

TCM healthcare products

We believe that nutrition and dietary habits are integral to TCM practice and theory. To better meet the needs of our customers and address their increasing demand for TCM-inspired wellness solutions and healthcare products, we provide a wide selection of TCM healthcare products primarily under our Wenzhi Qingyang (問止輕養) brand.

The healthcare products we offer primarily include (i) edible herbal powder products, such as pueraria powder and yam powder, (ii) native herbal products, such as cistanche deserticola, astragalus and wolfberry, (iii) herbal tea products such as herbal tea bags, and (iv) herbal personal care products, such as eye masks. Generally, these products are produced under an ODM/OEM model, where we design the product specifications and packaging while engaging third-party manufacturers for production. Throughout this process, we maintain close oversight and quality control of the raw materials used and the final finished products. We have in place a meticulous selection process, which involves careful consideration and vetting of third-party manufacturers. We update our healthcare products selection monthly based on sales and popularity of the products. As of September 30, 2024, the total SKUs of our TCM healthcare products exceeded 90 with an average selling price of approximately RMB83.60.

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The pictures below illustrate some examples of our TCM healthcare products.



Edible herbal powder products



Herbal tea products



Native herbal products



Herbal personal care products

TCM courses and books

We offer a range of online recorded TCM courses under our “Dr. Lin’s Mini Courses” channel, mainly serving to attract and engage a broader audience and enhance our market presence through offering compelling and practical TCM-related knowledge. The online recorded courses are either offered to the public free of charge or priced between RMB1.99 and RMB799.00 determined based on course duration. To a lesser extent, we also offer certain offline activities. Revenue generated from these charged courses was insignificant to our overall operations during the Track Record Period. As of September 30, 2024, we had developed over 120 series of online recorded courses, and approximately 282,000 cumulative customers had purchased our courses.

In addition, we sold a series of books in relation to our treatment cases, showcasing the clinical capabilities of our TCM Brain. These case studies have been recommended by renowned TCM masters, contributing to our academic credibility. Our books were published by China Press of Traditional Chinese Medicine, an authoritative TCM publisher in mainland China. As of the Latest Practicable Date, we had eleven TCM publications listed for sale. Furthermore, from time to time we also issue white papers on specific diseases, targeting patients with those medical conditions. Revenue generated from the sale of the TCM-related books was also insignificant to our overall operations during the Track Record Period. For details of our license obtained for publication operation, see “— License, Approvals and Permits” below.

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TCM Brain Subscription Services

We offered a subscription-based version of our proprietary TCM Brain during the Track Record Period to customers primarily comprising individual practitioners, medical institutions, and other corporate customers seeking to integrate AI-assisted diagnostic capabilities into their TCM practices. For the years ended December 31, 2022, 2023 and the nine months ended September 30, 2023 and 2024, our revenue generated from the TCM Brain subscription services amounted to RMB5.7 million, RMB8.2 million, RMB5.7 million and RMB7.9 million, respectively, representing 9.1%, 4.3%, 4.4% and 4.6% of our total revenue for the same periods, respectively. We have not actively marketed our TCM Brain subscription services during the Track Record Period, and customers mainly came through their own inquiries or referrals.

This subscription-based TCM Brain offers substantially the same functions as the TCM Brain used by us. For further details on features of our TCM Brain, see “— Our TCM Brain” above. However, the subscription-based TCM Brain operates on separate servers independent from the TCM Brain used for our TCM healthcare services. Subscribers have no access to our patients’ information, and vice versa. We are primarily responsible for maintaining the TCM Brain and providing the agreed number of accounts that can access the TCM Brain. We also provide free-of-charge after-sales support services, including system operation training, system upgrades, and technical assistance.

We do not believe that offering TCM Brain subscription services to other medical institutions poses significant risks or competition to our own TCM healthcare services, primarily because the TCM healthcare service market in mainland China is large and the subscribers of the TCM Brain are typically individual practitioners or local medical institutions that generally serve local communities and lack online service capabilities. We believe that the effect of potential competition from these subscribers is outweighed by the increase in general public acceptance of the TCM Brain and the adoption of AI-assisted TCM clinical decision support systems in the TCM healthcare service industry. Being the developer of the TCM Brain, we are also in the position of making full use of the data accumulated in the provision of our TCM healthcare services for further machine learning, which enables us to continuously refine and improve the performance of the TCM Brain and differentiates us from our subscribers. We also enjoy the competitive edge over our potential competitors with (i) our well-established team of physicians who have undergone continuous trainings in relation to the operation and application of the TCM Brain and have thorough understanding of its functions, (ii) our existing online and offline service network, supply chain and decoction centers which enable us to provide all-rounded TCM healthcare solutions and (iii) our brand recognition in the market for the initial development and use of the TCM Brain.

We have adopted a subscription fee model for our subscription-based TCM Brain which is currently priced at an annual fee of RMB29,800 per account. Subscription agreements typically specify the number of accounts for the use of the TCM Brain. The fees are typically settled by the subscribers upon signing of the agreement. Our agreements with subscribers stipulate that the TCM Brain is to be used by the subscribers for reference purposes only. The subscribers take full responsibility for their medical practices, and we are not liable for any medical disputes. Additionally, our agreements include comprehensive intellectual property rights protection

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terms, including the prohibition of reverse engineering the TCM Brain and forbidding the development of derivative software or products based on our TCM Brain. We are entitled to terminate the agreements in the event of material breach by the subscriber including but not limited to the occurrence or alleged occurrence of any medical accidents or other safety incidents during, or violation of applicable laws, regulations and industry regulatory policies during the term of the agreement.

According to the CIC Survey, we have received positive feedback in respect of users’ experience with our TCM Brain. Approximately 53.4% of the respondents reported after commencing the use of the TCM Brain they managed to effectively utilize the TCM Brain within one week and approximately 77.7% of them could do so within one month. Furthermore, approximately 94.6% of the respondents indicated that the TCM Brain enhanced their ability to handle more complex medical conditions. Approximately 87.8% of the respondents were satisfied with the diagnostic accuracy of the TCM Brain.

DEVELOPMENT OF IN-HOUSE PREPARATIONS

We have certain proprietary TCM formulas with proven effects during the years of experience in TCM consultation and prescription with the assistance of the TCM Brain. When such a TCM formula has been prescribed by the physicians in our online and offline TCM healthcare service network for five years, we may apply to the Provincial Medical Products Administration (省級藥品監督管理局) for a registration number of TCM in-house preparations (傳統中藥製劑備案號), with an exemption from certain requirements for application materials. Once approved, such in-house preparation candidate becomes eligible for mass production and can be prescribed only within the holder of its registration number.

According to Provisions on the Supervision and Management of Preparation of Medical Institution Pharmaceutical Preparations (《醫療機構製劑配製監督管理辦法》(試行)) promulgated by NMPA, medical institutions that have obtained the Medical Institution Preparation License (醫療機構製劑許可證) are entitled to produce in-house preparations in its preparation rooms.

Once the Medical Institution Preparation License is obtained and relevant TCM formula registered, the registered TCM formula can be used within the medical institutions of a medical consortium (醫聯體), expanding the scope in which the TCM formula is used and thereby providing additional revenue. Leveraging our proprietary TCM Brain, prescription experience of our physicians and our operating resources accumulated over years of operation, we believe we have enough professionals, facilities, examination equipment, sanitary condition and management system to support the establishment of in-house preparation rooms. As of the Latest Practicable Date, we were in the process of registering six TCM formulas as our in-house preparations.

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BRANDING

At the core of our branding strategy is an interest and content-driven community that focuses on building trust, raising awareness, and promoting the preservation and dissemination of TCM knowledge. This community has proven highly effective, generating significant word-of-mouth referrals.

Our branding initiatives are diverse and strategically designed to reinforce our brand identity and expand our customer base. The cornerstone of these efforts is the Jingyi Academy, established in May 2021. This platform has rapidly become our primary vehicle for building a vibrant TCM community. Through this platform, we share a wealth of traditional and contemporary TCM knowledge, including classical texts and original materials, and focus on engaging a wide audience through offering compelling and continuously updated TCM knowledge.

Dr. Lin, co-founder of our Company and a protégé of renowned TCM practitioner Mr. Ni Haisha (倪海廈), leads our efforts in dissecting and sharing the teachings of historical TCM masters using our AI-empowered TCM Brain, which is primarily delivered through live streaming, making it accessible to a broader audience. As of September 30, 2024, our Jingyi Academy has attracted over 220,000 registered community members, making it the largest TCM community globally, according to the CIC Report. Our community has successfully appealed to two distinct audience segments — those with a professional interest in TCM and enthusiasts from the general public. We believe this diverse engagement not only promotes TCM knowledge but also significantly enhances our brand awareness and market position. Our community members generate significant word-of-mouth referrals for us and continuously attract their friends and relatives to become our members.

Our commitment to providing high-quality and attentive TCM healthcare services has resulted in a significant patient retention and patient referrals. We also have customer loyalty programs to build customer loyalty and retention and incentivize customer referral. Depending on the program, we offer a variety of benefits, such as discounts and referral rewards. In 2022, 2023 and the nine months ended September 30, 2024, our patient return rates, reached 61.2%, 69.1% and 71.6%, respectively, while according to the CIC Report, the average patient return rate in the TCM healthcare service industry is typically within the range of 30.0% to 40.0%.

We place close attention to academic development and exchange as we operate in a highly professional industry that attaches great importance to clinical practice and academic exchanges. To enhance industry awareness and promote knowledge exchange, we actively participate in professional conferences related to TCM practices and technological advancements. Since 2022, we have been organizing the “Wenzhi Cup” TCM Knowledge Contests (「問止杯」中醫知識大賽), inviting TCM professionals and enthusiasts to participate and promote TCM knowledge. This annual event, held from September to November, aims to share TCM knowledge and promote TCM culture, and challenge the strongest minds in the field. Tens of thousands of students from TCM colleges and universities, TCM professionals and TCM enthusiasts participated in the “Wenzhi Cup” TCM Knowledge Contests every year. In July 2023, we collaborated with the China Medicine Education Association (中國醫藥教育協

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會) to jointly promote a TCM-related cultural heritage program. This partnership has helped us establish a strong market presence and achieve a wider reach in the TCM healthcare service industry.

Furthermore, with a primary aim to promote the adoption of AI-assisted TCM clinical decision support systems in the TCM healthcare service industry, which we believe will confer further opportunities in the long run, we initiated the Wenzhi AI Alliance, which promotes the common use of software, training and knowledge across the industry. Through this initiative, we have established various research and commercial collaborations with government bodies, universities, research institutions, hospitals, and other organizations. We believe such initiatives have enhanced our brand recognition and influence while assisting more TCM medical institutions in improving the efficiency of their diagnostic and treatment services, which in turn helps us gain industry endorsement.

In line with our commitment to community service and brand building, we also engage in volunteer services, including the donation of the subscription version of our TCM Brain to local communities. These initiatives not only contribute to societal wellbeing but also enhance our brand image as a socially responsible healthcare service provider. See “— Environmental, Social Responsibility and Governance — Social Responsibility — Charitable Matters and Public Welfare Activities.”

OUR CUSTOMERS

For our TCM healthcare services and TCM lifestyle products, our customers are primarily individual patients who receive our treatment and retail consumers who purchase our TCM lifestyle products, respectively. For our TCM Brain subscription services, our customers primarily comprise individual practitioners, medical institutions, and other corporate customers seeking to integrate AI-assisted diagnostic capabilities into their TCM practices.

We have a broad base of customers, and we believe that we do not have customer concentration risks. Our five largest customers, which include patients of our TCM healthcare services and customers of our TCM Brain subscription services, accounted for approximately 0.5%, 0.2%, and 0.3% of our total revenue for 2022, 2023, and the nine months ended September 30, 2024, respectively. Our largest customer accounted for approximately 0.1%, 0.2%, and 0.3% of our total revenue for 2022, 2023, and the nine months ended September 30, 2024, respectively. To the best of our knowledge, during the Track Record Period and up to the Latest Practicable Date, all of our top five customers in each year/period during the Track Record Period were Independent Third Parties.

During the Track Record Period and up to the Latest Practicable Date, none of our Directors, their respective associates, or any shareholders of our Company (who or which to the knowledge of the Directors owned over 5% of our Company’s issued share capital) had any interest in any of our five largest customers in each year/period during the Track Record Period.

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PRICING AND PAYMENT

Pursuant to the applicable PRC Law, private for-profit medical institutions (including pharmacies and online healthcare platforms) are generally entitled to set the prices of their healthcare solutions and products at their own discretion. If a medical institution is a Medical Insurance Designated Medical Institution (醫保定點醫療機構), it may only charge fees for provision of healthcare services in accordance with the pricing guidelines set by the relevant local healthcare administrative authorities and public medical insurance bureaus. Such pricing guidelines stipulate the range of healthcare service fees that can be charged for patients covered by public medical insurance programs. Medical institutions without such designation are not subject to such pricing restrictions and are entitled to set healthcare service fees based on their cost structures, market demand and other factors.

Since our clinics are private for-profit medical institutions and none are Medical Insurance Designated Medical Institutions, we are generally entitled to set the prices of our healthcare solutions and products at our own discretion. We price our TCM healthcare services based on a number of factors, including the severity of the disease, the complexity of the treatment, the operating costs, the costs of decocting pieces, and the pricing of similar services from our competitors.

We have adopted a subscription fee model for our subscription-based TCM Brain which is currently priced at an annual fee of RMB29,800 per account. We have not actively marketed such subscription services during the Track Record Period and revenue generated from such business was insignificant during the same period.

For the pricing of TCM healthcare products and books, we mainly take into account the cost and our expected room for profit, as well as the price range of similar products in the market. We offer recorded TCM courses through a freemium model with free and paid courses. For paid courses, we mainly consider the duration of the course.

Our customers of TCM healthcare services and TCM lifestyle products primarily settle payments with us by online payments through our WeChat portals and on-site payments using bank cards, Alipay and WeChat Pay during their visits to our clinics.

CUSTOMER SERVICE AND FEEDBACK

Since our inception in 2018, we have prioritized delivering quality customer experience to our growing base of patients. In order to acquire new customers and foster loyalty, we strive to offer a seamless and convenient experience by providing integrated online and offline TCM healthcare services, streamlined and personalized care with AI support from our TCM Brain system, comprehensive solutions tailored to individual needs, and a robust customer feedback system that enhances our responsiveness.

Our integrated online and offline business model enables customers to seamlessly transition between online and offline channels throughout the entirety of their healthcare journey — from pre-consultation to consultation and prescription and to treatment and follow-up care. This integrated approach provides patients with a variety of convenient options tailored to their preferences and individual situations.

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Leveraging our proprietary TCM Brain, our experienced team of physicians can deliver a standardized yet highly personalized treatment process. The TCM Brain enhances diagnostic accuracy, treatment outcome, and overall care quality while enabling physicians to devote ample time for attentive consultations with each patient, who is typically allocated for a timeslot of approximately 30 minutes for medical consultation, which is much longer than the typical consultation time in the TCM healthcare service industry, according to the CIC Report.

According to the CIC Survey, we have received positive feedback from the customers of our TCM healthcare services in areas which they were most concerned with, such as treatment outcome, convenience, professional standard and service quality. Approximately 87.2% of the respondents expressed varying degrees of satisfaction with improvements in their conditions. In particular, approximately 90.0% of the respondents with cancer and severe conditions were satisfied with the outcome of their treatment. Approximately 82.2% of the respondents with cancer and severe conditions indicated that they would continue to seek medical treatment from us in the future. Approximately 78.8% of the respondents have received medical treatment at other medical institutions, and approximately 80.9% of such respondents were more satisfied with our treatment results, indicating the favorable treatment outcome and patient satisfaction achieved through our TCM Brain.

In addition, we provide a range of TCM lifestyle products designed to enhance our customers’ experience and deepen their engagement with TCM. We offer a wide range of TCM healthcare products catered to customers’ preferences and allowing them to incorporate TCM principles into their daily lives. To further appeal to and enrich our patients’ understanding of TCM, we also offer courses that promote TCM culture and practices. By offering this comprehensive range of services, we believe we are able to create an immersive and satisfying experience for our customers.

Customer Feedback System

To continuously improve our services and strengthen relationships with our patients, we have implemented a comprehensive customer feedback system. This system allows us to gather valuable insights and assess patient satisfaction across various aspects of our TCM healthcare services. We collect customers’ feedbacks through regular call-back interviews with customers through telephone and WeChat. We have also implemented a rating system across our clinics and WeChat portals.

Under the rating system customers may evaluate various aspects of our services, including the treatment outcomes, the performance of our physicians and other medical professionals, and the overall consultation experience. The results of our feedback system have been consistently positive. In 2022, 2023, and the nine months ended September 30, 2024, 93.8%, 92.7%, and 93.6% of patients, respectively, rated our TCM healthcare services with the highest “five-star” evaluation in our internal follow-up feedback system. We also encourage patients to provide detailed written comments on our services and offer suggestions for improvement. We believe this additional feedback helps us identify areas for enhancement and helps us meet and exceed patient expectations.

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Management of Customer Complaints

Due to the nature of our business, we receive customer complaints from time to time. Customer complaints are usually in relation to the following categories:

- **Medical-related complaints:** These include concerns about treatment outcome, perceived worsening of conditions, adverse reactions to prescribed medications, and dissatisfaction with physician services.
- **Decoction center-related complaints:** These involve issues such as leakage of medicinal decoctions, quality deterioration of herbs, presence of foreign objects in medications, and logistics matters such as incorrect or incomplete delivery.
- **Other complaints:** This category primarily includes disputes over our refunds and cancellation policies, particularly for appointments cancelled at short notice, as well as other billing and service-related issues.

Customer service staff are responsible for prompt and proper handling of customer complaints. For medical-related complaints, particularly those concerning treatment outcome, we have implemented a structured review process involving our medical directors and, when necessary, our senior medical team, ensuring thorough attention to complex cases. Decoction center-related complaints are generally addressed through quality control measures, product replacements and/or refunds when required. Other complaints are generally resolved through apologies and mediation efforts, such as product exchanges and/or refunds. We may voluntarily offer monetary compensation to settle decoction center-related customer complaints and other customer complaints. Each request for refund or compensation is evaluated on its individual merits, taking into account the reasonableness of the complaint, the specific circumstances, and the potential resources required to address the issue through other means. During the Track Record Period, the total amount of monetary compensation paid to settle customer complaints was approximately RMB77,000.

We maintain detailed records of the customer complaints. To prevent recurring complaints of a similar nature, we hold discussions to review the relevant complaints and implement appropriate measures for rectification.

A customer complaint becomes a medical dispute when negotiations fail to reach a settlement and the customer requests to resolve the complaint through mediation or litigation. As of the Latest Practicable Date, we did not have any unsolved medical dispute that could have a material and adverse effect on our business, financial condition or result of operations. See “— Legal Proceedings and Compliance — Medical Disputes.”

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Product Returns and Exchanges

For most TCM lifestyle products sold through our WeChat account and WeChat mini program, we generally accept product returns or exchanges only in case of defective items or in accordance with standard e-commerce policies, which typically allow returns within seven days of delivery, subject to specific terms and conditions. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material product return or exchange.

SUPPLIER AND PROCUREMENT

Our suppliers primarily comprise suppliers of decocting pieces, delivery services, and advertisements. We have implemented a strategic approach to procurement that prioritizes quality, cost-effectiveness, and supply chain stability.

Our centralized procurement management team oversees supplier selection, negotiation of procurement terms and ongoing supplier relationships. We select our suppliers based on a set of stringent criteria and applicable laws and regulations to ensure the quality of our purchases. Our key considerations include qualifications, service or product offerings, pricing, reputation, quality and delivery schedules. We routinely review and assess our supplier performance and qualifications to ensure the legality, quality and stability of our supplies. Suppliers who fail to meet our standards or requirements are downgraded or replaced by more reliable alternatives.

For decocting pieces and other TCM medicines, to ensure supply stability and consistency, we source our supply from various suppliers to prevent any problem of sourcing. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any significant shortage of or delay in the delivery of supplies.

All of our decocting pieces, TCM patent medicines, medical consumables and other supplies are sourced within the PRC. In order to maintain premium quality and extend our quality control further upstream, we have implemented stringent standards for procurement from upstream TCM decocting pieces suppliers and herb farmers. As part of our commitment to quality, we initiated the Wenzhi Herbal Alliance initiative. This initiative aims to foster closer relationships with suppliers who consistently meet our high-quality standards. Our reputation for maintaining these exacting standards has positioned us favorably in the market, allowing us to be selective in our procurement process. As of the Latest Practicable Date, this program encompassed over 50 core herb varieties. We believe this program has proven effective in ensuring we have access to high-quality herbs from authentic origins while maintaining strong relationships with key suppliers in the TCM healthcare service industry.

We generally do not have long-term agreements with our suppliers. Depending on the different types of supplies and our relationships with the suppliers, the terms of the supply agreements with our suppliers vary from supplier to supplier. For the procurement of major TCM decocting pieces, we typically enter into framework supply agreements with suppliers on an annual basis, which set forth general terms applicable to each purchase order, such as credit terms, product return policies, price adjustment terms and anti-corruption requirements. Specific details such as product type, quality standards, unit price, quantity, delivery schedule and other items are specified in each individual purchase order. For standardized medical

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consumables, we generally do not enter into framework supply agreements with suppliers and the orders are placed on an as-needed basis. We typically receive credit terms of three months and settle our trade payables by bank transfer.

We are typically entitled to return or exchange decocting pieces and certain supplies that do not meet our standards upon inspection after delivery and during usage after acceptance. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any significant return or exchange of supplies that did not meet our standards and had not suffered any significant loss or damage caused by quality problems with the supplies.

The price of certain supplies, especially decocting pieces, may fluctuate due to factors including weather and harvest conditions, market dynamics, and government policies. Pursuant to our procurement agreements, suppliers are generally required to offer the most favorable pricing and make prompt downward adjustments when market prices fall. Leveraging our strong bargaining power, built on our procurement scale and market position, we are able to obtain favorable prices for a certain period from certain suppliers when market prices increase. During the Track Record Period, we had not experienced any significant fluctuation in the prices of our supplies which had a material impact on our results of operations or gross profit margins during the Track Record Period.

Major suppliers

For the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2024, respectively, purchases from our five largest suppliers amounted to RMB11.3 million, RMB38.6 million and RMB34.8 million, respectively, representing approximately 48.6%, 60.0% and 56.9%, respectively, of our total purchases for the respective periods. For the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2024, purchases from our largest supplier amounted to RMB3.1 million, RMB14.0 million and RMB10.8 million, respectively, representing approximately 13.2%, 21.8% and 17.7%, respectively, of our total purchases for the respective periods.

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The table below sets forth certain information about our five largest suppliers in terms of total purchases for the periods indicated:

For the nine months ended September 30, 2024

Supplier	Service/Product Purchased by Us	Year of Commencement of Business Relationship with us	Settlement method	Principal Business	Purchase Amount <i>RMB'000</i>	% of Total Purchase Amount %	Business scale
Supplier A ⁽¹⁾	TCM decocting pieces	2022	Bank transfer	Manufacturing of TCM decocting pieces and TCM medicines	10,828	17.7	With a registered capital of RMB50.0 million
Supplier B ⁽²⁾	Advertisement	2024	Bank transfer	Advertisement production, design, and distribution	7,530	12.3	A branch company of a company with a registered capital of RMB10.9 million
Supplier C ⁽³⁾	TCM decocting pieces	2022	Bank transfer	Manufacturing of TCM decocting pieces	6,065	9.9	With a registered capital of RMB30.0 million
Supplier D ⁽⁴⁾	TCM decocting pieces	2022	Bank transfer	Manufacturing of TCM decocting pieces and TCM medicines	5,240	8.6	With a registered capital of RMB66.0 million
Supplier E ⁽⁵⁾	Advertisement	2024	Bank transfer	Advertisement production, design, and distribution	5,160	8.4	With a registered capital of RMB10.0 million
Total					<u>34,823</u>	<u>56.9</u>	

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For the year ended December 31, 2023

Supplier	Service/Product Purchased by Us	Year of commencement of Business Relationship with us	Settlement method	Principal Business	Purchase Amount <i>RMB'000</i>	% of Total Purchase Amount %	Business scale
Supplier F ⁽⁶⁾	Advertisement	2022	Bank transfer	Advertisement production, design, and distribution	14,033	21.8	With a registered capital of RMB1.0 million
Supplier A ⁽¹⁾	TCM decocting pieces	2022	Bank transfer	Manufacturing of TCM decocting pieces and TCM medicines	9,761	15.2	With a registered capital of RMB50.0 million
Supplier C ⁽³⁾	TCM decocting pieces	2022	Bank transfer	Manufacturing of TCM decocting pieces	6,915	10.8	With a registered capital of RMB30.0 million
Supplier G ⁽⁷⁾	Delivery service	2019	Bank transfer	Delivery and warehousing services	4,634	7.2	With a registered capital of RMB150.0 million
Supplier H ⁽⁸⁾	Advertisement	2023	Bank transfer	Advertisement production, design, and distribution	3,230	5.0	With a registered capital of RMB10.0 million
Total					38,573	60.0	

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For the year ended December 31, 2022

Supplier	Service/Product Purchased by Us	Year of commencement of Business Relationship with us	Settlement method	Principal Business	Purchase Amount RMB'000	% of Total Purchase Amount %	Business scale
Supplier C ⁽³⁾	TCM decocting pieces	2022	Bank transfer	Manufacturing of TCM decocting pieces	3,079	13.2	With a registered capital of RMB30.0 million
Supplier A ⁽¹⁾	TCM decocting pieces	2022	Bank transfer	Manufacturing of TCM decocting pieces and TCM medicines	2,707	11.6	With a registered capital of RMB50.0 million
Supplier I ⁽⁹⁾	AI software clinical technology services	2022	Bank transfer	Technology services	2,218	9.5	With a registered capital of RMB1.0 million
Supplier J ⁽¹⁰⁾	Advertisement	2022	Bank transfer	Advertisement production, design, and publication	1,753	7.5	With a registered capital of RMB1.0 million
Supplier F ⁽⁶⁾	Advertisement	2022	Bank transfer	Advertisement production, design, and publication	1,585	6.8	With a registered capital of RMB1.0 million
Total					11,342	48.6	

Notes:

- (1) Supplier A was also one of our five largest customers in 2023 and the nine months ended September 30, 2024, the sales amount were RMB359,000 and RMB538,000, respectively, as we provided TCM Brain subscription services to it. Supplier A is a private company located in Qingdao and established in 2017. It mainly engages in the sales and manufacturing of pharmaceuticals and the processing of TCM decocting pieces. During the Track Record Period, our sales and purchases with Supplier A were conducted in the ordinary course of business under normal commercial terms and were not inter-conditional with each other. Save for Supplier A, during the Track Record Period, none of our major suppliers was also our customer or vice versa.
- (2) Supplier B is a private company located in Guangzhou and established in 2023. It mainly provides information transmission, software, and information technology services.
- (3) Supplier C is a private company located in Baotou and established in 2015. It mainly engages in the sales of Chinese medicinal herbs and the processing of TCM decocting pieces.
- (4) Supplier D is a private company located in Chengdu and established in 2001. It mainly engages in the sales of Chinese medicinal herbs and manufacturing of TCM decocting pieces.
- (5) Supplier E is a private company located in Beijing and established in 2016. It mainly engages in the designing, producing and publication of advertisements.
- (6) Supplier F is a private company located in Hainan and established in 2019. It mainly engages in the production, design, and publication of advertisements.
- (7) Supplier G is a private company located in Shenzhen and established in 2013. It mainly engages in freight transportation and warehousing services.

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- (8) Supplier H is a private company located in Changsha and established in 2019. It mainly engages in the production, design, and publication of advertisements.
- (9) Supplier I is a private company located in Guangzhou and established in 2021. It mainly engages in health consulting and information consulting services for medical devices.
- (10) Supplier J is a private company located in Foshan and established in 2022. It mainly engages in the production, design, and publication of advertisements.

To the best of our knowledge, during the Track Record Period and up to the Latest Practicable Date, all of our top five suppliers in each year/period during the Track Record Period were Independent Third Parties. To the best of the knowledge of our Directors, none of our Directors, their respective associates or any shareholder who owns more than 5% of our issued share capital had any interest in any of our five largest suppliers in each year/period during the Track Record Period.

INVENTORY MANAGEMENT

Our inventories primarily comprise of decocting pieces, TCM lifestyle products and medical consumables. We generally maintain approximately 35 days of inventory to meet the needs of our daily operations. The turnover days of our decocting pieces are short and we adopt a first-in, first out principle in inventory consumption. We have implemented measures to properly preserve the decocting pieces in our inventory. Other than medical consumables used in the daily operations of our clinics, substantially all of our inventories are stored at our warehouses of our decoction centers. All inventories are inspected upon delivery and we review our inventories on hand on a regular basis. Upon inspection, all decocting pieces are stored under controlled temperature conditions, with special arrangements for high in value or perishable, which are kept under refrigeration. Relevant employees carry out regular physical inventory counts to verify the accuracy of our inventory records. Our HIS generates alerts when key inventories fall below the precaution level set by us. Upon receiving such alerts, our centralized procurement team will then consolidate all procurement requirements and communicate with our suppliers to replenish stock. For the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2024, respectively, our inventory turnover days were 28.7 days, 28.4 days and 39.1 days, respectively. During the Track Record Period, we did not make provision for impairment loss of our inventories. Once we identify any expired inventories, we will directly write off and destroy such inventories. During the Track Record Period, we did not experience any significant write-offs of our inventories.

We engage qualified third-party logistics service providers for the delivery of all prescriptions from our decoction centers to locations specified by our customers. During the Track Record Period, we had not experienced any material disruption in the delivery of prescriptions or suffered any loss due to delayed delivery or mishandling of the delivery by the third-party logistics service providers.

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QUALITY CONTROL

To ensure consistent, high-quality services that meet or exceed applicable legal and regulatory standards, we have established comprehensive quality control measures covering all major aspects of our business process. These measures primarily focus on two areas: consultation and prescription procedures and prescription management including decocting pieces and medicinal herbs provided to customers.

Quality control for consultation and prescription:

- We have formulated and implemented various standardized medical quality control procedures and clinical practice guidelines, including a comprehensive guide that integrates Chinese and Western medicine approaches for 300 common diseases and instructional videos in relation to the use of the TCM Brain prepared by Dr. Lin. These guidelines cover all major aspects of our medical practice, including pre-consultation, consultation, prescription and medical records keeping. The standardization of these procedures is further enhanced by our TCM Brain and HIS. In particular, our TCM Brain is embedded with consultation and misdiagnosis reminders, TCM formula analysis, dosage adjustment reminders, explanations on the efficacy of medicinal herbs combinations, reminders of conflicts with Western medicines, and reminders of precautions for taking medications for our physicians’ reference to ensure the safety and quality of our healthcare services. We regularly monitor adherence to these protocols through quality control indicators such as compliance with treatment guidelines and chart review outcomes.
- We have established a tiered system to ensure the safety and quality of the healthcare services provided by our physicians. Junior physicians receive continuous guidance and supervision from their medical supervisors (醫療主管). In cases where patients report unsatisfactory treatment outcomes after multiple visits, we organize case reviews led by our medical directors. For particularly complex cases, we escalate the review process to involve our senior medical team, ensuring thorough attention and optimal care. We have also established a medical supervisory committee headed by medical directors, to review the detailed performance of our employees and oversee the medical practice of our Group.
- All our physicians are full-time employees, which facilitates enhanced management of medical practices and quality control. In addition, we implement regular training programs for our physicians and other medical professionals to ensure they maintain high standards of service and care. For details, see “— Medical Professionals” above.

Quality control for medication:

- As of September 30, 2024, our quality control department for medication comprised eight employees with years of experience in the TCM healthcare service industry.

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- We only purchase supplies from accredited suppliers who have passed our quality and reliability assessment. We require our suppliers to provide us with periodic quality reports from independent laboratories. We conduct regular on-site inspections of our TCM decocting pieces suppliers to inspect their facilities and production conditions as well as whether the samples sent for testing are consistent with the bulk samples and require inspection reports for each batch.
- In order to maintain premium quality and extend our quality control further upstream, we have devoted substantial efforts in cultivating a vertically integrated supply chain by streamlining upstream and downstream of TCM healthcare service industry. In particular, we initiated the Wenzhi Herbal Alliance initiative, through which we have established stringent procurement standards for upstream TCM decocting pieces suppliers and TCM herb farmers. As of the Latest Practicable Date, we directly procured more than 470 kinds of the relatively more common and storable TCM decocting pieces from suppliers who process the decocting pieces in accordance with the procurement standards stipulated by us. For further details of the Wenzhi Herbal Alliance, see “— Supplier and Procurement” above.
- For supplies delivered to our decoction centers, we check the quantity and inspect the quality before acceptance of such supplies. We employ monthly random sampling for testing, examining beyond the pharmacopeia standard, combining traditional TCM herbal characteristic identification methods with effective component identification, such as whether the effective components meet the required standards and whether the level of residue pesticides and heavy metals components comply with the national standards, to ensure the quality and maturity of the medicinal parts of the herbs. Our medical professionals and other staff may report on inferior supplies during their usage. Once receiving such reports, we will arrange on-site investigations on the relevant suppliers to determine whether the supply agreement between such suppliers and us have been violated. Suppliers who violate the supply agreement will be subject to severe penalties, such as compensation for our damages and termination of agreements.
- We have established strict standard operating procedures for our decoction services. From order processing, dispensing to decoction, each step involves dual verification. Personnel are assigned for on-site quality inspections, supervising new employee operations, ensuring water input and output volumes and machine settings meet our stringent internal standards.

Quality control for TCM-related online recorded courses and books:

- We have adopted stringent production procedures for our TCM-related online recorded courses and books. We have designated a team of physicians to oversee and closely scrutinize the production of our recorded courses and books to ensure accuracy of the medical content. Personnel are assigned for proofreading and reviewing the presentation of our recorded courses and books prior to publication. For the publication of our books, the publisher also conducts multiple rounds of proofreading and reviewing before publication.

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TECHNOLOGY, RESEARCH AND DEVELOPMENT

The TCM Brain is founded on three key pillars: (i) a robust foundation in TCM clinical expertise; (ii) the application of advanced AI technologies; and (iii) validation through frontline clinical practice and treatment outcome verification. Led by Dr. Lin, a prominent figure in the field of TCM, our medical research and development team comprises experts with a blend of medical and technical backgrounds, who are dedicated to merging AI technologies with TCM practices, continuously refining and optimizing the TCM Brain through clinical data analysis. For further details on Dr. Lin’s professional background, see “Directors and Senior Management — Senior Management.”

Our medical research and development team comprised highly skilled TCM practitioners and experts in computer science who excel in applying advanced AI models, such as Transformer, Contrastive Language-Image Pre-Training (CLIP), and Sigmoid loss for Language-Image Pre-training (SigLIP), to the field of TCM. In particular, data labeling is one of the most critical foundational tasks in the development of medical AI models. All of our data labeling is meticulously conducted in-house by our medical research and development team. Leveraging their professional expertise in TCM and proficiency in AI models, our medical research and development team selectively labels the TCM clinical knowledge graph and integrates it into our TCM Brain. We believe that this highly selective labeling approach is paramount in developing effective and safe AI-assisted TCM clinical decision support systems, as the quality of data labeling significantly affects treatment outcomes and safety of the models.

Our AI model training process typically comprises three stages: pre-training, fine-tuning, and reward training. We begin by constructing the TCM clinical knowledge graph and then utilizing real-world data derived from clinical practice (including text and images) for training purposes. For instance, leveraging CLIP and SigLIP models, we train our system with a selection of one million labeled tongue images randomly extracted from our tongue diagnosis database. This training process involves inferences on the front and back sides of the tongues, segmentation of tongues, and determination of tongue shapes to achieve precise diagnoses for approximately 40 different types of tongue images. For details of the training process of our TCM Brain, see “— Our TCM Brain.”

Our technology and achievements have been recognized by a number of reputable institutions. Our TCM Brain is the first and only AI-assisted TCM clinical decision support system that has passed clinical consistency studies at a Class III Grade A hospital in mainland China as well as the expert assessment of the Institute of Information on Traditional Chinese Medicine under the China Academy of Chinese Medical Sciences as of the Latest Practicable Date, according to the CIC Report. We have also been awarded the title of national-level high-tech enterprise, demonstrating broad recognition of our technological advancements. Our subsidiaries, Wenzhi TCM Health and Wenzhi Technology, were shortlisted as Specialized and Innovative Small and Medium-sized Enterprises in Shenzhen (深圳市專精特新中小企業) on December 30, 2024.

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We are committed to investing in research and development to improve our technology. We incurred RMB5.4 million, RMB9.0 million, RMB7.2 million and RMB8.4 million of research and development expenses in 2022 and 2023 and the nine months ended September 30, 2023 and 2024, respectively, accounting for 8.7%, 4.8%, 5.6% and 4.9% of our revenue during the respective periods. Our research and development efforts primarily focus on refining and upgrading our proprietary TCM Brain and thereby improving our existing TCM healthcare solutions for our customers. To achieve these goals, we primarily rely on and will continue to optimize our core technologies, namely, AI and big data analytics capabilities.

Our technological expertise in AI-assisted TCM healthcare has been recognized through collaborations with leading institutions in the field. We believe these partnerships not only advance our research and development efforts but also serve as endorsements of our capabilities in relevant technologies. In 2023, we jointly established the TCM Artificial Intelligence Laboratory with the Institute of Information on Traditional Chinese Medicine under the China Academy of Chinese Medical Sciences, a comprehensive TCM research organization integrating scientific research, medical treatment and teaching under the National Administration of Traditional Chinese Medicine, for the purpose of examining and analyzing real-world clinical data with the TCM Brain. According to the CIC Report, this laboratory is currently the highest-level research facility in the field of AI for TCM.

In addition, we collaborated with prominent TCM masters and nationally acclaimed physicians to enhance the quality of our research and development. In 2024, we established National TCM Great Master Tang Zuxuan Inheritance Studio (國醫大師唐祖宣傳承工作室) with Mr. Tang Zuxuan (a National TCM Great Master), National TCM Great Master Zhang Daning Inheritance Studio (國醫大師張大寧傳承工作室) with Mr. Zhang Daning (a National TCM Great Master) and National Famous TCM Doctor Professor Tang Yixin Inheritance Studio (國家級名老中醫湯一新教授傳承工作室) with Professor Tang Yixin (a National Senior TCM Expert Academic Experience Inheritance Instructor), through which we were provided with valuable clinical experience and data for the continuous development of the TCM Brain.

COMPETITION

We believe that our business model is distinctive and our TCM healthcare services empowered by the TCM Brain are pioneering in the TCM healthcare service industry in mainland China. According to the CIC Report, the AI-empowered TCM healthcare service market is highly fragmented and rapidly evolving with the top five market participants accounting for 5.4% market share in 2023. According to the CIC Report, as of December 31, 2023, there were in total over 12.6 thousand AI-empowered TCM healthcare service providers in mainland China and we ranked first in terms of AI-empowered revenue with a market share of 1.5%. We primarily compete with public and private TCM hospitals, TCM outpatient departments, TCM clinics and other TCM healthcare service providers. We primarily compete on the following key factors: service and product quality, brand recognition, accessibility, medical professionals network and pricing. We may also in the future face competition from new entrants that will increase the level of competition. For example, more established technology companies that possess substantial financial resources, sophisticated technological capabilities and broad distribution channels may develop TCM healthcare solutions that directly compete with ours.

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We strive to keep our service offerings competitive so we can maintain and grow the number and engagement of our customers. We believe that our ability to compete effectively depends on many factors, including our technological capabilities, the quality of our treatment and prescription services, our comprehensive coverage of medical departments and specialties, our ability to train and develop skilled medical professionals, our supply chain management capabilities, our pricing competitiveness, and the strength and reputation of our brand.

Furthermore, as our business continues to grow rapidly, we face significant competition for highly skilled personnel, including physicians, software engineers, managers and risk management personnel. The success of our growth strategy depends in part on our ability to retain existing personnel and attract additional highly skilled employees.

INTELLECTUAL PROPERTY

Our intellectual property rights are key to our success and competitiveness. Our intellectual property rights primarily consist of trademarks, copyrights, patents and domain names. As of September 30, 2024, we had 116 registered trademarks, 66 copyrights, 16 patents and 13 domain names. For detailed information about our material intellectual property, see “Appendix IV Statutory and General Information — B. Further Information about our Business — 2. Our Material Intellectual Property Rights.” We also protect our intellectual property rights through a series of confidentiality agreements or provisions with all of our employees. We clearly state all rights and obligations regarding the ownership and protection of intellectual properties in all employment agreements and commercial agreements we enter into.

In addition, we have taken the following key measures to protect our intellectual property rights: (i) implementing a set of comprehensive internal policies to establish robust management over our intellectual property rights, (ii) deploying a special team to guide, manage, supervise and monitor our daily work regarding intellectual properties, (iii) timely registration, filing and application for ownership of our intellectual properties, and (iv) engaging professional intellectual property service providers to assist us with intellectual property protection and invention patent applications.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any threatened or pending disputes relating to the infringement of intellectual property rights that would have a material adverse effect on our business. See “Risk Factors — Third parties may assert or claim that we have infringed their intellectual property rights, which may disrupt and affect our business.”

PRIVACY AND DATA SECURITY

During the ordinary course of our business, we collect and maintain data to the extent necessary for the provision of services and sales of products. For our TCM healthcare services, data collected and processed by us mainly includes (i) basic personal information of patients, such as name, gender, date of birth, phone number, and ID card information as well as appointment dates and follow-up query times, etc., and (ii) patients’ physiological and health information, such as health assessments, medical records, symptoms, examination and test reports, medication records, and prescriptions, etc. For sales of our TCM lifestyle products, online courses, and operation of Jingyi Academy, we mainly collect and process basic personal

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information of online users, such as name, gender, age, phone number and education level, as well as network identity information (e.g., social media accounts) search history and shopping records, etc.

We are required by applicable laws and regulations to protect the privacy of our patients and customers and prohibit unauthorized disclosure of personal information. We have taken measures to maintain the confidentiality of personal and medical information of customers and patients, including installing advanced information technology systems to properly manage our patients’ information, encrypting such information in our information technology systems so that it cannot be accessed without authorization, setting up firewalls between our intranet and the external Internet to control and ensure the security of our database. In addition, we have implemented a variety of data privacy and security policies which require, among others, (i) all of our employees to keep all patient and customer data confidential and to receive mandatory training on our data privacy and security policies; (ii) our healthcare service institutions to adopt security measures in the transmission, storage and disposal of patient data; and (iii) our headquarters to strictly manage the authorization to our database and monitor the employee’s activities in our database.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material data leakage or data loss or any material unauthorized use of customer or patient personal information. As advised by our PRC Legal Advisor, we had complied with the applicable laws and regulations with respect to data privacy, cybersecurity, and personal data protection during the Track Record Period and up to the Latest Practicable Date in all material aspects. Given that legislation and law enforcement in the PRC on data privacy and security are still evolving, we will closely monitor further regulatory developments and take appropriate measures in a timely manner.

PROPERTIES

We are headquartered in Shenzhen, China. As of the Latest Practicable Date, we did not own any properties, and we operated our business through 16 leased properties in mainland China. Our leased properties had a total GFA of approximately 20,721 sq.m., which were primarily used as our clinics, decoction centers and offices. Our leases generally have a term ranging from approximately two to six years. We generally consider to renew the leases upon their expiry based on our business needs. Rents under our leases are generally in fixed sum.

Leased Properties with Usage Defects

As of the Latest Practicable Date, the actual use of seven of our leased properties with an aggregate GFA of 6,491 sq.m., representing approximately 31.3% of our total leased GFA, did not fit into the prescribed scope of usage shown on the relevant ownership certificates.

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Our PRC Legal Advisor advised us that, administrative penalties may be imposed on the lessors if the properties are leased for the usage incompatible with the prescribed scope, and our usage of such leased properties with usage defects may be interrupted. As advised by our PRC Legal Advisor, if we are not able to continue to use the relevant leased properties because the lessors failed to lease the properties according to the stipulated uses, we have the right to claim compensation from most of the lessors in accordance with the applicable laws and regulations and/or the relevant lease agreements or confirmations. Our PRC Legal Advisor has conducted consultations with the relevant competent regulatory authorities, which confirmed that we can lease the aforementioned properties and continue our operation in the premises on a status quo basis.

In view of the foregoing, our Directors are of the view that the abovementioned usage defects will not materially and adversely affect our business and results of operations on the grounds that: (i) to the best of our Directors' knowledge, our leases with respect to these defective leased properties had not been subject to claims or disputes in connection with the actual use of such leased properties during the Track Record Period and up to the Latest Practicable Date and (ii) we believe that we would be able to relocate to a different site relatively easily on comparable commercial terms and at similar prices with immaterial relocation costs should we be required to do so.

Lease Registration

Pursuant to the applicable PRC Law, property lease contracts must be registered with the local branch of the Ministry of Housing and Urban-Rural Development of the PRC. As of the Latest Practicable Date, seven of our lease agreements with lessors were not registered with the relevant government authorities in mainland China. Our PRC Legal Advisor advised us that, according to the applicable PRC Law, the non-registration would not affect the validity of these lease agreements, but we, as the lessee, may be required by the relevant authorities in mainland China to register the relevant lease agreements within a prescribed time limit. If we fail to do so, we may be subject to fines ranging from RMB1,000 to RMB10,000 for each non-registered lease agreement. The estimated total maximum penalty was RMB70,000 as of the Latest Practicable Date. However, as of the Latest Practicable Date, we had not been ordered to register our lease agreements or fined by the relevant authorities in mainland China with respect to these lease agreements. In view of the foregoing, our Directors are of the view that non-registration of these lease agreements will not materially and adversely affect our business operations.

Leased Properties Subject to Prior-registered Mortgages

As of the Latest Practicable Date, five of our leased properties with an aggregate GFA of approximately 3,308 sq.m., representing approximately 16.0% of our total leased GFA, are subject to prior-registered mortgages. As advised by our PRC Legal Advisor, if the mortgagees foreclose our leased properties with prior-registered mortgages, we could be required to vacate the properties. In the event that we are not able to continue to use the leased properties, we consider that the leased properties can be replaced by other suitable properties on comparable commercial terms and at similar prices with immaterial relocation costs. In view of the foregoing, our Directors are of the view that our leased properties subject to prior-registered mortgages will not materially and adversely affect our business operations.

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For further details on the risks associated with our leased properties, see “Risk Factors — Risks Relating to Legal, Compliance, and Regulatory Matters — Our leased property interests may be defective and our lease agreements may not be registered, our right to lease the properties affected by such defects may be challenged, which could cause significant disruption to our business.”

Internal Control Measures

To prevent recurrence of these potential defects in our leased properties, we have taken the following measures:

- Proactive approach and communication with our lessors. We designate our staff to proactively reach out to and communicate with lessors to obtain the relevant ownership certificates from property owners.
- Internal policies. We require all our lessors to provide the necessary documentation and valid title certificates before we enter into lease agreements with them and we will not enter into lease agreements for properties with title defects. Moreover, as part of our enhanced internal policies, our lease agreements are required to be registered with relevant authorities. Upon expiry of lease agreements, we will assess the legal risks and will not renew a lease agreement if the risk is too high.

As of September 30, 2024, none of the properties held or leased by us has a carrying amount of 15% or more of our consolidated total assets. Therefore, according to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this document is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance which requires a valuation report with respect to all our interests in land or buildings.

INSURANCE

As of September 30, 2024, we maintained medical liability insurance for our physicians, public liability insurance to cover liability for damages arising out of our offline clinics, and other employee-related insurance, including pension insurance, maternity insurance, unemployment insurance, work-related injury insurance, medical insurance and housing funds, as required by PRC Law. As of the Latest Practicable Date, we did not maintain product liability insurance, business interruption insurance and key person insurance. During the Track Record Period and up to the Latest Practicable Date, we did not submit any material insurance claims, nor did we experience any material difficulties in renewing our insurance policies. Our Directors believe that our insurance coverage is adequate and is in line with industry practice. However, the risks related to our business and operations may not be fully covered by insurance. See “Risk Factors — Risks relating to our industry and business — Our business is subject to professional and other liabilities for which we may not be insured.”

THIS DOCUMENT IS IN DRAFT FORM. THE INFORMATION CONTAINED HEREIN IS INCOMPLETE AND IS SUBJECT TO CHANGE. THIS DOCUMENT MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

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EMPLOYEES

As of September 30, 2024, we had a total of 334 full-time employees. The table below sets forth the number of employees by business function as of September 30, 2024:

Function	Number	Percentage
Physicians and other medical professionals	195	58.4%
Information technology and research and development	25	7.5%
Supply chain and procurement	10	3.0%
Marketing, branding and promotion	26	7.8%
Management, operations and others	<u>78</u>	<u>23.4%</u>
Total	<u>334</u>	<u>100.0%</u>

We place great emphasis on attracting, retaining, training and developing qualified employees. We recruited our employees primarily through on-site recruiting at universities, organizing job fairs on campus, hosting recruiting seminars at universities, and posting advertisements on recruitment and employment agencies websites during the Track Record Period.

We offer remuneration packages to our employees which include salary, allowances and performance-based bonuses. We have developed a performance evaluation system to assess the performance of our employees annually, which forms the basis for determining the salary levels, bonuses and promotions an employee may receive.

We place strong emphasis on providing trainings for our employees to enhance their understanding of our industry and workplace safety standards, their professional skills and comprehensive performance. We design and offer different training programs for our employees. For details of our physician trainings, see “— Medical Professionals” above.

We enter into standard labour contracts with our employees and standard confidentiality and non-compete agreements with key personnel in certain positions.

We believe that we generally maintain a good working relationship with our employees, and we did not experience any significant labor disputes or any difficulty in recruiting staff for our operations during the Track Record Period.

LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

From time to time, we may become involved in legal proceedings in the ordinary course of our business. During the Track Record Period and up to the Latest Practicable Date, we had not been and were not a party to any material legal, arbitral or administrative proceedings, and we were not aware of any pending or threatened legal, arbitral or administrative proceedings against us or our Directors that could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

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Medical Disputes

A medical dispute arises when negotiations regarding a patient complaint fails to reach a settlement and the patient requests to resolve the complaint through mediation or litigation. Due to the subjective nature of the healthcare services, we occasionally encounter medical disputes brought by our patients against us. During the Track Record Period, we did not experience any medical disputes that could cause a material adverse effect on our business, financial condition or results of operations.

In each of our medical disputes during the Track Record Period, we believe that our physicians have followed appropriate treatment procedures and protocols. None of our medical disputes during the Track Record Period resulted in any determination of medical incident (醫療事故). During the Track Record Period and up to the Latest Practicable Date, none of our physicians were involved in any disciplinary proceedings or otherwise determined to be liable for medical incidents.

As of the Latest Practicable Date, we did not have any unsolved medical dispute that could have a material and adverse effect on our business, financial condition or result of operations.

Non-Compliance

During the Track Record Period and up to the Latest Practicable Date, we had not been and were not involved in any material non-compliance incidents that have led to fines, enforcement actions or other penalties that could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

Failure to Complete the Fire Safety Filing for Certain Leased Properties

Background and Reasons for Non-compliance

As of the Latest Practicable Date, our decoction center in Shenzhen and our Zhengzhou Clinic (the “**Non-compliant Properties**”) had not yet completed their respective Fire Safety Filings (消防備案). Based on interviews with relevant competent authorities, such non-compliance was primarily due to (i) for the Shenzhen decoction center, the relevant lessor’s failure to complete pre-requisite procedures regarding the whole premises where the Shenzhen decoction center was located for us to complete Fire Safety Filing, and (ii) for the Zhengzhou Clinic, issues attributable to the structural design of the relevant property.

Legal Consequences

According to applicable PRC Law, for each of the Non-compliant Properties’ failure to complete the Fire Safety Filing after completion of construction acceptance, the Non-compliant Properties may be ordered by the housing and urban-rural development departments of local governments to rectify and subject to a fine of up to RMB5,000.

Our PRC Legal Advisor has conducted interviews with the relevant competent regulatory authorities for the Fire Safety Filing of the Non-compliant Properties. As confirmed by the relevant authorities, during the Track Record Period, (i) none of the Non-compliant Properties

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had been imposed any material administrative penalties in respect of fire safety; and (ii) premises of the Non-compliant Properties could be used to conduct business continuously on a status quo basis.

Based on the aforementioned interviews with the relevant competent authorities, our PRC Legal Advisor has advised us that the risk that the Non-compliant Properties will be imposed any administrative penalties that will materially and adversely affect their business operations by the relevant government authorities for their failure to complete Fire Safety Filing is very low.

In addition, we are in the process of replacing the decoction center in Shenzhen with a new decoction center. Upon such replacement, we will commence deregistration procedures for the original Shenzhen decoction center. The new decoction center, expected to open in the first quarter of 2025, will not commence operation until requisite fire safety procedures are completed.

Our Directors are of the view that such fire safety related non-compliance incidents have not had and will not have any material adverse effect on our business, financial condition or results of operations, after taking into account (i) the estimated maximum potential penalty of RMB10,000, which is immaterial to us; (ii) the legal opinion of our PRC Legal Advisor as disclosed above; and (iii) the opening of the new decoction center in 2025 which would replace the Shenzhen decoction center and, as confirmed by our Directors, the costs of such replacement should be immaterial to us. As a result, we did not make any provision in connection with such non-compliance incidents.

Internal Control Measures

We have established a comprehensive set of internal control measures in respect of fire safety, covering fire usages, firefighting facilities, fire safety inspections, rectification of hidden fire hazards, fire safety education and training, fire extinguishment and emergency evacuation plans, fire drills, fire safety related expenditures and records, and the relevant reward and penalty policies.

Our newly established clinics are not permitted to commence operations until requisite fire safety procedures have been completed. In particular, we regard regulatory compliance in respect of fire safety as a key criterion when evaluating potential locations. We will review the documentation on fire safety procedures during our due diligence before establishing a new clinic. We will also from time to time conduct review on the performance of our existing premises in terms of fire safety.

ENVIRONMENTAL, SOCIAL RESPONSIBILITY AND GOVERNANCE

We attach great importance to environmental, social and governance matters, including environmental sustainability, social responsibility and governance (“ESG”) and are committed to being a responsible corporate citizen, to abide by applicable laws and generally accepted ethical principles and to increase the wellness of the society.

BUSINESS

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fines or other penalties due to non-compliance in relation to health, work safety or environmental laws and regulations and had not had any accident, or received any claim for personal or property damage made by our employees which had materially and adversely affected our financial condition or business operations. During the Track Record Period and up to the Latest Practicable Date, as confirmed by our PRC Legal Advisor, we had complied with the applicable PRC Law relating to resources consumption and environmental protection in all material respects. Our Directors considered that the annual costs for compliance with the applicable health, work safety or environmental laws and regulations were not material during the Track Record Period and we do not expect such costs to be material going forward.

Environment, Climate and Sustainability

Environmental Impact and Protections

Given the nature of our business, we do not operate any production facilities or otherwise impose any material threats to the environment or the climate. However, as a TCM healthcare service provider, we recognize that climate change is a significant global challenge with increasing impacts on our business. The changing climate affects not only the availability and quality of medicinal herbs but also the broader healthcare landscape. We have identified key risks and opportunities related to climate change and developed strategies to mitigate risks and capitalize on emerging opportunities.

Physical Risks

Short-term risks include extreme weather events such as floods, droughts, or heatwaves that can damage medicinal herb plantations and disrupt our supply chain. These events may lead to shortages of key supplies, affecting our ability to provide certain treatments and potentially causing financial losses. Long-term risks involve gradual changes in temperature and precipitation patterns that could alter the growth conditions for medicinal herbs. This may lead to changes in the potency or chemical composition of herbs, potentially affecting the outcome of our treatments and challenging the foundation of our TCM practices. We have formulated a number of strategies to mitigate damages from these identified physical risks. We consistently monitor for extreme weather events that may affect herb plantations. In response to such events, we may adjust our procurement strategy to ensure sufficient supply to meet our demands. In our supplier selection process, we tend to prioritize cooperation with suppliers that demonstrate robust inventory management and strong supply capabilities, particularly for medicinal herbs that are more susceptible to environmental factors.

Transition Risks

As public awareness of climate change grows, we anticipate a shift in patient preferences towards healthcare service providers with strong environmental credentials and a commitment to sustainability. Without proper adaptation, we may face reputational risks and potential loss of market share. We have formulated a number of strategies to mitigate damages from these identified transition risks. We continue to promote and expand the Wenzhi Herbal Alliance, establishing partnerships with an increasing number of authentic medical herb cultivation areas

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and providing standards for herb planting and procurement. We intent to also incorporate environmentally conscious practices to enhance our environmental credentials and meet the evolving expectations of environmentally conscious customers.

Opportunities

Despite above-mentioned physical and transition risks, we also believe that climate change may bring about opportunities to our business operations. As climate change could potentially negatively affect public health, we anticipate a growing emphasis on preventative interventions. TCM, with its holistic approach to health and wellness, is well-positioned to meet this demand. Our preventive treatment and health maintenance practices could see increased demand as people become more proactive about their health. As health becomes an increasingly critical issue due to climate change impacts, we also anticipate that the government may allocate more resources to diverse healthcare solutions including TCM.

Metrics and Targets

Our primary environmental impact stems from electricity and water consumption during our daily operations. The below table sets forth our electricity consumption analysis for the periods indicated.

	<u>Year ended December 31,</u>		<u>Nine months ended</u>
	<u>2022</u>	<u>2023</u>	<u>September 30, 2024</u>
Electricity consumption (kWh)	328,028.1	897,617.3	1,030,622.2
Water consumption (m ³)	1,630.7	4,029.5	4,167.6

To fulfil our environmental and social responsibility, we have implemented comprehensive measures to increase energy and water efficiency while reducing our overall carbon footprint. These initiatives include: (i) optimizing energy use through the use of LED lighting systems and implementation of automated light management, including timed shut-offs during non-business hours; (ii) promoting energy-conscious behavior among employees through regular energy-saving reminders for efficient use of lighting, electronic equipment and air conditioning; (iii) implementing control policies to optimize air conditioning usage; (iv) conducting regular office inspections to ensure compliance with energy-saving practices; (v) establishing a paper-minimal working environment to reduce resource consumption and waste.

Social Responsibility

We are committed to promoting corporate social responsibility and sustainable development as well as integrating these principles into all major aspects of our business operations. We consider corporate social responsibility as part of our core growth philosophy that will be pivotal to our ability to create sustainable value for our shareholders.

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Charitable Matters and Public Welfare Activities

We are deeply committed to sustainable corporate responsibility through various charitable endeavors that align with our expertise in TCM. Our initiatives fall into two main categories, namely community support and cultural preservation.

In terms of community support, we have donated the subscription version of our TCM Brain to local communities in mainland China, and directly contributed to national charitable organizations.

Our commitment to promoting and preserving TCM culture is exemplified by our nationwide “Tracing Medical Veins” (醫脈尋蹤) program. This initiative explores TCM’s history across multiple provinces, offering on-site visits and first-hand experiences. As of September 30, 2024, the program had visited 23 cities in 13 provinces and organized offline TCM culture sharing sessions in 14 cities. The program’s goal is to explore TCM culture and history, while promoting its inheritance and wider public appreciation. We also regularly organize online and offline sharing of TCM practices.

Our efforts have been recognized with several prestigious titles, including “China Traditional Chinese Medicine Cultural Heritage Base” (中國中醫藥文化傳承基地) by China Central Television’s Art Inheritance (藝術傳承) program in 2024, “Chinese Famous Brands” (中國名牌) excellent case of ESG society contribution by Xinhua News Agency in 2023, and the Health Alliance Social Responsibility Award by the Southern Metropolis Daily in 2020.

Employee Care and Development

We recognize that the well-being and continuous growth of our employees are crucial to the success of our TCM healthcare services. We strive to create a balanced, supportive, and stimulating work environment for all our staff. We organize regular team-building activities that promote both physical fitness and cultural appreciation of TCM. We have cultivated an innovative and collaborative corporate culture that we believe is attractive to TCM practitioners and AI and computer science talents who are keen to our success, and we invest heavily in training and retaining them. For instance, we provide continuous training programs on TCM practices with the use of our TCM Brain and provide access to our extensive digital library of TCM resources and AI-tools for self-study and professional development. We also organize opportunities for cross-functional collaboration, enabling our physicians to work closely with our tech experts in refining our TCM Brain.

Patient Data Privacy and Security

We recognize that safeguarding patient data is paramount in maintaining trust and upholding our ethical responsibilities as a TCM healthcare service provider, particularly given our use of AI-assisted TCM clinical decision support systems. We have implemented stringent data protection protocols that comply with regulatory requirements. These policies govern the collection, storage, use, and transmission of patient data. We have implemented stringent data protection protocols that comply with and often exceed regulatory requirements. These policies govern the collection, storage, use, and transmission of patient data. All employees, regardless

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of their role, undergo mandatory training on data privacy and security. We maintain clear communication with patients about how their data is used, particularly in relation to our TCM Brain. For details, see “— Privacy and Data Security” above.

ESG Governance Scheme

We are committed to complying with ESG reporting requirements upon [REDACTED] and expect to establish ESG policies in accordance with the standards set forth in Appendix C2 to the Listing Rules. Our ESG policies will set out the respective responsibilities and authorities of different parties in managing the ESG matters. The Board will have the overall responsibility for overseeing and determining our Group’s environmental, social, and climate-related risks and opportunities impacting our Group, establishing and adopting the ESG policy and targets of our Group, and reviewing our Group’s performance annually against the ESG targets and revising the ESG strategies as appropriate. The Board will actively identify and monitor any actual and potential impact of the ESG-related risks in relation to our business operations and take into account of such issues. We will continue to raise the awareness of energy conservation and environmental protection of all employees in the Group, targeting to achieve a green, healthy and sustainable development.

LICENSE, APPROVALS AND PERMITS

As advised by our PRC Legal Advisor, we had obtained all requisite licenses, approvals and permits from relevant authorities that are material for our operations in the PRC and such licenses, approvals and permits are valid and effective.

The following table sets out details of the material licenses, approvals and permits currently held by us:

License/Permit	Holder	Grant date	Expiry date	Authority
Registration Certificate of TCM Clinic (中醫診所備案證)	Shenzhen Wenzhi TCM Health Technology Co., Ltd. Pingye Traditional Chinese Medicine Clinic (深圳問止中醫健康科技有限公司平葉中醫診所)	December 20, 2023	N/A	Shenzhen Bao’an District Health Bureau (深圳市寶安區衛生健康局)
Registration Certificate of TCM Clinic (中醫診所備案證)	Shenzhen Wenzhi TCM Health Technology Co., Ltd. Zisu Traditional Chinese Medicine Clinic (深圳問止中醫健康科技有限公司紫蘇中醫診所)	September 27, 2023	N/A	Shenzhen Bao’an District Health Bureau (深圳市寶安區衛生健康局)

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License/Permit	Holder	Grant date	Expiry date	Authority
Registration Certificate of TCM Clinic (中醫診所備案證)	Xiamen Siming Wenzhi Xuelian Traditional Chinese Medicine Clinic Co., Ltd. (廈門思明問止雪蓮中醫診所有限公司)	April 11, 2023	N/A	Xiamen Siming District Health Bureau (廈門市思明區衛生健康局)
Registration Certificate of TCM Clinic (中醫診所備案證)	Zhengzhou Wenzhi Traditional Chinese Medicine Clinic Co., Ltd. (鄭州問止中醫診所有限公司)	August 18, 2023	N/A	Health Commission of Jinshui District, Zhengzhou City (鄭州市金水區衛生健康委員會)
Registration Certificate of TCM Clinic (中醫診所備案證)	Changsha Furong District Wenzhi Traditional Chinese Medicine Clinic Co., Ltd. (長沙芙蓉區問止中醫門診有限公司)	March 4, 2024	N/A	Changsha Furong District Administrative Approval Service Bureau (長沙市芙蓉區行政審批服務局)
Registration Certificate of TCM Clinic (中醫診所備案證)	Jinan Wenzhi Chuyue Traditional Chinese Medicine Clinic Co., Ltd. (濟南問止初月中醫診所有限公司)	November 14, 2024	N/A	Jinan Licheng District Administration of Traditional Chinese Medicine (濟南市曆城區中醫藥管理局)
Registration Certificate of TCM Clinic (中醫診所備案證)	Chengdu Wenjiang Wenzhi Qiuwei TCM Clinic Co., Ltd. (成都溫江問止秋葦中醫診所有限公司)	May 13, 2024	N/A	Wenjiang District Health Bureau of Chengdu City (成都市溫江區衛生健康局)
Registration Certificate of TCM Clinic (中醫診所備案證)	Chengdu Jinniu Wenzhi Baizhi TCM Clinic Co., Ltd. (成都金牛問止白芷中醫診所有限公司)	August 15, 2023	N/A	Jinniu District Administrative Approval Service Bureau of Chengdu City (成都市金牛區行政審批服務局)
Medical Institution Practice License (醫療機構執業許可證) ^(Note)	Chengdu Wenjiang Wenzhi Internet Hospital Co., Ltd. (成都溫江問止互聯網醫院有限公司)	April 11, 2024	March 31, 2027	Chengdu Wenjiang District Administrative Approval Service Bureau (成都市溫江區行政審批服務局)
Medical Institution Practice License (醫療機構執業許可證) ^(Note)	Guangzhou Wenzhi TCM Outpatient Department Co., Ltd. (廣州問止中醫門診部有限公司)	August 23, 2023	July 7, 2025	Guangzhou Tianhe District Health Bureau (廣州市天河區衛生健康局)

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License/Permit	Holder	Grant date	Expiry date	Authority
Certificate of Qualification for Internet Pharmaceutical Information Service (互聯網藥品信息服務資格證書)	Guangzhou Wenzhi TCM Outpatient Department Co., Ltd. (廣州問止中醫門診部有限公司)	January 16, 2023	January 15, 2028	Guangdong Medical Products Association (廣東省藥品監督管理局)
Registration Certificate of TCM Clinic (中醫診所備案證)	Shenzhen Wenzhi TCM Health Technology Co., Ltd. Wenzhi Traditional Chinese Medicine Clinic (深圳問止中醫健康科技有限公司問止中醫診所)	December 6, 2024	N/A	Shenzhen Nanshan District Health Bureau (深圳市南山區衛生健康局)
Publication Operation Permit (出版物經營許可證)	Shenzhen Wenzhi TCM Health Technology Co., Ltd. (深圳問止中醫健康科技有限公司)	January 6, 2021	June 30, 2026	Nanshan District Press and Publication Bureau, Shenzhen (深圳市南山區新聞出版局)
Publication Operation Permit (出版物經營許可證)	Shenzhen Wenzhi TCM Health Technology Co., Ltd. Wenzhi Traditional Chinese Medicine Clinic (深圳問止中醫健康科技有限公司問止中醫診所)	July 19, 2024	May 31, 2029	Nanshan District Press and Publication Bureau, Shenzhen (深圳市南山區新聞出版局)

Note: Such licenses include the authorization to provide online TCM healthcare services

RISK MANAGEMENT AND INTERNAL CONTROL

We have established and currently maintain risk management and internal control systems consisting of policies and procedures that we consider to be appropriate for our business operations. We are dedicated to continually improving these systems. We have adopted and implemented comprehensive risk management policies in various aspects of our business operations such as financial reporting, and internal control. Our Board of Directors is responsible for the establishment and updating of our internal control systems, while our senior management monitors the daily implementation of the internal control procedures and measures with respect to each of our subsidiaries and functional departments.

Legal and Compliance Risk Management

In order to effectively manage our compliance and legal risk exposures, we have adopted strict internal procedures to ensure the compliance of our business operations with the applicable rules and regulations. In accordance with these procedures, our in-house legal department performs the basic function of reviewing and updating the form of contracts we enter into with our customers and suppliers. Our legal department examines the contract terms

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and reviews all relevant documents for our business operations, including licenses and permits obtained by the counterparties to perform their obligations under our business contracts and all the necessary underlying due diligence materials, before we enter into any contract or business arrangements.

Our in-house legal department is responsible for obtaining any requisite governmental pre-approvals or consents, including preparing and submitting all necessary documents for filing with relevant government authorities, within the prescribed regulatory timelines. We continuously improve our internal policies according to changes in laws, regulations and industry standards, and update internal templates for legal documents. We undertake compliance management over various aspects of our operations and employee activities. We have also established an accountability system in respect of employees’ violations of laws, regulations and internal policies. In addition, we continually review the implementation of our risk management policies and measures to ensure our policies and implementation are effective and sufficient. We have an employee code of conducts in place, which contains internal rules and guidelines regarding basic working rules, work ethics, confidentiality, negligence, anti-bribery and anti-corruption. We provide our employees with regular training and resources to explain the guidelines contained in the employee code of conducts.

Financial Reporting Risk Management

We have in place a set of policies in connection with our financial reporting risk management, such as financial reporting management, internal audit, investment management, and budget management. We also have procedures in place to implement such policies, and our financial department reviews our management accounts and internal control procedures based on such procedures. In addition, we provide regular training to our financial department staff to ensure they understand our accounting policies and procedures.

Internal Control

To ensure strict compliance of our business operations with applicable rules and regulations, we have designed and adopted a set of comprehensive internal control policies. The implementation of such policies is overseen by our internal control team, which is also responsible for (i) performing group-level risk assessments, (ii) providing advice on risk management practice and (iii) establishing authorization and approval protocols. Below is a summary of the internal control policies, measures and procedures we have implemented or plan to implement:

- We have adopted various measures and procedures regarding each aspect of our operations, such as protection of intellectual property, environmental protection and occupational health and safety. We provide periodic training on these measures and procedures to our employees as part of our employee training program. We also regularly monitor the implementation of those measures and procedures through our senior management team during the process of the provision of our TCM healthcare services.

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- Our Board of Directors (who are responsible for monitoring the corporate governance of our Group) with assistance from our legal advisors, will periodically review our compliance status with all relevant laws and regulations after the [REDACTED].
- We have established the Audit Committee which shall (i) make recommendations to our Board of Directors on the appointment and removal of external auditors; and (ii) review the financial statements and render advice in respect of financial reporting as well as oversee the risk management and internal control procedures of our Group. For more details, see “Directors and Senior Management — Board Committees — Audit Committee.”
- We have engaged Haitong International Capital Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules to ensure that, among others, we are properly guided and advised as to compliance with the Listing Rules and all other applicable laws, rules, codes and guidelines.
- We have engaged a PRC law firm to advise us on and keep us abreast with PRC Law after the [REDACTED]. We will continue to arrange various training to be provided by external legal advisors from time to time when necessary and/or any appropriate accredited institution to update our Directors, senior management and relevant employees on the latest applicable laws and regulations.
- Regular communications with authorities. We have established procedures to regularly communicate with the relevant authorities on the relevant laws and regulations and any updates that could potentially affect the Company’s operation and business.

During the Track Record Period, we have regularly reviewed and enhanced our internal control system. We believe that our Directors and members of our senior management possess the necessary knowledge and experience in providing good corporate governance oversight in connection with risk management and internal control.

Anti-Bribery and Anti-Corruption Measures

An effective set of anti-bribery and anti-corruption policies and procedures is critical to ensuring the integrity of our operations. Our anti-bribery and anti-corruption measures and initiatives include the following:

- Zero tolerance. Our employee handbook contains provisions prohibiting corruption and bribery, and any breaches of them may lead to serious penalties on the staff member in question. We would immediately terminate the employment with any employee who is found to be involved in any corruption or bribery incidents.
- Reporting mechanism. We have implemented a reporting mechanism under which our employees and other companies which conduct business with us may report instances of corruption or bribery directly to our management email and our hotline.

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- Advanced management policies. We have implemented a series of internal control measures and policies to prevent any potential corruption or bribery. Our Audit Committee is responsible for overseeing our internal audit department, which is tasked with handling reported cases of potential corruption or bribery as well as the daily supervision and continuous implementation of anti-corruption and anti-bribery policies in our Group.
- Training. We provide anti-bribery and anti-corruption trainings to directors, senior management and employees of all members of our Group.

AWARD AND ACHIEVEMENTS

We have received various honors and awards in recognition of, among others, our scale, innovation and products. The following table sets out our major awards and recognitions:

Year	Award/recognition	Awarding body
Technological Advancements		
2023	National High and New Tech Enterprise (國家級高新技術企業)	Science, Technology and Innovation Commission of Shenzhen Municipality (深圳市科技創新委員會); Finance Bureau of Shenzhen Municipality (深圳市財政局); Shenzhen Tax Service, State Administration of Taxation (國家稅務總局深圳市稅務局)
2023	Artificial Intelligence Joint Laboratory (人工智能聯合實驗室)	Institute of Information on Traditional Chinese Medicine under the China Academy of Chinese Medical Sciences (中國中醫科學院中醫藥信息研究所)
2023	Joint Innovation Center of TCM Artificial Intelligence (中醫人工智能聯合創新中心)	Shaanxi University of Chinese Medicine (陝西中醫藥大學)
2024	2024 Software Industry Quality Development Support Program (First Batch) Funding Project (2024年軟件產業高質量發展扶持計劃(第一批)資助項目)	Industry and Information Technology Bureau of Shenzhen Municipality (深圳市工業和信息化局)

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Year	Award/recognition	Awarding body
2024	List of Excellent Artificial Intelligence Products (人工智能優秀產品清單)	Industry and Information Technology Bureau of Shenzhen Municipality (深圳市工業和信息化局)
2024	List of Typical Application Cases of Artificial Intelligence (人工智能典型應用案例清單)	Industry and Information Technology Bureau of Shenzhen Municipality (深圳市工業和信息化局)
2024	2024 Shenzhen Bao'an District Science Education Base (2024年深圳市寶安區科普基地)	Shenzhen Bao'an District Association of Science and Technology (深圳市寶安區科學技術協會)

Collaborations

2024	National TCM Great Master Tang Zuxuan Inheritance Studio (國醫大師唐祖宣傳承工作室)	Mr. Tang Zuxuan (唐祖宣先生) (a National TCM Great Master)
2024	National TCM Great Master Zhang Daning Inheritance Studio (國醫大師張大寧傳承工作室)	Mr. Zhang Daning (張大寧先生) (a National TCM Great Master)
2024	National Famous TCM Doctor Professor Tang Yixin Inheritance Studio (國家級名老中醫湯一新教授傳承工作室)	Professor Tang Yixin (湯一新教授) (a National Senior TCM Expert Academic Experience Inheritance Instructor)
2024	Graduate Employment Base (畢業生就業基地)	Henan University of Chinese Medicine (河南中醫藥大學)
2024	Joint Talent Training Units (聯合人才培養單位)	Shandong University of Traditional Chinese Medicine (山東中醫藥大學)
2024	Employment Base (就業基地)	Hubei University of Chinese Medicine (湖北中醫藥大學)
2024	Graduate Employment Base (畢業生就業基地)	Chengdu University of Traditional Chinese Medicine (成都中醫藥大學)

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Year	Award/recognition	Awarding body
Social Recognition		
2023	“Inheriting the Craftsman Spirit and Building the Power of National Style” Project (《傳承工匠精神•鑄就國潮力量》上榜品牌)	China Central Television (中國中央電視台)
2023	Key Credit Certification Enterprise in the Traditional Chinese Medicine Industry (中醫藥行業重點信用認證企業)	Credit Rating and Certification Center, Institute of International Trade and Economic Cooperation, Ministry of Commerce (商務部國際貿易經濟合作研究院信用評級與認證中心); Business Credit Office, Ministry of Commerce (中華人民共和國商務部信用工作辦公室); State-owned Assets Supervision and Administration Commission of the State Council, Industry Association Contact Office (國務院國有資產監督管理委員會行業協會聯繫辦公室)
2024	2023 Excellent Cases of Corporate ESG Social Contribution (2023企業ESG社會貢獻度優秀案例)	Xinhua News Agency (新華社)
2024	The ninth “Guangdong Famous Brands” selected brands (第九批「廣東知名品牌」入選品牌)	Guangdong Enterprise Brand Construction Promotion Association Guangdong Famous Brand Evaluation Committee (廣東省企業品牌建設促進會廣東知名品牌評價專業委員會)

CONTRACTUAL ARRANGEMENTS

BACKGROUND

As part of our business, our Group operates several medical institutions in the PRC that offer TCM healthcare services, including pre-consultation preparations, AI-assisted clinical consultation, TCM prescription, medication and decoction services.

Foreign investment activities in the PRC are mainly governed by the Negative List and the Catalog of Industries for Encouraging Foreign Investment (2022 Version) (鼓勵外商投資產業目錄(2022年版)) (the “**Encouraging Catalog**”), which were promulgated and are amended from time to time jointly by the MOFCOM and the NDRC. The Negative List stipulates industries in which foreign investments are restricted or prohibited. According to the Negative List and the Encouraging Catalog, the operation of medical institutions falls within the “restricted” category, and therefore may not be held 100% by foreign investors, and foreign investments in medical institutions are restricted to the form of sino-foreign joint venture.

According to the Provisional Measures for the Administration on Sino-Foreign Equity and Cooperative Medical Institutions (中外合資、合作醫療機構管理暫行辦法), foreign investors are allowed to partner with Chinese entities to establish a medical institution in the PRC by means of equity joint venture or cooperative joint venture, and the equity interest held by the Chinese partner in the joint venture shall not be less than 30%. According to the Circular on the Adjustment of Approval Authority of Sino-Foreign Equity Medical Institutions and Sino-Foreign Cooperative Medical Institutions (衛生部關於調整中外合資合作醫療機構審批權限的通知), health administration at the provincial level may approve the establishment of sino-foreign equity medical and/or cooperative medical institutions. According to the Administrative Measures on Sino-Foreign Equity and Cooperative Medical Institutions in the Sichuan Province (四川省中外合資、合作醫療機構管理辦法), the equity interest held by the Chinese partner in the joint venture medical institution in Sichuan Province shall not be less than 10%. For further details of the limitations on foreign ownership in PRC companies conducting medical services business under PRC laws, see “Regulatory Overview — Regulations Relating to Foreign Investment.”

In order to comply with PRC laws and regulations and streamline our corporate structure, we entered into the Contractual Arrangements with Wenzhi Internet Hospital and Wenzhi TCM Health on October 30, 2023 and September 4, 2024, respectively, in replacement of the Previous Contractual Arrangements which were terminated on November 21, 2024. Upon completion of the Reorganization, our Company, through WFOE, holds equity interests in the Medical Institution Subsidiaries up to the permissible threshold of foreign investment under the Foreign Ownership Restrictions, and the remaining shareholding in the Medical Institution Subsidiaries was held by Mr. Cui. The WFOE have maintained effective control over the financial and operational policies of our Medical Institution Subsidiaries and continue to be entitled to all the economic benefits derived from their operations through the Contractual Arrangements. Our Medical Institution Subsidiaries consist of (i) Wenzhi TCM Health, which has three branch companies that are medical institutions, (ii) Wenzhi Internet Hospital (together with Wenzhi TCM Health, the “**Onshore Holdcos**”), a medical institution, and (iii) the Onshore Holdcos’ respective wholly owned subsidiaries established under the laws of the PRC, which are medical institutions or will become and commence operation as medical institutions after obtaining the requisite licenses. For the years ended December 31, 2022, 2023 and the nine months ended

CONTRACTUAL ARRANGEMENTS

September 30, 2024, revenue from our Medical Institution Subsidiaries was approximately RMB59.9 million, RMB181.2 million and RMB164.1 million, respectively, accounting for 96.4%, 95.9% and 94.8% of our total revenue for the same periods. In addition to the provision of TCM healthcare services through the operation of medical institutions in the PRC, we also derive revenue from our other subsidiaries, which offer TCM lifestyle products and TCM Brain subscription services accounting for a much smaller portion of our total revenue during the Track Record Period. For details, see “Business” and “Financial Information.”

The respective PRC legal advisors of our Company and of the Sole Sponsor consulted officers of Health Commission of Guangdong Province (廣東省衛生健康委員會, the “Guangzhou HC”) and Health Commission of Chengdu (成都市衛生健康委員會, the “Chengdu HC”) in August and October 2024, respectively. Our PRC Legal Advisor is of the view that Guangzhou HC and Chengdu HC are the competent authorities and the officers consulted have the authority to give such confirmation in respect of the subject matter. During the consultation, (i) the officers of Guangzhou HC confirmed that equity interest held by foreign investors through Wenzhi TCM Health in a medical institution shall be no more than 70%; and (ii) the officers of Chengdu HC confirmed that equity interest held by foreign investors through Wenzhi Internet Hospital in a medical institution in Sichuan Province shall be no more than 90% (the “Foreign Ownership Restrictions”).

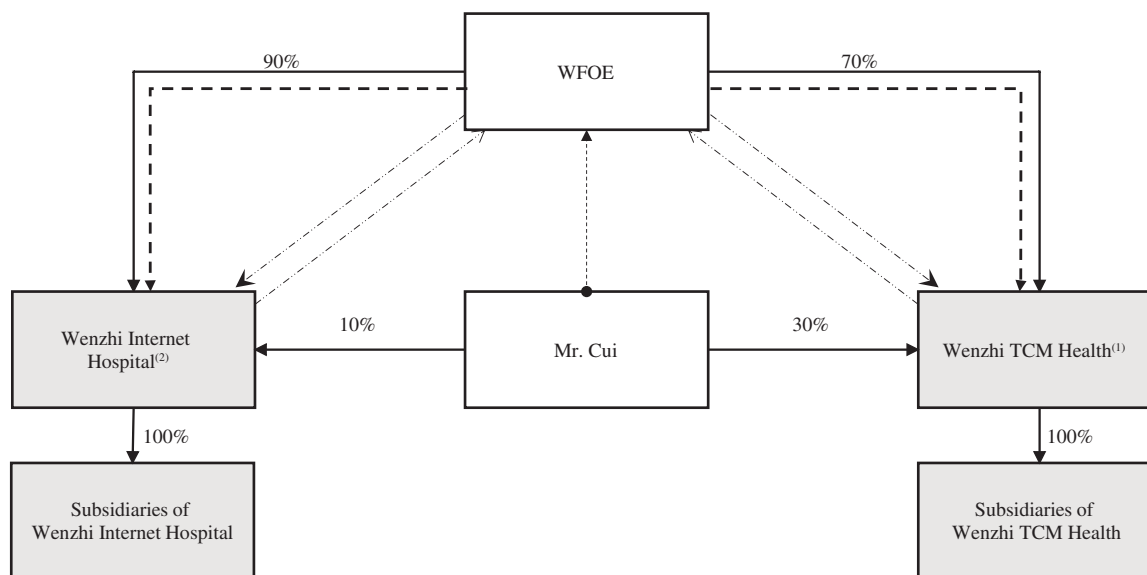
Based on the above, our PRC Legal Advisor is of the opinion that our Company, as a foreign entity, shall not hold, either directly or indirectly, more than (i) 90% equity interest in the Company’s medical institutions in Sichuan Province; and (ii) 70% equity interest in the Company’s medical institutions in other provinces. We and our PRC Legal Advisor believe that the Contractual Arrangements are narrowly tailored as they are set up solely to enable our Group to conduct businesses in compliance with the Foreign Ownership Restrictions.

In the event that the MOFCOM and/or other relevant government authorities promulgate any measures for the administration of foreign investment in PRC companies engaging in the operations of medical institutions, depending on the maximum percentage of equity interest then permitted to be held by foreign investors (if any), we will unwind the Contractual Arrangements and hold (directly or indirectly) equity interests in the Medical Institution Subsidiaries when and to the extent permitted under PRC laws then in force; and if there is no prescribed limit on the percentage of equity interest permitted to be held by foreign investors, we will fully unwind and terminate the Contractual Arrangements and hold (directly or indirectly) 100% equity interest in the Medical Institution Subsidiaries.

CONTRACTUAL ARRANGEMENTS

OUR CONTRACTUAL ARRANGEMENTS

The following simplified diagram illustrates the flow of economic benefits from our Medical Institution Subsidiaries to our Group stipulated under the Contractual Arrangements:



Notes:

- (1) As of the Latest Practicable Date, WFOE and Mr. Cui held 70% and 30% equity interest in Wenzhi TCM Health, respectively. Mr. Cui is our Controlling Shareholder, the chairman of our Board, an executive Director and the chief executive officer of our Company.
- (2) As of the Latest Practicable Date, WFOE and Mr. Cui held 90% and 10% equity interest in Wenzhi Internet Hospital, respectively. Mr. Cui is our Controlling Shareholder, the chairman of our Board, an executive Director and the chief executive officer of our Company.
- (3) “—>” denotes direct legal and beneficial ownership in the equity interest.
- (4) “- - ->” denotes contractual relationship.
- (5) “- - - ->” denotes provision of operation services.
- (6) “- - - - ->” denotes payment of service fees.
- (7) “●- - - ->” denotes granting control over Wenzhi TCM and Wenzhi Internet Hospital to WFOE.
- (8) “□” denotes the Medical Institution Subsidiaries.

Our Directors believe that the Contractual Arrangements are fair and reasonable because: (i) the Contractual Arrangements were freely negotiated and entered into among the parties thereto; (ii) by entering into the Exclusive Operation Service Agreements (as defined below) with WFOE, our Medical Institution Subsidiaries will enjoy better operating and technical support from us tailored by us based on the own needs of our Medical Institution Subsidiaries and therefore achieving cost-saving effects and economics of scale, as well as a better market reputation after the [REDACTED]; and (iii) a number of other companies use similar arrangements to accomplish the same purpose and outcome. The Company will not incur additional income tax and business tax after entering into the Contractual Arrangements.

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SUMMARY OF THE MATERIAL TERMS OF THE CONTRACTUAL ARRANGEMENTS

A description of each of the specific agreements that comprise the Contractual Arrangements is set out below.

Exclusive Operation Service Agreements

On October 30, 2023 and September 4, 2024, WFOE and Mr. Cui entered into the exclusive operation service agreements (the “**Exclusive Operation Service Agreements**”) with each of Wenzhi Internet Hospital and Wenzhi TCM Health, respectively, pursuant to which the Onshore Holdcos appointed WFOE as the exclusive operation service consultant and service provider in exchange for service fees (as defined below). Under the Exclusive Operation Service Agreements, the services to be provided to Mr. Cui and/or the Medical Institution Subsidiaries include but are not limited to:

- (1) formulation and implementation of plans in relation to current and future assets and business operation matters, including but not limited to strategic investments and project investments, financing, investment management, capital expenditure levels, investment parameters, investment composition, return on investment and benchmarking against competitors in the industry;
- (2) provision of opinions, advice and management to the human resources and operations, including but not limited to improvement measures on employee management and continuing staff training plan;
- (3) assistance in relevant technical and commercial information collection and market research, providing industry information and management decisions;
- (4) client referral and providing advice and decisions on marketing and promotion, and assistance in business relationship development and customer relationship management;
- (5) appointment of technical staff, providing overall technical operation monitoring and market strategies research and formulating operation strategies, and regularly formulating and managing a series of operation plans, collection plans, promotion policies, procurement plans, etc.;
- (6) provision of opinions and advice on the corporate structure, management system and department setting;
- (7) providing comprehensive solutions on medical technologies required by the Medical Institution Subsidiaries including medical technologies management consultancy services, medical resources sharing, recruitment and training of professional staff;
- (8) selection and referral of eligible suppliers, quality control of medicine, medical devices and consumables for the Medical Institution Subsidiaries;

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- (9) appointment of technical staff to monitor the quality of medical services provided by the Medical Institution Subsidiaries; and
- (10) other technical services, operation maintenance, equipment supply and management consultancy services requested by Mr. Cui and the Medical Institution Subsidiaries from time to time to the extent permitted under PRC laws.

The service fees shall be an amount equal to the annual distributable profits of the Onshore Holdcos obtained by Mr. Cui, after deducting the losses from the previous financial years (if any) and the statutory reserves (if applicable), subject to the applicable PRC laws and regulations. Apart from the above, Mr. Cui and the Onshore Holdcos shall reimburse all reasonable costs, payments and out-of-pocket expenses incurred by WFOE in connection with the performance of the Exclusive Operation Service Agreements and provision of services thereunder. This effectively allows the WFOE to enjoy all the economic benefits which may be achieved by the Onshore Holdcos.

In addition, the Onshore Holdcos agree to accept all the services provided by WFOE. Unless with WFOE’s prior written consent, during the term of the Exclusive Operation Service Agreements, the Onshore Holdcos shall not directly or indirectly accept the same or any similar services provided by any third party and shall not establish similar corporation relationship with any third party regarding the matters contemplated by the Exclusive Operation Service Agreements. WFOE may (at its discretion) appoint other parties, who may enter into certain agreements with the Onshore Holdcos, to provide the Onshore Holdcos with the services under the Exclusive Operation Service Agreements.

The Exclusive Operation Service Agreements also provide that WFOE has exclusive and proprietary ownership, rights and interests in any and all intellectual properties arising out of or created by WFOE during the performance of the Exclusive Operation Service Agreements.

The Exclusive Operation Service Agreements became effective upon signing, and it shall remain effective unless terminated in the following events: (a) if WFOE and/or its designated person(s) are able to indirectly or directly hold all the equity interests in the Onshore Holdcos as permitted by the PRC laws then in force, and all the equity interests or assets of the Onshore Holdcos directly or indirectly owned by Mr. Cui have been transferred to WFOE or its designated person(s) pursuant to applicable PRC laws; (b) WFOE unilaterally terminates the agreement; or (c) continuing performance of the agreements will result in violation of or non-compliance with the applicable PRC laws, the Listing Rules or other requirements of the Stock Exchange from time to time.

Exclusive Option Agreements

On October 30, 2023 and September 4, 2024, WFOE and Mr. Cui entered into the exclusive option agreements (the “**Exclusive Option Agreements**”) with each of Wenzhi Internet Hospital and Wenzhi TCM Health, respectively. Pursuant to the Exclusive Option Agreements, (i) Mr. Cui irrevocably and unconditionally granted WFOE a binding and exclusive right to purchase, or designate one or more persons (each, a “**Designee**”) to purchase the equity interests in each of the Onshore Holdcos then held by Mr. Cui at once or at multiple times at any time in part or in whole at WFOE’s sole and absolute discretion to the extent permitted by the applicable PRC

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laws (such right being the “**Equity Interest Purchase Option**”); and (ii) each of the Onshore Holdcos irrevocably granted WFOE a binding and exclusive right to purchase, or designate one or more Designee(s) to purchase the assets of each of the Onshore Holdcos at once or at multiple times at any time in part or in whole at WFOE’s sole and absolute discretion to the extent permitted by the applicable PRC laws (such right being the “**Asset Purchase Option**”). Except for WFOE and the Designee(s), no other person shall be entitled to the Equity Interest Purchase Option or the Asset Purchase Option, or other rights with respect to the equity interests of Mr. Cui or the assets of Onshore Holdcos. Each of the Onshore Holdcos agreed to the grant by Mr. Cui of the Equity Interest Purchase Option to WFOE, and Mr. Cui agreed to the grant by the Onshore Holdcos of the Asset Purchase Option to WFOE. The purchase prices shall be the minimum prices required by PRC laws when WFOE exercises the Equity Interest Purchase Option and/or the Asset Purchase Option.

Mr. Cui and each of the Onshore Holdcos have covenanted that without the prior written consent of WFOE, they shall not:

- (1) transfer or otherwise dispose or create any security interests or other third-party rights over any of the equity interests and option shares in the Onshore Holdcos;
- (2) increase, decrease or change the structure of the registered capital of Onshore Holdcos, or approve the Onshore Holdcos to merge, acquire or invest in any entity;
- (3) dispose of or cause the management of Onshore Holdcos to dispose of any material assets of Onshore Holdcos with a fair value above RMB5,000,000;
- (4) terminate or cause the management of Onshore Holdcos to terminate any material contracts with a value above RMB5,000,000, or enter into any agreement that contradicts with the material contracts that are currently in force;
- (5) appoint or change any director, supervisor or any other management personnel of Onshore Holdcos that should be appointed by Mr. Cui;
- (6) cause or permit the declaration or distribution of any distributable profits or dividends by the Onshore Holdcos;
- (7) amend the articles of association of Onshore Holdcos;
- (8) cause or permit the Onshore Holdcos to provide any loan or guarantee in any kind, or undertake any substantive duties other than in the ordinary course of business;
- (9) cause or permit the Onshore Holdcos to enter into any transaction or take any action that may affect its assets, rights, duties and operation; and
- (10) directly or indirectly engage, possess or acquire any business which competes or is likely to compete with the business of Onshore Holdcos.

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Mr. Cui and the Onshore Holdcos have further covenanted that, upon WFOE issuing the notice to exercise the options in accordance with the Exclusive Option Agreements, they will take all necessary actions to procure the transfers. Each of the parties to the Exclusive Option Agreements confirms and agrees that in the event of a dissolution or liquidation of Onshore Holdcos under the PRC laws, all the residual assets attributable to Mr. Cui in the Onshore Holdcos shall be transferred to WFOE or its Designee(s) at the minimum purchase price permitted under PRC laws, and Mr. Cui undertakes that he shall refund all amount received in such transfer to WFOE or any designee.

The Exclusive Option Agreements became effective upon signing and remain in effect until all equity interests held by Mr. Cui in each of the Onshore Holdcos have been transferred or assigned to WFOE and/or its Designee(s) in accordance with the Exclusive Option Agreements.

Equity Pledge Agreements

On October 30, 2023 and September 4, 2024, WFOE and Mr. Cui entered into the equity pledge agreements (the “**Equity Pledge Agreements**”) with each of Wenzhi Internet Hospital and Wenzhi TCM Health, respectively, pursuant to which Mr. Cui agreed to pledge all his respective equity interests in the Onshore Holdcos, including any interest or dividend paid for such equity interests, to WFOE as security to guarantee the performance of the contractual obligations and payment of outstanding debts under the Contractual Arrangements. Each of the Onshore Holdcos agreed to the pledge of equity interests held by Mr. Cui to WFOE.

The pledge of the equity interests of each of the Onshore Holdcos became effective upon the completion of the registration with the relevant administration for industry and commerce and shall remain effective until all the contractual obligations of Mr. Cui and the Onshore Holdcos under the relevant Contractual Arrangements have been fully performed and all the outstanding debts of Mr. Cui and the Onshore Holdcos under the relevant Contractual Arrangements have been fully paid.

Upon the occurrence of an event of default (as set out in the Equity Pledge Agreements), WFOE shall have the right to exercise the security interest granted by Mr. Cui to WFOE pursuant to the Equity Pledge Agreements, i.e., the right of WFOE to be paid in priority with Mr. Cui’s equity interests in the Onshore Holdcos through auction or sale of the equity interest, upon written notice to Mr. Cui.

We have completed the registration of the Equity Pledge Agreements as required by the relevant laws and regulations.

Entrustment Agreements and the Powers of Attorney

On October 30, 2023 and September 4, 2024, WFOE and Mr. Cui entered into the shareholder’s rights entrustment agreements (the “**Entrustment Agreements**”) with each of Wenzhi Internet Hospital and Wenzhi TCM Health, respectively. Powers of attorney (“**Powers of Attorney**”) were executed by Mr. Cui in accordance with the Entrustment Agreements. Pursuant to the Entrustment Agreements and the Powers of Attorney, Mr. Cui irrevocably authorized WFOE and its designated person(s) (including our Directors and his successors and

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liquidators replacing our Directors but excluding those who are non-independent or who may give rise to conflict of interests) to act on his behalf as his exclusive agent and attorney with respect to all matters concerning all equity interests held by him in the Onshore Holdcos during the term of the Powers of Attorney, including but not limited to:

- to propose to convene and attend shareholders’ meetings of the Onshore Holdcos;
- to exercise all the shareholder’s rights and shareholder’s voting rights that he is entitled to under the relevant PRC laws and the articles of association of the Onshore Holdcos, including but not limited to the sale, transfer, pledge, or disposal of equity interests held by him in the Onshore Holdcos in part or in whole;
- to nominate, appoint or remove the legal representative, directors, supervisors, chief executive officer, and other senior management members of the Onshore Holdcos;
- to supervise the business performance of Onshore Holdcos and access the financial information of Onshore Holdcos in accordance with the PRC laws;
- to receive any residual assets of the Onshore Holdcos as his agent in the event of dissolution or liquidation of the Onshore Holdcos; and
- to receive notices of shareholders’ meetings, execute written resolutions and meeting minutes and file documents related to the operations of Onshore Holdcos with the relevant registrar of companies.

As WFOE is an indirect wholly-owned subsidiary of our Company, the terms of the Entrustment Agreements give our Company full control over all corporate decisions made by such attorney which is designated by WFOE and exercise management control over the Onshore Holdcos.

The Entrustment Agreements and Powers of Attorney shall be effective upon signing and have an indefinite term unless terminated in the following events: (i) if WFOE and/or its Designee(s) are able to directly hold all the equity interests in Onshore Holdcos as permitted by the PRC laws then in force, and upon duly transfer of all of the equity interests in Onshore Holdcos or all of the assets of Onshore Holdcos owned by Mr. Cui to WFOE and/or its Designee(s) pursuant to applicable PRC laws, (ii) WFOE unilaterally terminates the agreements, or (iii) continuing performance of the agreements will result in violation of or non-compliance with the applicable PRC laws, the Listing Rules or other requirements of the Stock Exchange as may be applicable from time to time.

Spouse Undertaking

The spouse of Mr. Cui has signed an undertaking confirming, among other things, that the equity interests of Mr. Cui in the Onshore Holdcos and any other interests attaching thereto do not fall within the scope of communal properties and she will not have any claim on such interests.

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Common Terms of the Contractual Arrangements

Dispute resolution

Any dispute arising from or relating to the Contractual Arrangements that is not resolved by the parties thereto within 30 days shall be submitted to the Shenzhen Arbitration Commission for arbitration in accordance with the then effective arbitration rules in Shenzhen. The arbitration shall be confidential and the language used during the arbitration shall be Chinese. The arbitration award shall be final and binding on all parties. The dispute resolution provisions also provide that subject to the requirements under PRC laws, the arbitral tribunal may award remedies over the equity interests or assets of the Medical Institution Subsidiaries or assets of Mr. Cui (as the case may be) or injunctive relief (e.g. limiting the conduct of business, limiting or prohibiting the transfer or sale of equity interests or assets relating to the Onshore Holdcos and the Medical Institution Subsidiaries) or order the winding up of the Medical Institution Subsidiaries. WFOE may apply to the courts of the PRC, Hong Kong, the Cayman Islands (being the place of incorporation of our Company), and the places where the principal assets of the Medical Institution Subsidiaries are located for interim remedies or injunctive relief.

However, our PRC Legal Advisor has advised that the above provisions may not be enforceable under PRC laws. For instance, the arbitral tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of the Medical Institution Subsidiaries pursuant to the existing PRC laws. In addition, interim remedies or enforcement orders granted by overseas courts such as courts of Hong Kong and the Cayman Islands may not be recognized or enforced in the PRC.

As a result of the above, in the event that Mr. Cui or the Medical Institution Subsidiaries breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over the Medical Institution Subsidiaries and conduct our business could be materially and adversely affected. See “Risk Factors — Risks Relating to the Contractual Arrangements.”

Succession

Pursuant to the Contractual Arrangements, Mr. Cui has undertaken that the Contractual Arrangements shall continue to be legally binding on any successors of Mr. Cui as if such successors were signing parties to the Contractual Arrangements. As such, any breach by the successors would be deemed to be a breach of the Contractual Arrangements. In the case of a breach, WFOE can enforce its rights against any such successor of Mr. Cui. Pursuant to the Contractual Arrangements, in the event that Mr. Cui is in a situation that may affect his shareholder’s rights in the Onshore Holdcos, any successor(s) of Mr. Cui shall assume any and all rights and obligations of Mr. Cui under the Contractual Arrangements as if such successor was a signing party to the relevant agreements.

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Conflict of interest

As long as the Contractual Arrangements remain effective, Mr. Cui and the Onshore Holdcos shall not take or omit to take any action that may lead to a conflict of interests with WFOE or its direct or indirect shareholders. In the event of any conflict of interests arising, WFOE shall have the right to decide in its sole discretion on how to deal with such conflict of interests in accordance with applicable PRC laws. Mr. Cui and the Onshore Holdcos shall unconditionally follow the instructions of WFOE to take any action to resolve such conflict of interests.

Furthermore, under the Equity Pledge Agreements, Mr. Cui and the Onshore Holdcos have undertaken that they shall not take or permit any action that may adversely affect the interests of WFOE under the Contractual Arrangements or the equity interests pledged in its favor.

Loss sharing

Under the relevant PRC laws, the shareholders of a limited liability company are liable to the company to the extent of the amount of capital contributions they have made. None of our Company and WFOE is expressly legally required to share the losses of or provide financial support to the Onshore Holdcos in respect of the equity interest in the Onshore Holdcos controlled by WFOE through the Contractual Arrangements. Further, the Onshore Holdcos are limited liability companies and shall be solely liable for their own debts and losses with assets and properties owned by them. In addition, given that our Group conducts a substantial portion of its business operations in the PRC through the Onshore Holdcos, which hold the requisite PRC operational licenses and approvals, and that their respective financial position and results of operations are consolidated into our Group’s financial statements under the applicable accounting principles, our Group’s business, financial position and results of operations would be adversely affected if the Onshore Holdcos suffer losses.

Liquidation

Pursuant to the Equity Pledge Agreements, in the event of a mandatory liquidation required by the PRC laws, Mr. Cui shall give the proceeds he received from liquidation as a gift to WFOE or its designee(s) to the extent permitted by the PRC laws.

Insurance

Our Company does not maintain an insurance policy to cover the risks relating to the Contractual Arrangements.

Our Confirmation

As of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating our businesses through the Medical Institution Subsidiaries under the Contractual Arrangements.

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LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

Based on the above, our PRC Legal Advisor is of the opinion that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC laws and do not constitute a breach of the relevant PRC laws as:

- (a) each of WFOE and our Medical Institution Subsidiaries is a duly incorporated and validly existing company, and their respective establishment is valid, effective and complies with the relevant PRC laws; Mr. Cui is a natural person with full civil and legal capacity;
- (b) the parties to each of the agreements comprising the Contractual Arrangements are entitled to execute the agreements and perform their respective obligations thereunder and all parties to each of the agreements comprising the Contractual Arrangements have obtained all necessary approvals and authorizations to execute and perform the Contractual Arrangements;
- (c) pursuant to Articles 146, 153 and 154 of the PRC Civil Code, a contract is void if the civil juristic act: (i) is performed by a person and another person based on a false expression of intent; (ii) is in violation of the mandatory provisions of laws or administrative regulations, unless such mandatory provisions do not lead to invalidity of such a civil juristic act; (iii) offends the public order or good morals; or (iv) is conducted through malicious collusion between a person who performs the act and a counterparty thereof and thus harms the lawful rights and interests of another person. The execution and performance of the Contractual Arrangements does not fall within any of the circumstances under which a contract may become null and void pursuant to the PRC Civil Code;
- (d) none of the agreements comprising the Contractual Arrangements violates any provisions of the articles of association of our Medical Institution Subsidiaries or WFOE;
- (e) each of the agreements comprising the Contractual Arrangements is binding on the assignees or successors of the parties thereto;
- (f) the parties to each of the agreements comprising the Contractual Arrangements are not required to obtain any approvals or authorizations from the PRC governmental authorities, except that:
 - (i) the exercise of the option by WFOE or the designee of its rights under the Exclusive Option Agreements to acquire all or part of the equity interests in the Onshore Holdcos is subject to the approvals of and/or registration with the PRC regulatory authorities;
 - (ii) any share pledge contemplated under the Equity Pledge Agreements is subject to the registration with local administration bureau for market regulation; and

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- (iii) the arbitration awards/interim remedies provided under the dispute resolution provision of the Contractual Arrangements shall be recognized by PRC courts before compulsory enforcement; and
- (g) each of the agreements comprising the Contractual Arrangements is valid, legal and binding under PRC laws, except for the following provisions regarding dispute resolution and the liquidation committee:
 - (i) the Contractual Arrangements provide that any dispute shall be submitted to the Shenzhen Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Chinese. They also provide that the arbitrator may award interim remedies over the equity interests or assets of the Onshore Holdcos or injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of the Onshore Holdcos; and the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company) and the PRC (being the place of incorporation of the Onshore Holdcos) shall also have jurisdiction for the grant and/or enforcement of the arbitral award and the interim remedies against the equity interests or properties of the Onshore Holdcos. However, our PRC Legal Advisor has advised that interim remedies or enforcement orders granted by overseas courts such as those of Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC; and
 - (ii) the Contractual Arrangements provide that Mr. Cui and the Onshore Holdcos undertake to appoint a committee designated by WFOE as the liquidation committee upon the winding up of the Onshore Holdcos to manage their assets. However, in the event of a mandatory liquidation required by PRC laws or bankruptcy liquidation, these provisions may not be enforceable under PRC laws.

However, we have been advised by our PRC Legal Advisor that the interpretation and application of current and future PRC laws are subject to changes from time to time. Accordingly, there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to or otherwise different from the above opinion of our PRC Legal Advisor. For details, see “Risk Factors — Risks Relating to the Contractual Arrangements — The interpretation and implementation of the Foreign Investment Law may be subject to changes from time to time, and it remains to be seen how it may impact the viability of our current corporate structure, corporate governance and business operations.”

Given that the Contractual Arrangements will constitute non-exempt continuing connected transactions of our Company, a waiver has been sought from [and has been granted by] the Stock Exchange, details of which are disclosed in the section headed “Connected Transactions.”

ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Pursuant to the terms and provisions of the Contractual Arrangements, WFOE controls 30% equity interest in Wenzhi TCM Health and 10% equity interest in Wenzhi Internet Hospital, respectively. Together with the remaining 70% and 90% equity interest in Wenzhi TCM Health and Wenzhi Internet Hospital held by WFOE respectively, we are able to obtain

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substantially all economic benefits of the business and operations of the Medical Institution Subsidiaries. As a result, we regard the Medical Institution Subsidiaries as our indirect wholly-owned subsidiaries and consolidate the financial results of the Medical Institution Subsidiaries. For details, see Note 2.1 to the Accountants’ Report as set out in Appendix IA and Note 1 to the interim condensed consolidated financial information for nine months ended September 30, 2024 as set out in Appendix IB.

COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

- (a) major issues arising from the implementation of and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- (b) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (c) our Company will disclose details of the overall performance of and compliance with the Contractual Arrangements in our annual reports after the [REDACTED]; and
- (d) our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board with reviewing the implementation of the Contractual Arrangements, and review the legal compliance of WFOE and Medical Institution Subsidiaries so as to deal with specific issues or matters arising from the Contractual Arrangements.

DEVELOPMENT IN LEGISLATION ON FOREIGN INVESTMENT IN THE PRC

The Foreign Investment Law

The Foreign Investment Law of the PRC (中華人民共和國外商投資法) (the “**FIL**”) was adopted at the Second Session of the Thirteenth National People’s Congress of the PRC on March 15, 2019 and came into force on January 1, 2020. The FIL replaced the former foreign investment legal foundation in the PRC consisting of three laws: the Sino-Foreign Equity Joint Venture Enterprise Law, the Sino-Foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-Invested Enterprise Law. On December 26, 2019, the State Council released the Implementing Regulations of the Foreign Investment Law of the PRC (中華人民共和國外商投資法實施條例) (the “**FIL Implementing Regulations**”), which took effect on January 1, 2020. The FIL stipulates certain forms of foreign investment, but does not explicitly stipulate contractual arrangements as a form of foreign investment. The FIL Implementing Regulations are also silent on whether foreign investment includes contractual arrangements.

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Impact of the FIL

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, including us, to obtain and maintain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions or prohibitions in the PRC. As advised by our PRC Legal Advisor, since contractual arrangements are not specified as a form of foreign investment under the FIL and if future laws, regulations and provisions prescribed by the State Council do not incorporate contractual arrangements as a form of foreign investment, our Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements will not be affected and will continue to be legal, valid and binding on the parties with an exception, for which, see “— Legality of the Contractual Arrangements.”

Notwithstanding the above, the FIL stipulates that foreign investment includes “foreign investors invest in the PRC through any other methods under laws, administrative regulations or provisions prescribed by the State Council” without elaboration on the meaning of “other methods.” There are possibilities that future laws, administrative regulations or provisions which may be prescribed by the State Council from time to time may regard contractual arrangements as a form of foreign investment, at which time it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned Contractual Arrangements will be handled. Therefore, there is no guarantee that the Contractual Arrangements and the business of our Medical Institution Subsidiaries will not be materially and adversely affected in the future due to changes in PRC laws. See “Risk Factors — Risks Relating to the Contractual Arrangements.”

CONNECTED TRANSACTIONS

OVERVIEW

We have entered into certain agreements with parties who will, upon the [REDACTED], become our connected persons (as defined under Chapter 14A of the Listing Rules). Following the [REDACTED], the transactions contemplated under such agreements will continue and constitute continuing connected transactions of our Company under Chapter 14A of the Listing Rules.

OUR CONNECTED PERSONS

The table below sets forth the parties who will become our connected persons upon the [REDACTED] and have continuing connected transactions with our Group, and the nature of their relationship with our Group:

Connected persons	Connected relationship
Mr. Cui	Mr. Cui is our executive Director, chief executive officer and a Controlling Shareholder, and therefore a connected person of our Company under Rule 14A.07 of the Listing Rules.
Shenzhen Bao'an District Wei Jing Wei Yi Vocational Skills Training School Co., Ltd. (深圳市寶安區惟精惟一職業技能培訓學校有限公司, “Wei Jing Wei Yi”)	Wei Jing Wei Yi is wholly owned by Shenzhen Wei Jing Wei Yi Cultural Communication Co., Ltd. (深圳惟精惟一文化傳播有限公司), which is owned as to 95% by Mr. Cui. Therefore, Wei Jing Wei Yi is an associate of Mr. Cui and therefore a connected person of our Company under Rule 14A.07 of the Listing Rules.

FULLY EXEMPT CONTINUING CONNECTED TRANSACTION

Procurement of Training Services from Wei Jing Wei Yi

On [•], 2025, our Company entered into a training services framework agreement for the procurement of certain training and administrative support services by our Company from Wei Jing Wei Yi in relation to our Jingyi Academy for a term commencing on the [REDACTED] and expiring on December 31, 2027. The transactions under the training services framework agreement will constitute continuing connected transactions after the [REDACTED]. Such transactions will be conducted in the ordinary and usual course of business of our Company and on normal commercial terms or better, and the highest applicable percentage ratio is expected to be less than 5% on an annual basis and the highest annual cap is less than HK\$3,000,000. Accordingly, such transactions will constitute de minimis continuing connected transactions of our Company pursuant to Rule 14A.76(1) of the Listing Rules that will be fully exempt from reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. This continuing connected transaction does not require any waiver from compliance with Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

Contractual Arrangements

Background

As disclosed in the section headed “Contractual Arrangements”, due to regulatory restrictions on foreign ownership in the PRC, we are restricted from directly or indirectly owning the entire equity interest in our Medical Institution Subsidiaries. In light of such restriction and in order to exercise effective control over our Medical Institution Subsidiaries, we have entered into the Contractual Arrangements with each of Wenzhi TCM Health and Wenzhi Internet Hospital and their registered shareholder (namely, Mr. Cui) respectively, pursuant to which our Group (i) receives substantially all of the economic benefits from our Medical Institution Subsidiaries in consideration for the services provided by WFOE to the Medical Institution Subsidiaries; (ii) exercises effective control over our Medical Institution Subsidiaries through WFOE; and (iii) holds an exclusive option to purchase all or part of the equity interests in Wenzhi TCM Health and Wenzhi Internet Hospital when and to the extent permitted by the applicable PRC laws.

For details of the principal terms of the Contractual Arrangements, see “Contractual Arrangements.”

Listing rules implications

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon the [REDACTED] as certain party to the Contractual Arrangements, namely Mr. Cui, is a connected person of our Company. As the highest applicable percentage ratio under the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements is expected to be more than 5% on an annual basis, the transactions will be subject to reporting, annual review, announcement, circular and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Our Directors (including the independent non-executive Directors) are of the view that (i) the Contractual Arrangements and the transactions contemplated thereunder are fundamental to the legal structure and business of our Group; and (ii) such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements related thereto or renewal of existing transactions, contracts and agreements to be entered into by, among others, our Medical Institution Subsidiaries and any member of our Group technically constitute our continuing connected transactions under Chapter 14A of the Listing Rules after the [REDACTED], our Directors consider that, given that our Group is placed in a

CONNECTED TRANSACTIONS

special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the announcement, circular and independent Shareholders’ approval requirements.

WAIVER APPLICATIONS

Contractual Arrangements

In respect of the Contractual Arrangements, we have applied to the Stock Exchange for[, and the Stock Exchange has granted], a waiver from strict compliance with (i) the announcement, circular and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are [REDACTED] on the Stock Exchange subject to the following conditions:

(a) No change without independent non-executive Directors’ approval

No changes to the terms of any of the agreements constituting the Contractual Arrangements shall be made without the approval of the independent non-executive Directors.

(b) No change without independent Shareholders’ Approval

Save as described in paragraph (d) below, no changes to the terms of any of the agreements constituting the Contractual Arrangements shall be made without the approval of the independent Shareholders. Once independent Shareholders’ approval of any change has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed.

The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will however continue to be applicable.

(c) Economic benefits flexibility

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the Medical Institution Subsidiaries through: (i) our Group’s potential right (if and when so allowed under the applicable PRC laws) to acquire the equity interests in and/or assets of the Medical Institution Subsidiaries; (ii) the business structure under which the net profits generated by the Medical Institution Subsidiaries (after deducting the necessary costs, expenses, taxes and other statutory contribution in relation to the respective fiscal year) is substantially retained by us (such that no annual

CONNECTED TRANSACTIONS

caps shall be set on the amount of service fees payable to WFOE under the exclusive operation service agreements); and (iii) our right to control the management and operation of, as well as, in substance, all of the voting rights of the Medical Institution Subsidiaries.

(d) Renewal and reproduction

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and our subsidiaries in which our Company has direct shareholding, on one hand, and the Medical Institution Subsidiaries, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new foreign-invested enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executive or substantial shareholders of any existing or new foreign-invested enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish when justified by business expediency will, upon renewal and/or reproduction of the Contractual Arrangements, however be treated as connected persons of the Company and transactions between these connected persons and our Group, other than those under similar contractual arrangements, such as the Contractual Arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to the relevant PRC laws, regulations and approvals.

(e) Ongoing reporting and approvals

We will disclose details relating to the Contractual Arrangements on an ongoing basis as follows:

- (i) The Contractual Arrangements in place during each financial period will be disclosed in our annual report and accounts in accordance with the relevant provisions of the Listing Rules.
- (ii) Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our annual report and accounts for the relevant year that: (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements; (ii) no dividends or other distributions have been made by the Medical Institution Subsidiaries to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group in accordance with the relevant provisions of the Contractual Arrangements; and (iii) any new contracts entered into, renewed or reproduced between our Group and the Medical Institution Subsidiaries during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of our Company and the Shareholders as a whole.

CONNECTED TRANSACTIONS

- (iii) Our auditors will carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions carried out pursuant to the Contractual Arrangements have received the approval of our Directors and that no dividends or other distributions have been made by the Medical Institution Subsidiaries to the holders of its equity interests which are not otherwise subsequently assigned/transferred to our Group in accordance with the relevant provisions of the Contractual Arrangements.
- (iv) For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of “connected person”, the Medical Institution Subsidiaries will be treated as the Company’s wholly-owned subsidiaries, and the directors, chief executives or substantial shareholders of the Medical Institution Subsidiaries and their respective associates will be treated as connected persons of our Company. As such, transactions between these connected persons and our Group (including, for this purpose, the Medical Institution Subsidiaries), other than those under the Contractual Arrangements, shall comply with the applicable provisions of Chapter 14A of the Listing Rules.
- (v) The Medical Institution Subsidiaries further undertake that, for so long as the Shares are [REDACTED] on the Stock Exchange, the Medical Institution Subsidiaries will provide our Group’s management and our Company’s auditors with full access to their relevant records for the purpose of our auditors’ review of the connected transactions.

CONFIRMATION FROM OUR DIRECTORS

Our Directors, including the independent non-executive Directors, are of the view that the continuing connected transactions as set out above have been entered into in our ordinary and usual course of business and on normal commercial terms, and are fair and reasonable and in the interests of our Company and our Shareholders as a whole, and the proposed annual caps for those transactions (as applicable) are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Further, our Directors are also of the view that with respect to the term of the Contractual Arrangements, which is of a duration of longer than three years, it is a justifiable and normal business practice for the Contractual Arrangements of the same type to have no fixed term.

THIS DOCUMENT IS IN DRAFT FORM. THE INFORMATION CONTAINED HEREIN IS INCOMPLETE AND IS SUBJECT TO CHANGE. THIS DOCUMENT MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

CONNECTED TRANSACTIONS

CONFIRMATION FROM THE SOLE SPONSOR

The Sole Sponsor has (i) reviewed the relevant documents and information provided by our Company in relation to the Contractual Arrangements, (ii) obtained necessary representations and confirmations from our Company and our Directors, and (iii) participated in the due diligence and discussions with the management of our Group and our PRC Legal Advisor. Based on the above, the Sole Sponsor is of the view that the Contractual Arrangements have been entered into and are conducted in the ordinary and usual course of our Company’s business, on normal commercial terms, are fair and reasonable and in the interest of our Company and our Shareholders as a whole. Further, the Sole Sponsor is also of the view that with respect to the term of the Contractual Arrangements, which is of a duration of longer than three years, it is a justifiable and normal business practice for the Contractual Arrangements of the same type to have no fixed term.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board currently consists of six Directors, comprising two executive Directors, one non-executive Director and three independent non-executive Directors. The following table sets forth certain information regarding our Directors:

Name	Age	Position(s)	Date of joining our Group	Date of appointment as Director	Roles and responsibilities	Relationship with other Directors or Senior Management
Mr. Cui Xiangrui (崔祥瑞)	36	Chairman of our Board, executive Director and chief executive officer	May 29, 2018	June 19, 2018	Formulating the overall development strategies and business plans and overseeing the management and strategic development of our Group	None
Mr. Li Yongfeng (李永豐)	34	Executive Director	September 8, 2021	September 12, 2024	Overseeing our Group’s customer relationship management, customer retention and development	None
Dr. Chang Nan-Hsig (張南雄)	60	Non-executive Director	September 4, 2024	September 4, 2024	Providing advice and making recommendations to our Board	None
Mr. Zeng Jun (曾俊)	41	Independent non-executive Director	[REDACTED]	[REDACTED]	Providing independent advice and judgment to our Board	None
Mr. Ta Ergai (塔爾蓋)	46	Independent non-executive Director	[REDACTED]	[REDACTED]	Providing independent advice and judgment to our Board	None
Ms. Chau Chi Yan Amanda (朱芷欣)	43	Independent non-executive Director	[REDACTED]	[REDACTED]	Providing independent advice and judgment to our Board	None

Executive Directors

Mr. Cui Xiangrui (崔祥瑞), aged 36, is the chairman of our Board, executive Director and chief executive officer of our Company. Mr Cui served as a Director and chief executive officer of our Company since June 2018 and was re-designated as our executive Director in December 2024. Mr. Cui is primarily responsible for formulating the overall development strategies and business plans and overseeing the management and strategic development of our Group. Since March 2019, he has also served as the executive director and general manager of Wenzhi TCM Health.

DIRECTORS AND SENIOR MANAGEMENT

Prior to the establishment of our Group, from February 2016 to August 2016, Mr. Cui served as a partner of Hejun Fengying Asset Management Co., Ltd. (和君豐盈資產管理有限公司), a company primarily engaged in investment. From January 2013 to January 2016, he served in Beijing Hejun Consulting Co., Ltd. (北京和君諮詢有限公司), a company primarily engaged in management consulting, with his last position as a partner. Mr. Cui’s earlier working experiences include serving as a management trainee at Unilever (China) Investing Co. Ltd, a company principally engaged in the consumer goods business.

Mr. Cui obtained his master’s degree in business administration from Stanford University in the U.S. in June 2018. He obtained his bachelor’s degree in science with a major in biotechnology from Sun Yat-sen University in the PRC in June 2010.

Mr. Li Yongfeng (李永豐), aged 34, is our executive Director. Mr. Li served as a Director of our Company since September 2024 and was re-designated as our executive Director in December 2024. He is primarily responsible for overseeing our Group’s customer relationship management, customer retention and development.

Mr. Li joined our Group in September 2021 serving as the vice president of Wenzhi TCM Health.

Prior to joining our Group, Mr. Li served as the director of business acquisition (招商總監) of Zhejiang Yimi Education Technology Co., Ltd. (浙江溢米教育科技有限公司), a company primarily engaged in the provision of technology development and consulting services, from September 2015 to September 2021. Mr. Li founded Shenzhen Huifangyuan Education and Culture Development Co., Ltd. (深圳匯方源教育文化發展有限公司) in September 2014, a company primarily engaged in education consulting, and served as its executive director and general manager until August 2015.

Mr. Li obtained his master’s degree in project management from the University of Quebec at Chicoutimi in Canada in June 2021 through a joint program between the University of Quebec at Chicoutimi in Canada and Tianjin University of Technology in the PRC. Mr. Li obtained his college diploma in investment and financing from the Guangdong Vocational Institute of Public Administration in the PRC in June 2012.

Non-executive Director

Dr. Chang Nan-Hsig (張南雄), aged 60, is our non-executive Director. He is primarily responsible for providing advice and making recommendations to our Board. Dr. Chang served as a Director of our Company since September 2024 and was re-designated as our non-executive Director in December 2024.

Dr. Chang co-founded our Group in 2018 and his investment holding vehicle, TCMInnov, is one of our early Shareholders. Dr. Chang had been providing strategic advice to our Group since our inception.

DIRECTORS AND SENIOR MANAGEMENT

Since August 2022, Dr. Chang has been serving as an executive director and the chief marketing officer of Merdury Biopharmaceutical Corporation (水星生醫股份有限公司), a company listed on the Taipei Exchange’s Emerging Stock Board (stock code: 6932) and primarily engaged in medical drug development. Dr. Chang founded Aila Internet of Things Technology Co., Ltd. (艾拉物聯網(深圳)有限公司) in May 2014, a company primarily engaged in the research and development of Internet of Things products, and served as its general manager until March 2020.

Dr. Chang obtained a license from the State of California Acupuncture Board in May 2017 and is authorized to engage in the practice of acupuncture in the State of California in the U.S.. Dr. Chang obtained his doctor’s degree in acupuncture and oriental medicine from the University of East-West Medicine in the U.S. in August 2017. He obtained his master’s degree in science from Stanford University in the U.S. in June 1988 and obtained his bachelor’s degree in arts with a major in applied mathematics from the University of California, Berkeley in the U.S. in May 1986.

Independent non-executive Directors

Mr. Zeng Jun (曾俊), aged 41, was appointed as our independent non-executive Director with effect from the [REDACTED]. He is primarily responsible for providing independent advice and judgment to our Board.

Since September 2024, Mr. Zeng has served as a supervisor of Shanghai Yingzhile Education Technology Co., Ltd. (上海英之樂教育科技有限公司), a company primarily engaged in the provision of studying abroad consultation services. Since September 2023, Mr. Zeng has served as an executive director of Shanghai Dongmixi Information Technology Co., Ltd. (上海東覓西信息技術有限公司) (“**Shanghai Dongmixi**”), a company primarily engaged in information technology and consulting services. From August 2021 to August 2023, he served in Shanghai Gaodun Education Technology Co., Ltd. (上海高頓教育科技有限公司), a company primarily engaged in the provision of online vocational education, with his last position being the general manager of the U.S. accounting project department. From December 2020 to August 2021, he served as the chief operating officer of Shanghai Youheng Hotel Management Co., Ltd. (上海優恆酒店管理有限公司), a company primarily engaged in operating hotels. From September 2017 to November 2020, he served as an executive director of Shanghai Dongmixi. From April 2009 to March 2017, he worked at Shanghai Jingyu Culture Communication Co., Ltd. (上海景域文化傳播股份有限公司), a company primarily engaged in providing online travel services.

Mr. Zeng obtained his certified public accountant license from the Washington State Board of Accountancy in the U.S. in May 2024. Mr. Zeng obtained his master of science degree in management from Stanford University in the U.S. in June 2017. Mr. Zeng obtained his double bachelor’s degrees in economics and in literature from Peking University in the PRC in July 2005.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zeng was a director of the following company prior to its dissolution, the details of which are set out below:

Name of company	Place of incorporation	Reason for dissolution	Date of dissolution	Means of dissolution
Local Panda Travel Group Limited (樂盼達旅遊集團有限公司) (“Local Panda”)	Hong Kong	Not in operation	November 4, 2022	Striking off pursuant to Section 746 of the Companies Ordinance

Mr. Zeng confirmed that, to the best of his knowledge, (i) Local Panda was inactive and solvent at the time of its dissolution and had no outstanding claim or liabilities; (ii) he is not aware of any actual or potential claim that has been or will be made against him as a result of the dissolution; and (iii) he has not received any notification in respect of any penalty, action or proceeding from the relevant authorities as a result of the dissolution.

Mr. Ta Ergai (塔爾蓋), aged 46, was appointed as our independent non-executive Director with effect from the [REDACTED]. He is primarily responsible for providing independent advice and judgment to our Board.

Mr. Ta founded Shanghai Jicheng Medical Technology Co., Ltd. (上海極橙醫療科技有限公司), a company primarily engaged in the operation of children’s dental clinics, in March 2015 and has since served in various positions including its director and chief executive officer. From February 2010 to December 2014, he worked at KaVo Sybron Dental (Shanghai) Co. Ltd. (卡瓦盛邦(上海)牙科醫療器材有限公司), a company primarily engaged in the manufacturing of dental equipment, with his last position being a business director.

Mr. Ta obtained his master’s degree in business administration from Stanford University in the U.S. in June 2008. Mr. Ta obtained his master of science in electrical engineering degree from Gannon University in the U.S. in December 2002. Mr. Ta obtained his bachelor’s degree in engineering from Tsinghua University in the PRC in July 2000.

Ms. Chau Chi Yan Amanda (朱芷欣), aged 43, was appointed as our independent non-executive Director with effect from the [REDACTED]. She is primarily responsible for providing independent advice and judgment to our Board.

Ms. Chau has been employed by Hammer Capital (Hong Kong) Limited as managing director since July 2014. Prior to that, she was a director of investment banking at Citigroup Global Markets Asia Limited. Ms. Chau has a combined ten years of investment banking experience with Credit Suisse (Hong Kong) Limited, Merrill Lynch (Asia Pacific) Limited and Citigroup Global Markets Asia Limited. During this period, Ms. Chau originated and executed many capital markets and mergers and acquisitions transactions for corporate clients across Asia Pacific.

DIRECTORS AND SENIOR MANAGEMENT

Since May 2021, Ms. Chau has served as a non-executive director of Yixin Group Limited, the shares of which are listed on the Stock Exchange (stock code: 2858).

Ms. Chau obtained her master of science degree in industrial engineering and management sciences from the Northwestern University in the U.S. in December 2004, and her bachelor of arts degree in economics from the University of Chicago in the U.S. in June 2003.

General

Save as disclosed above, each of our Directors confirms with respect to himself or herself that he or she (i) did not hold any other directorships in the three years prior to the Latest Practicable Date in any public companies of which the securities are listed on any securities market in Hong Kong and/or overseas; and (ii) there are no other matters concerning our Directors’ appointment that need to be brought to the attention of our Shareholders and the Stock Exchange or required be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules.

Save as disclosed in “Statutory and General Information — C. Further Information about Our Directors — 1. Disclosure of Interests,” each of our Directors confirms with respect to himself or herself that he or she did not hold any interest in our Shares which would be required to be disclosed pursuant to Part XV of the SFO.

Save as disclosed above and in this document, each of our Directors confirms with respect to himself or herself that he or she had no other relationship with any Directors, senior management or substantial shareholders of our Company as of the Latest Practicable Date.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Our executive Directors and senior management are responsible for the day-to-day management and operation of our business. For information concerning our executive Directors see “— Directors — Executive Directors.” The table below sets out certain information regarding our senior management:

Name	Age	Position(s)	Date of joining our Group	Date of appointment as senior management	Roles and responsibilities	Relationship with other Directors or senior management members
Mr. Cui Xiangrui (崔祥瑞)	36	Chairman of our Board, executive Director and chief executive officer	May 29, 2018	May 29, 2018	Formulating the overall development strategies and business plans and overseeing the management and strategic development of our Group	None
Mr. Li Yongfeng (李永豐)	34	Executive Director	September 8, 2021	September 8, 2021	Overseeing our Group’s customer relationship management, customer retention and development	None
Dr. Lin Ta-Tung (林大棟)	57	Chief medical officer	July 1, 2018	July 1, 2018	Overseeing the research and development of the TCM Brain and the development and teaching of our TCM courses	None
Mr. Chen Zhigeng (陳志耿)	31	Head of our medical department	July 15, 2021	April 1, 2022	Overall management of our Group’s TCM healthcare services and the training and daily management of our TCM physicians	None
Mr. Lin Xinjia (林信嘉)	31	Chief growth officer	September 6, 2021	September 6, 2021	Overseeing our Group’s user growth and brand promotion	None
Ms. Chen Lingzhu (陳靈珠)	34	Finance director	April 8, 2019	April 8, 2019	Overseeing the financial affairs and capital management of our Group	None

DIRECTORS AND SENIOR MANAGEMENT

Mr. Cui Xiangrui (崔祥瑞), aged 36, is our co-founder, the chairman of our Board, executive Director and chief executive officer. See “— Directors — Executive Directors” for his biographical details.

Mr. Li Yongfeng (李永豐), aged 34, is our executive Director. See “— Directors — Executive Directors” for his biographical details.

Dr. Lin Ta-Tung (林大棟), aged 57, co-founded our Group in 2018 and was appointed as our chief medical officer in July 2018. He is primarily responsible for overseeing the research and development of the TCM Brain and the development and teaching of our TCM courses.

From 2018 to 2020, Dr. Lin served as a tutor of doctorate students at the University of East-West Medicine in the U.S.. From 2018 to 2020, he served as the vice chairman of the faculty committee for the doctor program of oriental medicine and acupuncture of the University of East-West Medicine. Dr. Lin’s earlier working experiences include working for Juniper Networks, Inc., a company primarily engaged in the design, development and sales of products and services for high-performance networks, and for Cisco Systems, Inc., a company primarily engaged in the design and sales of a broad range of technologies that power the Internet.

Dr. Lin was issued a license by the Acupuncture Board of California in the U.S. in September 2011 and is a California licensed acupuncturist. Dr. Lin obtained his doctor of philosophy degree in oriental medicine from the American Liberty University in the U.S. in June 2012.

Mr. Chen Zhigeng (陳志耿), aged 31, joined our Group in July 2021 as a TCM physician of Wenzhi TCM Health and was appointed as the head of our medical department in April 2022. He is primarily responsible for the overall management of our Group’s TCM healthcare services and the training and daily management of our TCM physicians.

Prior to joining our Group, Mr. Chen was a lecturer and researcher at the Fujian University of Chinese Traditional Medicine from September 2020 to June 2021.

Mr. Chen obtained his bachelor’s degree in medicine and master’s degree in medicine from the Fujian University of Traditional Chinese Medicine in the PRC in July 2017 and July 2020, respectively.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Lin Xinjia (林信嘉), aged 31, joined our Group in September 2021 as our chief growth officer. He is primarily responsible for overseeing our Group’s user growth and brand promotion.

Prior to joining our Group, Mr. Lin served as the head of operations of the e-commerce platform of Shenzhen Gyro Media Co., Ltd. (深圳市陀螺傳媒有限公司) from July 2020 to June 2021, a company primarily engaged in integrated marketing services. He served as an operations partner of China Automobile Federation (Shenzhen) Holding Co., Ltd. (中汽聯(深圳)控股有限公司) from March 2019 to April 2020, a company primarily engaged in the automotive aftermarket industry. He served as a project manager of Shenzhen Purun Tianhua Media Technology Co., Ltd. (深圳市普潤天華傳媒科技有限公司) (formerly named Shenzhen Purun Tianhua Enterprise Management Co., Ltd. (深圳市普潤天華企業管理有限公司)) from June 2017 to March 2019, a company engaged in the development of online livestreaming technology and e-commerce platforms and the provision of related services.

Mr. Lin obtained his bachelor’s degree in engineering from Shaoyang University in the PRC in June 2017.

Ms. Chen Lingzhu (陳靈珠), aged 34, joined our Group in April 2019 as our senior finance manager and was later appointed as our finance director. She is primarily responsible for overseeing the financial affairs and capital management of our Group. Ms. Chen was also appointed as a joint company secretary of the Company in December 2024.

Prior to joining the Group, Ms. Chen served in the finance department of Shenzhen Zhongrui Construction Engineering Co., Ltd. (深圳中瑞建設工程有限公司) from April 2016 to March 2019, a company primarily engaged in construction and engineering.

Ms. Chen obtained her accounting professional qualification in the PRC in September 2018. Ms. Chen obtained her bachelor’s degree in accounting from Hunan Institute of Science and Technology in the PRC in June 2013.

JOINT COMPANY SECRETARIES

Ms. Chen Lingzhu (陳靈珠), aged 34, is our finance director and one of our joint company secretaries. See “— Senior Management” for her biographical details.

Ms. Ho Sin Tung (何倩彤), aged 29, was appointed as a joint company secretary of our Company in December 2024. Ms. Ho serves as a manager of company secretarial services of Tricor Services Limited and has over seven years of experience in providing professional corporate services to listed companies as well as multinational, private and offshore companies.

Ms. Ho has been providing company secretarial services to various companies listed on the Stock Exchange as well as private and offshore companies.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Ho obtained her master’s degree in corporate governance from the Hong Kong Metropolitan University in October 2022. She obtained her bachelor’s degree in business administration (honours) from the City University of Hong Kong in July 2017. Ms. Ho is an associate, with the designations of chartered secretary and chartered governance professional, of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute.

BOARD COMMITTEES

We have formed three board committees, namely, the audit committee of the Board (the “**Audit Committee**”), the remuneration committee of the Board (the “**Remuneration Committee**”) and the nomination committee of the Board (the “**Nomination Committee**”).

Audit Committee

Our Company established an Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix C1 to the Listing Rules (the “**CG Code**”). The Audit Committee consists of three members, namely Dr. Chang Nan-Hsig, our non-executive Director, as well as Mr. Zeng Jun, and Mr. Ta Ergai, our independent non-executive Directors. Mr. Zeng Jun has been appointed as the chairman of the Audit Committee and is our independent non-executive Director possessing the appropriate professional qualifications. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of our Group, oversee the audit process, review and oversee the existing and potential risks of our Group and perform other duties and responsibilities as assigned by our Board.

Remuneration Committee

Our Company established a Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the CG Code. The Remuneration Committee consists of Ms. Chau Chi Yan Amanda and Mr. Zeng Jun, our independent non-executive Directors, as well as Mr. Cui, our executive Director. Ms. Chau Chi Yan Amanda has been appointed as the chairwoman of the Remuneration Committee. The primary duties of the Remuneration Committee are to establish and review the policy and structure of the remuneration for our Directors and senior management and make recommendations on employee benefit arrangements.

Nomination Committee

Our Company established a Nomination Committee with written terms of reference in compliance with Rule 3.27A of the Listing Rules and the CG Code. The Nomination Committee consists of Mr. Zeng Jun and Ms. Chau Chi Yan Amanda, our independent non-executive Directors, as well as Mr. Cui, our executive Director. Mr. Cui has been appointed as the chairman of the Nomination Committee. The primary duties of the Nomination Committee are to make recommendations to our Board on the appointment and removal of Directors.

DIRECTORS AND SENIOR MANAGEMENT

BOARD DIVERSITY

We have adopted our board diversity policy (the “**Board Diversity Policy**”) which sets out the objectives and approaches to achieve and maintain diversity on our Board. Our Board Diversity Policy provides that our Company should endeavour to ensure that our Board members have the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of our business strategies.

We seek to achieve Board diversity through the consideration of a number of factors, including but not limited to professional experience, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service. Our Nomination Committee is delegated by our Board to be responsible for monitoring our compliance with the relevant code provisions governing board diversity under the CG Code. After [REDACTED], our Nomination Committee will review our Board Diversity Policy from time to time to ensure its continued effectiveness and we will disclose in our corporate governance report about the implementation of our Board Diversity Policy on an annual basis.

Our Board comprises six members, including two executive Directors, one non-executive Director and three independent non-executive Directors. Our Directors have a balanced mix of experiences, including experiences in overall management and strategic development, healthcare, finance and accounting, corporate governance and investment banking in addition to industry experience relevant to our Group’s operations and business. Furthermore, our Board has a diverse age and gender representation. Our Board consists of one female member and five male members, ranging from 34 years old to 60 years old, and they are able to bring a balance of diverse perspectives to our Board. After due consideration, our Board believes that based on the meritocracy of our Directors, the composition of our Board satisfies our Board Diversity Policy.

WAIVER GRANTED BY THE STOCK EXCHANGE

We have applied to the Stock Exchange for[, and the Stock Exchange has granted,] a waiver from strict compliance with the requirement of Rule 8.12 of the Listing Rules in relation to the requirement of management presence in Hong Kong. For details of the waiver, see “Waiver from Strict Compliance with the Listing Rules — Waiver in Relation to Management Presence in Hong Kong.”

We have applied to the Stock Exchange for[, and the Stock Exchange has granted,] a waiver from strict compliance with the requirement of Rules 3.28 and 8.17 of the Listing Rules in relation to the academic or professional qualifications of our Company’s joint company secretaries. For details of the waiver, see “Waiver from Strict Compliance with the Listing Rules — Waiver in Relation to Joint Company Secretaries.”

DIRECTORS AND SENIOR MANAGEMENT

CORPORATE GOVERNANCE

Our Company aims to achieve high standards of corporate governance, which are crucial to our development, and safeguard the interests of our Shareholders. Our Company intends to comply with all code provisions in the CG Code after [REDACTED] save for Code Provision C.2.1 of the CG code, which stipulates that the roles of chairman of the Board and chief executive officer should be separate and should not be performed by the same individual.

The role of chairman of our Board and the role of chief executive officer of our Company are both held by Mr. Cui. In view of Mr. Cui’s experience, personal profile and substantial contribution to our Group since our establishment, and the fact that Mr. Cui has assumed the role of chief executive officer of our Company since our incorporation, we consider it to be beneficial to the management and business development of our Group to have Mr. Cui act as the chairman of the Board and continue his role as the chief executive officer of the Company after [REDACTED]. Our Board believes this arrangement with Mr. Cui will provide a strong and consistent leadership to our Group.

While this would constitute a deviation from Code Provision C.2.1 of the CG Code, our Board believes that this structure will not impair the balance of power and authority between our Board and the management of our Company, given that: (i) there are sufficient checks and balances on our Board, as decisions to be made by our Board requires the approval of at least a majority of our Directors, and our Board comprises three independent non-executive Directors as required under the Listing Rules; (ii) Mr. Cui and our other Directors are aware of and undertake to fulfill their fiduciary duties as Directors, which require, among others, that they act for the benefit and in the best interests of our Company and will make decisions for our Group accordingly; and (iii) the balance of power and authority is ensured by the operations of our Board which comprises experienced and high caliber individuals who meet regularly to discuss issues affecting the operations of our Company. Furthermore, the key business, financial, and operational policies of our Group as well as the overall strategic development goals of our Group are made collectively by our Board and senior management after thorough discussions.

Our Board will continue to evaluate and consider if dividing the roles of the chairman of our Board and the chief executive officer of our Company at an appropriate time is necessary, taking into account the circumstances of our Group as a whole.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and members of our senior management receive compensation from our Company in the form of fees, salaries, allowances and benefits in kind, pension scheme contributions and discretionary bonuses.

The aggregate amount of remuneration our Directors have received (including fees, salaries, allowances and benefits in kind, pension scheme contributions and discretionary bonuses) for the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2024 were RMB0.6 million, RMB0.6 million and RMB0.6 million, respectively.

DIRECTORS AND SENIOR MANAGEMENT

The aggregate amount of fees, salaries, allowances and benefits in kind, pension scheme contributions and discretionary bonuses paid to the five highest paid individuals of our Company, including Directors, for the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2024 were RMB4.4 million, RMB5.1 million and RMB4.2 million, respectively.

It is estimated that remuneration equivalent to approximately RMB1.8 million (including fees, salaries, allowances and benefits in kind, pension scheme contributions and discretionary bonuses) in aggregate will be paid and granted to our Directors by us in respect of the financial year ending December 31, 2025 under the arrangements in force at the date of this document.

No remuneration was paid or payable by us to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2024. Further, none of our Directors had waived or agreed to waive any remuneration during the same period.

Save as disclosed above, no other payments have been made or are payable in respect of the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2024 by our Group to our Directors.

Our Board will review and determine the remuneration and compensation packages of our Directors and senior management which, following the [REDACTED], will receive recommendation from our Remuneration Committee which will take into account salaries paid by comparable companies, time commitment and responsibilities of our Directors and the performance of our Group.

CONFIRMATION FROM OUR DIRECTORS

Rule 3.09D of the Listing Rules

Each of our Directors confirms that he or she (i) has obtained the legal advice referred to in Rule 3.09D of the Listing Rules in December 2024, and (ii) understands his or her obligations as a director of a listed issuer under the Listing Rules.

Rule 3.13 of the Listing Rules

Each of the independent non-executive Directors confirms (i) his or her independence with regard to each of the factors referred to in Rule 3.13(1) to (8) of the Listing Rules; (ii) that he or she has no past or present financial or other interest in the business of our Company or our subsidiaries or any connection with any core connected person of our Company under the Listing Rules as of the Latest Practicable Date; and (iii) that there are no other factors that may affect his or her independence at the time of his or her appointment.

DIRECTORS AND SENIOR MANAGEMENT

Rule 8.10 of the Listing Rules

Each of our Directors confirms that as of the Latest Practicable Date, he or she did not have any interest in a business which competes or is likely to compete, either directly or indirectly, with our Company’s business which would require disclosure under Rule 8.10 of the Listing Rules.

COMPLIANCE ADVISOR

We have appointed Haitong International Capital Limited as our compliance advisor (the “**Compliance Advisor**”) upon [REDACTED] of our Shares on the Stock Exchange in compliance with Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the Compliance Advisor will provide advice to us when consulted by us in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues, sales or transfers of treasury shares and share repurchases;
- where we propose to use the [REDACTED] of the [REDACTED] in a manner different from that detailed in this document or where our business activities, developments or results deviate from any forecast, estimate, or other information in this document; and
- where the Stock Exchange makes an inquiry of our Company concerning unusual movements in the [REDACTED] or [REDACTED] of our Shares, the possible development of a false market in our Shares, or any other matters in accordance with Rule 13.10 of the Listing Rules.

The term of the appointment of the Compliance Advisor shall commence on the [REDACTED] and end on the date on which our Company distributes its annual report in respect of its financial results for the first full financial year commencing after the [REDACTED] and this appointment may be subject to extension by mutual agreement.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders include Mr. Cui and his wholly-owned company TCMTech Holdings.

As of the Latest Practicable Date, Mr. Cui, through his wholly-owned company TCMTech Holdings, held approximately 43.41% of the issued share capital of our Company. In addition, pursuant to an agreement dated September 7, 2018 and a supplemental clarification agreement dated November 19, 2024 entered into between Mr. Cui and Dr. Chang Nan-Hsig, Mr. Cui and TCMTech Holdings were entitled to control the exercise of the voting rights of the Shares held by TCMInnov (an investment holding vehicle wholly owned by Dr. Chang Nan-Hsig), representing approximately 0.19% of the issued share capital of our Company as of the Latest Practicable Date. For details, see “History, Reorganization and Corporate Structure — History and Development of Our Company and Our Major Subsidiaries — Voting Proxy Arrangement.” As such, as of the Latest Practicable Date, Mr. Cui, through TCMTech Holdings was entitled to control the exercise of approximately 43.60% of the voting rights at the general meeting of our Company.

Immediately following the completion of the [REDACTED] (without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED]), Mr. Cui, through TCMTech Holdings, will be entitled to control the exercise of approximately [REDACTED] of the voting rights at the general meeting of our Company. Accordingly, Mr. Cui and TCMTech Holdings will continue to be our Controlling Shareholders under the Listing Rules.

For details of Mr. Cui, see “Directors and Senior Management — Directors.”

COMPETING INTERESTS

As of the Latest Practicable Date, none of our Controlling Shareholders, our Directors and their respective close associates had any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying out our business independently from our Controlling Shareholders and their respective close associates after the [REDACTED].

Management Independence

The day-to-day management of the business of our Group rests primarily with our Board and our senior management. Our Board comprises two executive Directors, one non-executive Directors and three independent non-executive Directors, and our Group has four senior management (who are not Directors). Although Mr. Cui is the chairman of our Board, an executive Director, chief executive officer and one of our Controlling Shareholders, our management and operational decisions are made by all of our executive Directors and senior

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

management, most of whom have served our Group for a long time and all of whom have substantial experience in the industry in which we are engaged and/or in their respective fields of expertise. The balance of power and authority is ensured by the operation of the senior management and our Board. For further details, see “Directors and Senior Management.”

We believe that our Board as a whole, together with our senior management, is able to perform the managerial role in our Group independently from our Controlling Shareholders for the following considerations:

- (a) each of our Directors is aware of his/her fiduciary duties as a Director which require, among others, that he/she must act for the benefit of and in the best interests of our Company and not allow any conflict between his/her duties as a Director and his/her personal interests;
- (b) our day-to-day management and operation decisions rest primarily with our executive Directors and senior management, all of whom have substantial experience in the industry in which we are engaged and will be able to make business decisions that are in the best interest of our Group if Mr. Cui is required to abstain from voting. Save for Mr. Cui, who is the chairman of our Board, an executive Director, chief executive officer and a Controlling Shareholder, all the other Directors and other members of our senior management are independent from our Controlling Shareholders. For background and biographical details of executive Directors and senior management, see “Directors and Senior Management”;
- (c) we had appointed three independent non-executive Directors, comprising half of the total member of our Board, who have sufficient knowledge, experience and competence with a view to bring independent judgment to the decision-making process of our Board and provide independent advice to our Board committees;
- (d) Mr. Cui devotes most of his working time as an executive Director and other senior management roles in our Group;
- (e) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and a Director and/or his/her associate, he/she shall abstain from voting and shall not be counted towards the quorum for the voting; and
- (f) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our Controlling Shareholders which would support our independent management. For further details, see “— Corporate Governance Measures” in this section.

Based on the above, our Directors are satisfied that our Board as a whole together with our senior management team are able to perform the managerial role in our Group independently.

Operational Independence

Although our Controlling Shareholders will retain a controlling interest in our Company after the [REDACTED], we have full rights to make all decisions regarding, and to carry out, our own business operations independently. Our Company (through our subsidiaries) holds or enjoys the benefit of all relevant licenses necessary to carry out our businesses, and has sufficient capital, technology, equipment, access to customers and suppliers, and employees to operate our

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

business independently from our Controlling Shareholders. In addition, our organizational structure is made up of individual departments, each of which has specific areas of responsibilities and is headed up by individuals with relevant experience. None of our joint company secretaries, operational personnel or administrative personnel is under the employment of our Controlling Shareholders or their respective close associates. We have also established a set of internal control measures to facilitate the effective operation of our business. For details of our Group’s risk management and internal control systems, see “Business — Risk Management and Internal Control.” Other than the Contractual Arrangements which form the fundamental structure of our Group, our Directors do not expect that there will be any significant transactions between our Group and our Controlling Shareholders upon or shortly after the [REDACTED].

Based on the above, our Directors are satisfied that we have been operating independently from our Controlling Shareholders and their respective close associates during the Track Record Period and will continue to operate independently.

Financial Independence

During the Track Record Period and up to the Latest Practicable Date, our Group had our own internal control, accounting and financial management system and we make financial decisions independently according to our own business needs. We have independent bank accounts and do not share any of our bank accounts, loan facilities or credit facilities with our Controlling Shareholders or their respective close associates. In addition, our Group has sufficient capital and credit facilities to operate our business independently, and has adequate internal resources and credit profile to support our daily operations. We do not need to rely on our Controlling Shareholders and/or their respective close associates by virtue of their provision of financial assistance.

Our Directors confirm that all non-trade amounts due to or from, and loans or guarantees provided by our Controlling Shareholders and their respective close associates as of September 30, 2024, have been fully settled as of the Latest Practicable Date. Our Directors believe that we are capable of obtaining financing from external sources without reliance on our Controlling Shareholders.

Based on the above, our Directors believe that we have the ability to operate independently from our Controlling Shareholders and their respective close associates from a financial perspective and are able to maintain financial independence from our Controlling Shareholders and their respective close associates.

CORPORATE GOVERNANCE MEASURES

Our Directors recognize the importance of good corporate governance in protecting our Shareholders’ interests. We have adopted the following measures to safeguard good corporate governance standards and to avoid potential conflict of interest between our Group and our Controlling Shareholders:

- (a) as part of our preparation for the [REDACTED], we have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provide that, unless otherwise provided, a Director shall not vote on

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

any resolution approving any contract or arrangement or any other proposal in which such Director or any of his/her close associates have a material interest nor shall such Director be counted in the quorum present at the meeting;

- (b) a Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and absent himself/herself from the board meetings on matters in which such Director or his/her close associates have a material interest, unless the attendance or participation of such Director at such meeting of our Board is specifically requested by a majority of the independent non-executive Directors;
- (c) our Company has established internal control mechanisms to identify connected transactions. Upon the [REDACTED], if our Company enters into connected transactions with our Controlling Shareholders or any of their associates, our Company will comply with the applicable Listing Rules;
- (d) we are committed that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors). We have appointed three independent non-executive Directors (representing half of our Board) and we believe our independent non-executive Directors possess sufficient experience and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial and external opinion to protect the interests of our public Shareholders. For details of our independent non-executive Directors, see “Directors and Senior Management — Directors — Independent non-executive Directors”;
- (e) in the event that the independent non-executive Directors are requested to review any conflicts of interest circumstances between our Group on the one hand and our Controlling Shareholders and/or our Directors on the other hand, our Controlling Shareholders and/or our Directors shall provide the independent non-executive Directors with all necessary information and our Company shall disclose the decisions of the independent non-executive Directors either through our annual report or by way of announcements;
- (f) pursuant to the Corporate Governance Code as set out in Appendix C1 to the Listing Rules, our Directors, including the independent non-executive Directors, will be able to seek independent professional advice from external parties in appropriate circumstances at our Company’s expense; and
- (g) we have appointed Haitong International Capital Limited as our compliance advisor, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors’ duties and corporate governance.

Based on the above, our Directors believe that sufficient corporate governance measures have been put in place to manage conflicts of interest that may arise between our Group and our Controlling Shareholders and to protect our Shareholders’ interests as a whole after the [REDACTED].

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the [REDACTED] (without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED]), the following persons will have an interest or a short position in our Shares or underlying Shares which will be required to be disclosed to us and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of Shareholder	Nature of interest	As of the Latest Practicable Date ⁽¹⁾		Immediately after the [REDACTED] (without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED]) ⁽¹⁾	
		Number of Shares held	Approximate percentage of total issued share capital	Number of Shares held	Approximate percentage of total issued share capital
TCMTech Holdings	Beneficial owner	56,844,275	43.41%	[REDACTED]	[REDACTED]
	Interest of a party to an agreement regarding interest in the Company ⁽²⁾	250,000	0.19%	[REDACTED]	[REDACTED]
Mr. Cui	Interest in controlled corporation ⁽³⁾	56,844,275	43.41%	[REDACTED]	[REDACTED]
	Interest of a party to an agreement regarding interest in the Company ⁽²⁾	250,000	0.19%	[REDACTED]	[REDACTED]
Lanchi Ventures	Beneficial owner	26,915,507	20.55%	[REDACTED]	[REDACTED]
BRV Aster Partners II, L.P.	Interest in controlled corporation ⁽⁴⁾	26,915,507	20.55%	[REDACTED]	[REDACTED]
BRV Aster Partners II Limited	Interest in controlled corporation ⁽⁴⁾	26,915,507	20.55%	[REDACTED]	[REDACTED]
Mr. Tan Jui Kuang	Interest in controlled corporation ⁽⁴⁾⁽⁵⁾	29,983,140	22.90%	[REDACTED]	[REDACTED]
ParmaWay	Beneficial owner	19,265,153	14.71%	[REDACTED]	[REDACTED]
Ms. Chin Lu Huey	Interest in controlled corporation ⁽⁶⁾	19,265,153	14.71%	[REDACTED]	[REDACTED]
TCMAI	Beneficial owner	10,300,000	7.87%	[REDACTED]	[REDACTED]

SUBSTANTIAL SHAREHOLDERS

Name of Shareholder	Nature of interest	As of the Latest Practicable Date ⁽¹⁾		Immediately after the [REDACTED] (without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED]) ⁽¹⁾	
		Number of Shares held	Approximate percentage of interest in the total issued share capital	Number of Shares held	Approximate percentage of interest in the total issued share capital
Dr. Lin	Interest in controlled corporation ⁽⁷⁾	10,300,000	7.87%	[REDACTED]	[REDACTED]

Notes:

- (1) All interests are held in long positions.
- (2) By an agreement dated September 7, 2018 and a supplemental clarification agreement dated November 19, 2024 (the “**Agreements**”), Mr. Cui and Dr. Chang Nan-Hsig have confirmed and agreed that since September 7, 2018 and during the terms of the Agreements, Mr. Cui and TCMTech Holdings were entitled to control the exercise of the voting rights of the Shares held by TCMInnov. See “History, Reorganization and Corporate Structure — History and Development of Our Company and our Major Subsidiaries — Voting Proxy Arrangement” for details.
- (3) As of the Latest Practicable Date, TCMTech Holdings was wholly owned by Mr. Cui. Accordingly, under Part XV of the SFO, Mr. Cui is deemed to be interested in the Shares held by TCMTech Holdings.
- (4) As of the Latest Practicable Date, the general partner of Lanchi Ventures was BRV Aster Partners II, L.P., whose general partner was BRV Aster Partners II Limited. BRV Aster Partners II Limited was controlled by Mr. Tan Jui Kuang. Accordingly, under Part XV of the SFO, BRV Aster Partners II, L.P., BRV Aster Partners II Limited and Mr. Tan Jui Kuang are deemed to be interested in the Shares held by Lanchi Ventures.
- (5) As of the Latest Practicable Date, LCV Pioneer Fund held 3,067,633 Shares. The general partner of LCV Pioneer Fund was LCV Pioneer Partners, L.P., whose general partner was LCV Pioneer Partners Limited, which was controlled by Mr. Tan Jui Kuang. Accordingly, under Part XV of the SFO, Mr. Tan Jui Kuang is deemed to be interested in the Shares held by LCV Pioneer Fund.
- (6) As of the Latest Practicable Date, ParmaWay was wholly owned by Ms. Chin Lu Huey. Accordingly, under Part XV of the SFO, Ms. Chin is deemed to be interested in the Shares held by ParmaWay.
- (7) As of the Latest Practicable Date, TCMAI was wholly owned by Dr. Lin, our co-founder and chief medical officer. Accordingly, under Part XV of the SFO, Dr. Lin is deemed to be interested in the Shares held by TCMAI.

Save as disclosed above and in “Statutory and General Information — C. Further Information about Our Directors and Substantial Shareholders — 1. Disclosure of Interests” in Appendix IV, our Directors are not aware of any person who will, immediately following the completion of the [REDACTED] and without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED], have an interest or a short position in the Shares or underlying Shares which will be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

THIS DOCUMENT IS IN DRAFT FORM. THE INFORMATION CONTAINED HEREIN IS INCOMPLETE AND IS SUBJECT TO CHANGE. THIS DOCUMENT MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid prior to and immediately following the completion of the [REDACTED] (without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED]):

Share capital as of the Latest Practicable Date

1. Authorized share capital

Number of shares	Description of shares	Total nominal value US\$
443,203,390	Ordinary Shares with a par value of US\$0.0001 each	44,320.34
4,220,000	Series A-1 Preference Shares with a par value of US\$0.0001 each	422.00
18,503,091	Series A-2 Preference Shares with a par value of US\$0.0001 each	1,850.31
14,327,801	Series A-3 Preference Shares with a par value of US\$0.0001 each	1,432.78
13,610,452	Series A-4 Preference Shares with a par value of US\$0.0001 each	1,361.05
6,135,266	Series [REDACTED] Preference Shares with a par value of US\$0.0001 each	613.53
<u>500,000,000</u>	Total	<u>50,000.00</u>

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SHARE CAPITAL

2. Issued share capital

Number of shares	Description of shares	Total nominal value US\$
74,156,682	Ordinary Shares with a par value of US\$0.0001 each	7,415.67
4,220,000	Series A-1 Preference Shares with a par value of US\$0.0001 each	422.00
18,503,091	Series A-2 Preference Shares with a par value of US\$0.0001 each	1,850.31
14,327,801	Series A-3 Preference Shares with a par value of US\$0.0001 each	1,432.78
13,610,452	Series A-4 Preference Shares with a par value of US\$0.0001 each	1,361.05
6,135,266	Series [REDACTED] Preference Shares with a par value of US\$0.0001 each	613.53
<u>130,953,292</u>	Total	<u>13,095.33</u>

Share capital immediately following the completion of the [REDACTED]

1. Authorized share capital

Number of shares	Description of shares	Total nominal value US\$
<u>500,000,000</u>	Ordinary Shares with a par value of US\$0.0001 each	<u>50,000.00</u>
<u>500,000,000</u>	Total	<u>50,000.00</u>

SHARE CAPITAL

2. Issued share capital

Assuming the [REDACTED] is not exercised, the issued share capital of our Company immediately following the completion of the [REDACTED] will be as follows:

Number of shares	Description of shares	Total nominal value US\$	Approximate percentage of issued share capital %
[REDACTED]	Ordinary Shares with a par value of US\$0.0001 each (assuming all Preference Shares are converted into Ordinary Shares on a 1:1 basis)	[REDACTED]	[REDACTED]
[REDACTED]	Ordinary Shares to be issued pursuant to the [REDACTED]	[REDACTED]	[REDACTED]
<u>[REDACTED]</u>	Shares in total	<u>[REDACTED]</u>	<u>[REDACTED]</u>

Assuming the [REDACTED] is exercised in full, the issued share capital of our Company immediately following the completion of the [REDACTED] will be as follows:

Number of shares	Description of shares	Total nominal value [US\$]	Approximate percentage of issued share capital %
[REDACTED]	Ordinary Shares with a par value of US\$0.0001 each (assuming all Preference Shares are converted into Ordinary Shares on a 1:1 basis)	[REDACTED]	[REDACTED]
[REDACTED]	Ordinary Shares to be issued pursuant to the [REDACTED] (including all Shares which may be issued upon the exercise of the [REDACTED])	[REDACTED]	[REDACTED]
<u>[REDACTED]</u>	Shares in total	<u>[REDACTED]</u>	<u>[REDACTED]</u>

SHARE CAPITAL

The above tables assume that the [REDACTED] has become unconditional and the issue of Shares pursuant to the [REDACTED] is made as described herein. The above tables do not take into account any Shares which may be allotted and issued or repurchased by our Company under the general mandate for the allotment and issuance of Shares or the general mandate for repurchase of Shares granted to our Directors as referred to below or otherwise.

RANKING

The [REDACTED] will rank *pari passu* in all respects with all Ordinary Shares currently in issue or to be issued as mentioned in this document, and will qualify and rank equally for all dividends or other distributions declared, made or paid on the Ordinary Shares on a record date which falls after the date of this document.

CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS AND CLASS MEETINGS ARE REQUIRED

Pursuant to the Cayman Companies Act and the terms of our Articles of Association, our Company may from time to time by ordinary shareholders’ resolution (i) increase its share capital; (ii) consolidate and divide all or any of its capital into Shares of larger amount than the existing Shares; (iii) sub-divide its existing Shares or the whole or any part of its share capital into Shares of smaller amount than is fixed by the Articles of Association; and (iv) cancel any Shares which have not been taken. In addition, our Company may by special resolution reduce its share capital or any capital redemption reserve fund, subject to the provisions of the Cayman Companies Act. For more details, see “Summary of the Constitution of Our Company and Cayman Islands Company Law — 2. Articles of Association — 2.1 Shares — (c) Alteration of Capital” in Appendix III.

Pursuant to the Cayman Companies Act and the terms of our Articles of Association, all or any of the rights attached to the Shares or any class of Shares may, subject to the Cayman Companies Act, be varied only with the consent in writing of the holders of at least three-fourths of the voting rights of the issued Shares of that class or with the approval of a resolution passed by at least three-fourths of the votes cast at a separate general meeting of the holders of the Shares of that class. For more details, see “Summary of the Constitution of Our Company and Cayman Islands Company Law — 2. Articles of Association — (b) Variation of Rights of Existing Shares or Classes of Shares” in Appendix III.

GENERAL MANDATE TO ISSUE SHARES

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares subject to a restriction that the aggregate number of Shares allotted or agreed to be allotted shall not exceed the aggregate of:

- (i) 20% of the number of issued Shares upon completion of the [REDACTED] (excluding any Shares which may be issued pursuant to the [REDACTED]); and

SHARE CAPITAL

- (ii) the number of Shares repurchased by our Company (if any) under the general mandate to repurchase Shares referred to in the paragraph headed “— General Mandate to Repurchase Shares” below.

This general mandate to issue Shares will expire at the earliest of:

- (i) the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or
- (ii) the expiration of the period within which our Company’s next annual general meeting is required by the Articles of Association or any other applicable laws to be held; or
- (iii) the date on which it is varied or revoked by an ordinary resolution of our Shareholders passed in general meeting.

For further details of the general mandate to issue Shares, see “Statutory and General Information — A. Further Information about Our Group — 4. Resolutions in Writing of the Shareholders of Our Company Passed on [•]” in Appendix IV.

GENERAL MANDATE TO REPURCHASE SHARES

Subject the [REDACTED] becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase our own securities with a total nominal value of up to 10% of the total nominal value of the share capital of our Company in issue immediately following the completion of the [REDACTED] (excluding any Shares which may be issued pursuant to the exercise of the [REDACTED]).

The repurchase mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the securities of our Company are listed (and which are recognized by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. For a summary of the relevant Listing Rules, see “Statutory and General Information — A. Further Information about Our Group — 6. Repurchases of Our Own Securities” in Appendix IV.

This general mandate to repurchase Shares will expire at the earliest of:

- (i) the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or
- (ii) the expiration of the period within which our Company’s next annual general meeting is required by the Articles of Association or any other applicable laws to be held; or
- (iii) the date on which it is varied or revoked by an ordinary resolution of our Shareholders passed in a general meeting.

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SHARE CAPITAL

For further details of the general mandate to repurchase Shares, see “Statutory and General Information — A. Further Information about Our Group — 6. Repurchases of Our Own Securities” in Appendix IV.

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You should read the following discussion and analysis on our financial condition and results of operations together with our audited consolidated financial statements as of and for each of the years ended December 31, 2022 and 2023 including the notes thereto, included in the Accountants’ Report as set out in Appendix IA and the unaudited interim condensed consolidated financial information for the nine months ended September 30, 2024 as set out in Appendix IB. Our consolidated financial statements have been prepared in accordance with HKFRSs. Potential investors should read the whole of the Accountants’ Report as set out in Appendix IA and the unaudited interim condensed consolidated financial information for the nine months ended September 30, 2024 as set out in Appendix IB and not rely merely on the information contained in this section. The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, see “Risk Factors.”

OVERVIEW

We are the largest AI-empowered TCM healthcare service provider in mainland China in terms of AI-empowered revenue in 2023, according to the CIC Report. According to the same source, we are the only AI-empowered TCM healthcare service provider that has commercialized its proprietary technologies on a large scale. We have also achieved the highest year-on-year growth in revenue in 2023 among 2023’s top five AI-empowered TCM healthcare service providers in mainland China.

We have developed a comprehensive TCM business model that addresses our customers’ full range of needs from illness treatments, health maintenance, to learning and practicing TCM knowledge. We have independently developed the TCM Brain (中醫大腦), an AI-assisted TCM clinical decision support system, equipped with the largest clinical knowledge graph in the TCM healthcare service industry globally. Our TCM Brain is the core of our clinical consultation and prescription process. We specialize in the treatment of cancer and severe conditions as well as difficult and complex conditions while maintaining a strong foundation in general practice. We have also founded Jingyi Academy (精一書院), the largest TCM community globally in terms of the cumulative number of registered community members as of September 30, 2024, according to the CIC Report, which has been attracting both TCM practitioners and enthusiasts through the sharing of a wealth of TCM knowledge, not only promotes TCM culture but also enhances our brand awareness and market position.

During the Track Record Period, we generated our revenue primarily from (i) TCM healthcare services, (ii) TCM lifestyle products, including a variety of healthcare products, online recorded courses and books and (iii) TCM Brain subscription services.

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We experienced significant revenue growth during the Track Record Period. Our revenue increased by 204.0% from RMB62.2 million in 2022 to RMB189.0 million in 2023, and increased by 33.8% from RMB129.4 million for the nine months ended September 30, 2023 to RMB173.1 million for the nine months ended September 30, 2024. Our adjusted net profit (*non-HKFRS measure*) increased by 735.2% from RMB5.2 million in 2022 to RMB43.0 million in 2023, and increased by 137.4% from RMB20.9 million for the nine months ended September 30, 2023 to RMB49.5 million for the nine months ended September 30, 2024. See “— Summary of Results of Operations During the Track Record Period — Non-HKFRS Measure” for details.

BASIS OF PRESENTATION

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on June 19, 2018 and is the holding company of our Group.

Our historical financial information has been prepared in accordance with HKFRS (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and accounting principles generally accepted in Hong Kong. All HKFRS effective for the accounting period commencing from January 1, 2024, together with the relevant transitional provisions, have been early adopted by our Group in the preparation of the historical financial information throughout the Track Record Period. The historical financial information has been prepared on the historical cost convention, except for convertible redeemable preference shares and financial assets at fair value through profit or loss which have been measured at fair value. The results of subsidiaries are consolidated from the date on which our Group obtains control, and continue to be consolidated until the date that such control ceases. For details, see Note 2.1 to the Accountants’ Report as set out in Appendix IA and Note 1.1 to the unaudited interim condensed consolidated financial information for nine months ended September 30, 2024 as set out in Appendix IB.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations and financial condition were mainly affected and are expected to continue to be affected by the following factors:

China’s Overall Economic Conditions and Development of China’s TCM Healthcare Service Market

Our business, results of operations and prospects are heavily influenced by market demand for our TCM healthcare products and services, which in turn is closely tied to China’s overall economic conditions and the development of China’s TCM healthcare service market. According to the CIC Report, the TCM healthcare service market in China is expected to expand, driven by factors including rising recognition and willingness to pay for TCM healthcare services, aging population, favorable policy environment, and increasing adoption of AI technologies. According to the CIC Report, the rising acceptance and recognition of AI-empowered TCM technology has contributed to the increasing popularity of our solutions. According to the CIC Report, the AI-empowered TCM healthcare service market has experienced rapid growth in recent years, with an estimated market size in terms of revenue

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of around RMB10.9 billion in 2023 and a CAGR of 158.3% from 2019 to 2023, and it will further expand to approximately RMB86.9 billion by 2028, with a projected CAGR of 51.4% from 2023 to 2028.

Our Ability to Increase Brand Awareness and Recognition

We believe our branding is essential to our business operations. According to the CIC Report, Chinese consumers approach medical institutions in a more considered manner and tend to remain loyal to the platforms and brands they trust. Given the intense competition in our markets, we aim to expand our customer base and reinforce our brand identity through our branding initiatives and enhancement in treatment outcomes. We have been dedicated to building Jingyi Academy, our TCM community, to share a wealth of TCM knowledge and raise awareness and recognition of the TCM culture, which we believe has a positive effect on our brand awareness and recognition.

Our revenue from TCM healthcare services increased by 231.7% from RMB50.4 million in 2022 to RMB167.2 million in 2023, and increased by 34.2% from RMB115.4 million for the nine months ended September 30, 2023 to RMB154.9 million for the same period in 2024. Such increases largely contributed to our increased brand awareness and recognition, leading to (i) the increase in the number of patients we served from approximately 21,200 in 2022 to approximately 50,500 in 2023, and from approximately 38,400 for the nine months ended September 30, 2023 to approximately 39,900 for the nine months ended September 30, 2024 and (ii) the increase in the number of patient visits from approximately 61.6 thousand in 2022 to approximately 179.2 thousand in 2023, and from approximately 122.0 thousand for the nine months ended September 30, 2023 to approximately 164.2 thousand for the nine months ended September 30, 2024. We anticipate that our branding efforts and the effectiveness of our treatments will continue to play a key role in attracting new customers and retaining our existing customer base, and to drive increased revenue for our business.

Our Ability to Attract and Retain Customers

Our growth depends largely on our ability to maintain and expand our customer base. For our TCM healthcare services, our revenue is primarily affected by the number of patients we serve, the number of patient visits as well as their spending. For the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2023 and 2024, the number of patients we served was approximately 21,200, 50,500, 38,400 and 39,900, respectively. Due to the inherent characteristic of TCM healthcare services and our specialized capabilities in treating cancer and severe conditions as well as difficult and complex conditions, our patient return rate reached 61.2%, 69.1% and 71.6% for the years ended December 31, 2022, 2023 and the nine months ended September 30, 2024, respectively. Our number of patient visits increased during the Track Record Period, which amounted to 61.6 thousand, 179.2 thousand, 122.0 thousand and 164.2 thousand for the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2023 and 2024, respectively. The average spending per patient visit primarily depends on different symptoms of our patients and different treatment plans, including medication prescribed at different pricing levels, and days of medication prescribed.

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We are committed to continuously building trust and rapport with patients and promoting our brand recognition and reputation, which we believe will pave the way for our sustainable growth. We have implemented a comprehensive customer feedback system and have consistently received positive feedbacks from our customers. Our strong relationship with customers for our TCM healthcare services, in turn, boosts the revenue streams generated from our TCM lifestyle products, including a variety of TCM healthcare products, online recorded courses and books.

Our Ability to Manage Our Costs and Expenses

Our results of operations and financial conditions depend on our ability to manage our costs and expenses.

During the Track Record Period, cost of pharmaceutical and other products, primarily representing procurement costs of decocting pieces and TCM lifestyle products, represented the largest component of our cost of sales, which accounted for 40.9%, 51.3%, 53.3% and 54.3% of our cost of sales for the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2023 and 2024, respectively. Our cost of pharmaceutical and other products may be affected by our business scale as well as the market prices of pharmaceutical and TCM products we purchased, which may fluctuate from time to time due to changes in supply and demand in the market. The increase in our cost of pharmaceutical and other products during the Track Record Period was generally in line with our revenue growth.

In addition, employee benefit expenses constituted a major component of our cost of sales, which accounted for 38.5%, 32.1%, 30.8% and 30.0% of our cost of sales for the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2023 and 2024, respectively. The number of our employees has been increasing along with the expansion of our business scale, and the increase in employee benefit expenses during the Track Record Period was primarily attributable to such increase in the headcount. As we currently offer and intend to continue to offer attractive compensation to retain existing personnel and attract additional highly skilled employees, our results of operations and financial conditions are significantly affected by our ability to manage our costs and expenses relating to our employees.

The following table sets forth a sensitivity analysis illustrating the impact of hypothetical fluctuations in cost of pharmaceutical and other products on our gross profit for the years/periods indicated:

	Year ended December 31,				Nine months ended September 30,			
	2022		2023		2023		2024	
	Change in gross profit	% change in gross profit	Change in gross profit	% change in gross profit	Change in gross profit	% change in gross profit	Change in gross profit	% change in gross profit
+ 10%	(1,113)	(3.2)	(3,904)	(3.5)	(2,906)	(3.9)	(3,693)	(3.5)
+ 5%	(557)	(1.6)	(1,952)	(1.7)	(1,453)	(1.9)	(1,847)	(1.8)
-5%	557	1.6	1,952	1.7	1,453	1.9	1,847	1.8
-10%	1,113	3.2	3,904	3.5	2,906	3.9	3,693	3.5

(RMB'000, except for percentages)

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The following table sets forth a sensitivity analysis illustrating the impact of hypothetical fluctuations in employee benefit expenses accounted as our cost of sales on our gross profit for the years/periods indicated:

	Year ended December 31,				Nine months ended September 30,			
	2022		2023		2023		2024	
	Change in gross profit	% change in gross profit	Change in gross profit	% change in gross profit	Change in gross profit	% change in gross profit	Change in gross profit	% change in gross profit
	<i>(RMB'000, except for percentages)</i>							
+ 10%	(1,046)	(3.0)	(2,438)	(2.2)	(1,681)	(2.2)	(2,044)	(1.9)
+ 5%	(523)	(1.5)	(1,219)	(1.1)	(841)	(1.1)	(1,022)	(1.0)
-5%	523	1.5	1,219	1.1	841	1.1	1,022	1.0
-10%	1,046	3.0	2,438	2.2	1,681	2.2	2,044	1.9

We expect that our costs and expenses will increase in absolute amount in the near future as our business grows. Our ability to effectively control such costs and expenses may materially affect our profitability.

Our Ability to Maintain our Technological Edge

Our results of operations also depend on our ability to utilize technologies and data capabilities to empower our business. Accordingly, we intend to continue to invest resources in research and development to enhance our technology, develop new services, and further digitalize our offerings.

Our TCM Brain is continuously refined and optimized through clinical data analysis by our medical research and development team that are dedicated to merging AI technologies with TCM practices. For the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2023 and 2024, our research and development expenses were RMB5.4 million, RMB9.0 million, RMB7.2 million and RMB8.4 million, respectively. Our research and development team comprises experts with a blend of medical and technical backgrounds, led by Dr. Lin, a prominent figure in the field of TCM. Among them are highly skilled TCM practitioners and experts in computer science, who can leverage their professional expertise in TCM and proficiency in AI models, to selectively label the TCM clinical knowledge graph and integrate it into our TCM Brain.

While our research and development initiatives required substantial investment, they are crucial for us to reinforce our technological competence and sustain our future growth. Our financial results have been steered by, and are expected to continue being improved by, our investments in research and development.

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Our Ability to Expand Service Network and Improve Accessibility

We have established an extensive healthcare service network integrating both online and offline service channels, which are complementary to each other. We evaluate geographical distributions of online customers and demand for TCM healthcare services across regions through comprehensive market research leveraging data from our online operations, allowing us to strategically select markets for offline expansion and rapidly ramp up newly established clinics. For details, see “Business — Integrated TCM Healthcare Service Network.”

As of the Latest Practicable Date, we operated eight offline physical clinics and three decoction centers. As of September 30, 2024, we have extended our reach to customers located in 339 cities nationwide. Going forward, we will continue to develop online and offline service network to expand our patient coverage and capture growth opportunities.

SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future. When reviewing our financial statements, you should consider (i) our selection of critical accounting policies; (ii) the judgment and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. For details on our significant accounting policies, judgments and estimates, see Note 2.4 and Note 3 to the Accountants’ Report as set out in Appendix IA.

Revenue and Other Income

Revenue from Contracts with Customers

Revenue from contracts with customers is recognized by us when control of goods or services is transferred to the customers at an amount that reflects the consideration to which our Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the variable consideration is estimated to which our Group will be entitled in exchange for transferring the goods or services to the customers and at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

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TCM Healthcare Services

Our TCM healthcare services comprise consultation, prescription, treatment and follow-up services. These services constitute three performance obligations: i) consultation, diagnosis and prescription, ii) decoction and medication and iii) other treatment. Our Group allocates the transaction price to each performance obligation based on the relative stand-alone selling price. For all of the performance obligations, control of the respective services is transferred at a point in time, i.e. upon completion of the respective services or delivery of medicative healthcare products to the customer.

Revenue from consultation, diagnosis and prescription is recognized when those services are completed. Revenue from decoction and medication is recognized when the related medicative healthcare products are delivered to the customers. Revenue from other treatment is recognized evenly upon each of the services completed. Our customers pay directly by bank transfer or third-party payment platforms.

Our Group establishes a customer loyalty incentive program that customers can earn award credits from each order and the award credits can be redeemed to deduct payment for the following orders. Award credits for customers are accounted for as separate performance obligations and the fair value of the consideration received or receivable is allocated among the performance obligations in the provision of healthcare services based on their stand-alone selling price. The stand-alone selling price with respect to each of the performance obligations in the provision of healthcare services is directly observable and determined by the price that they are sold separately. The stand-alone selling price of award credits is measured by reference to the amount for which the award credits could be sold separately considering the breakage based on our Group’s best estimation. Such consideration is not recognized as revenue at the time of the initial sale transaction, but is deferred in “contract liabilities” and recognized as revenue when the award credits are redeemed and our Group’s obligations have been fulfilled.

TCM lifestyle products

Our Group offers TCM lifestyle products such as dietary herbal snacks and external use products under our owned brand and online recorded TCM courses. Revenue from TCM lifestyle products is recognized at the point in time when control of the products is transferred to the customers, generally on receipts of the products.

TCM Brain subscription services

Our Group earns subscription fee from individual practitioners, hospitals, clinics, and other healthcare institutions in respect of the TCM Brain subscription services that allow them to use the Group’s subscription-based version of TCM Brain for a specific contracted service period. The subscription fees are paid in advance, and all these subscription fees are initially deferred as contract liabilities when received and revenue is recognized evenly over the terms of the respective service contracts as the services are provided.

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Interest Income

We recognize interest income on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument of the net carrying amount of the financial asset.

Contractual Liabilities

A contract liability is recognized when a payment is received or a payment is due, whichever is earlier, from a customer before our Group transfers the related goods or services. We recognize contract liabilities as revenue when our Group performs under the contract, i.e., transfers control of the related goods or services to the customer.

Share-based Payments

Our Company operates a share option scheme in which employees (including directors) of our Group render services in exchange for share-based payments as remuneration (“**equity-settled transactions**”). We recognize employee benefit expense at the fair value of such equity-settled transactions with a corresponding increase in a capital reserve within equity. The fair value is measured at the grant date by an external valuer using the binomial lattice model, taking into account the terms and conditions upon which the options were granted.

Market performance conditions are reflected within the grant date fair value. Non-market performance and service conditions are included in assumptions about the number of equity instruments that are expected to vest. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and our Group’s best estimate of the number of equity instruments that will ultimately vest.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognized. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, we recognize an expense as a minimum as if the terms had not been modified, if the original terms of the award are met. In addition, we recognize an expense for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately.

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Convertible Redeemable Preference Shares

The Series A-1, A-2, A-3 and A-4 convertible redeemable preference shares issued by our Company are classified, on the basis of their component parts, as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument, details of which are set out in the Note 22 to the Accountants’ Report in Appendix IA and Note 11 to the unaudited interim condensed consolidated financial information for nine months ended September 30, 2024 as set out in Appendix IB. Preference shares issued are classified as equity if they are non-redeemable by our Company or redeemable only at our Company’s option, and any dividends are discretionary. Dividends on preference shares capital classified as equity are recognized as distributions within equity. Preference shares are classified as financial liabilities if they are redeemable on a specific date or at the option of the shareholders, including options that are only exercisable in case of triggering events having occurred.

Our Group designated the Preference Shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in profit or loss. The component of fair value changes relating to our own credit risk is recognized in other comprehensive income. Amounts recorded in other comprehensive income related to credit risk are not subject to recycling in profit or loss, but are transferred to retained earnings when realized. Fair value changes relating to market risk are recognized in profit or loss.

Inventories

We state inventories at the lower of cost and net realizable value. Net realizable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal. We determine cost on the first-in, first-out basis.

Estimation of Incremental Borrowing Rate for Lease Liabilities

Our Group cannot readily determine the interest rate implicit in a lease and therefore uses an incremental borrowing rate (“IBR”), which is the interest rate that our Group would have to pay to borrow over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what our Group “would have to pay”, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary’s functional currency). Our Group estimates the IBR for lease liabilities using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary’s stand-alone credit rating).

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SUMMARY OF RESULTS OF OPERATIONS DURING THE TRACK RECORD PERIOD

The following table sets forth a summary of our consolidated results of operations for the periods indicated:

	Year ended December 31,		Nine months ended	
	2022	2023	September 30,	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>2023</i>	<i>2024</i>
			<i>RMB'000</i>	<i>RMB'000</i>
			<i>(unaudited)</i>	<i>(unaudited)</i>
Revenue	62,169	188,998	129,380	173,138
Cost of sales	<u>(27,190)</u>	<u>(76,035)</u>	<u>(54,511)</u>	<u>(68,023)</u>
Gross profit	34,979	112,963	74,869	105,115
Other income and gains	1,501	2,286	1,412	2,574
Selling expenses	(8,725)	(25,140)	(24,255)	(18,523)
Administrative expenses	(20,176)	(26,132)	(18,435)	(24,139)
Research and development expenses	(5,394)	(9,037)	(7,249)	(8,399)
Fair value changes of convertible redeemable preference shares	(159,573)	(236,944)	(235,872)	(98,926)
Other expenses	(267)	(340)	(40)	(6,407)
Finance costs	<u>(488)</u>	<u>(1,192)</u>	<u>(876)</u>	<u>(1,072)</u>
Loss before tax	(158,143)	(183,536)	(210,446)	(49,777)
Income tax credit/(expense)	<u>3,722</u>	<u>(10,378)</u>	<u>(4,568)</u>	<u>(5,944)</u>
Loss for the year/period	(154,421)	(193,914)	(215,014)	(55,721)
Loss attributable to:				
Owners of the Company	<u>(154,421)</u>	<u>(193,914)</u>	<u>(215,014)</u>	<u>(55,721)</u>

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Non-HKFRS Measure

To supplement our historical financial information which are presented in accordance with HKFRS, we also use adjusted net profit (*non-HKFRS measure*) as an additional financial measure, which is unaudited in nature and is not required by, or presented in accordance with, HKFRS. We believe that this non-HKFRS measure facilitates comparison of operating performance from period to period by eliminating potential impacts of items that our management does not consider to be recurring in nature and indicative of our operating performance. We believe that this non-HKFRS measure provides useful information to investors in understanding and evaluating our results of operations in the same manner as it helps our management. However, our presentation of adjusted net profit (*non-HKFRS measure*) may not be comparable to similarly titled measures presented by other companies. The use of this non-HKFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under HKFRS.

We define adjusted net profit (*non-HKFRS measure*) as loss for the year/period adjusted by adding back (i) fair value changes of convertible redeemable preference shares and (ii) [REDACTED] expenses. We eliminate the potential impacts of these items that our management does not consider to be indicative of our core operating performance, as they are either non-operating or non-recurring expenses in accordance with the Listing Guide.

Fair value changes of convertible redeemable preference shares are not costs directly relating to the generation of revenue or normal expenses incurred in ordinary business or recurring operating expense. In addition, the amounts of fair value changes of convertible redeemable preference shares are determined based on valuations with many underlying assumptions beyond our control, varying over time and may include modifications that may not occur on a predictable cycle, neither of which is necessarily indicative of our ongoing business performance. We do not expect to record any fair value changes of convertible redeemable preference shares following the completion of the [REDACTED]. In addition, we also eliminated the potential impact of the one-off [REDACTED] expenses that our management do not consider to be indicative of our operating performance.

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The following table sets forth the reconciliation of our loss for the year/period to our adjusted net profit (*non-HKFRS measure*) for the periods indicated:

	Year ended December 31,		Nine months ended September 30,	
	2022	2023	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			<i>(unaudited)</i>	<i>(unaudited)</i>
Loss for the year/period	(154,421)	(193,914)	(215,014)	(55,721)
Add:				
Fair value changes of convertible redeemable preference shares	159,573	236,944	235,872	98,926
[REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Adjusted net profit (<i>non-HKFRS measure</i>)	<u>5,152</u>	<u>43,030</u>	<u>20,858</u>	<u>49,507</u>

DESCRIPTION OF KEY COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

During the Track Record Period, our revenue primarily derived from (i) TCM healthcare services, (ii) TCM lifestyle products, including a variety of healthcare products, online recorded courses and books, and (iii) TCM Brain subscription services. All of our revenue was derived from the PRC during the Track Record Period.

For the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2023 and 2024, our revenue amounted to RMB62.2 million, RMB189.0 million, RMB129.4 million and RMB173.1 million, respectively.

Revenue by business line

The following table sets forth a breakdown of our revenue by business line for the periods indicated:

	Year ended December 31,				Nine months ended September 30,			
	2022		2023		2023		2024	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
					<i>(unaudited)</i>		<i>(unaudited)</i>	
TCM healthcare services	50,421	81.1	167,247	88.5	115,414	89.2	154,906	89.4
TCM lifestyle products	6,062	9.8	13,598	7.2	8,259	6.4	10,324	6.0
TCM Brain subscription services	5,686	9.1	8,153	4.3	5,707	4.4	7,908	4.6
Total	<u>62,169</u>	<u>100.0</u>	<u>188,998</u>	<u>100.0</u>	<u>129,380</u>	<u>100.0</u>	<u>173,138</u>	<u>100.0</u>

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TCM healthcare services

We provide patients with comprehensive TCM healthcare services through our integrated online and offline healthcare service network. Our TCM healthcare services include pre-consultation preparations, AI-assisted clinical consultation, TCM prescription, medication and decoction services.

The following table sets forth the weighted average number of physicians, the approximate number of patients served, the number of patient visits, the average spending per patient visit, and the number of patient visits per physician for the periods indicated:

	<u>Year ended December 31,</u>		<u>Nine months ended</u>	
	<u>2022</u>	<u>2023</u>	<u>September 30,</u>	<u>2024</u>
Weighted average number of physicians ¹	21	47	43	60
Number of patients served	21,200	50,500	38,400	39,900
Number of patient visits	61,646	179,209	121,955	164,189
Average spending per patient visit (RMB)	817.9	933.2	946.4	943.5
Number of patient visits per physician ²	2,936	3,813	2,836	2,736

Note:

1. The weighted average number of physicians for the year/period is calculated using (i) the number of physicians with revenue contribution exceeding a minimum amount in each month, weighted and averaged by (ii) the number of months in service of each physician during the year/period.
2. The number of patient visits per physician for the year/period is calculated using the number of patient visits divided by the weighted average number of physicians for the respective year/period.

Our revenue from TCM healthcare services is primarily affected by the scale of our online and offline medical service network, the number of patients we serve, the number of patient visits and their spending. For the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2023 and 2024, revenue from TCM healthcare services amounted to RMB50.4 million, RMB167.2 million, RMB115.4 million and RMB154.9 million, respectively, accounting for 81.1%, 88.5%, 89.2% and 89.4% of our total revenue. We expect to generate the majority of our revenue from our TCM healthcare services in the future.

TCM lifestyle products

In addition to our TCM healthcare services, we also generate revenue from offering a range of TCM lifestyle products, which primarily consist of (i) TCM healthcare products, such as edible herbal powder products, native herbal products, herbal tea products and herbal personal care products, and (ii) TCM knowledge products, mainly comprising online recorded courses and books.

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For the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2023 and 2024, revenue from sales of these products amounted to RMB6.1 million, RMB13.6 million, RMB8.3 million and RMB10.3 million, respectively, accounting for 9.8%, 7.2%, 6.4% and 6.0% of our total revenue.

TCM Brain subscription services

We offer a subscription-based version of our proprietary TCM Brain mainly to individual practitioners, medical institutions, and other corporate customers seeking to integrate AI-assisted diagnostic capabilities into their TCM practices. We have adopted a subscription model for our subscription-based TCM Brain, charging annual subscription fees for each account. The subscription fees are paid in advance, and all these subscription fees are initially recognized as contract liabilities when received and revenue is recognized evenly over the term of the respective service contracts.

For the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2023 and 2024, revenue from TCM Brain subscription services amounted to RMB5.7 million, RMB8.2 million, RMB5.7 million and RMB7.9 million, respectively, accounting for 9.1%, 4.3%, 4.4% and 4.6% of our total revenue.

For details, see “— Period to Period Comparison of Results of Operations.”

Cost of Sales

Our cost of sales consists of (i) cost of pharmaceutical and other products, primarily representing procurement costs of decocting pieces and TCM lifestyle products, (ii) employee benefit expenses, mainly representing salaries, bonuses, social insurance and other welfare paid to our physicians, pharmacists and other medical staff, (iii) depreciation and rental related expenses, mainly comprising depreciation of right-of-use assets and rental related expenses for the leases of our offline clinics and decocting centers, and depreciation of leasehold improvements, furniture, fixtures and equipment in these clinics and decoction centers, and (iv) logistics cost, mainly representing cost for the delivery of our products to customers.

The following table sets forth a breakdown of our cost of sales by nature for the periods indicated:

	Year ended December 31,				Nine months ended September 30,			
	2022		2023		2023		2024	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
					<i>(unaudited)</i>		<i>(unaudited)</i>	
Cost of pharmaceutical and other products	11,132	40.9	39,040	51.3	29,061	53.3	36,933	54.3
Employee benefit expenses	10,456	38.5	24,382	32.1	16,813	30.8	20,436	30.0
Depreciation and rental related expenses	4,094	15.1	7,979	10.5	5,317	9.8	6,723	9.9
Logistics cost	1,508	5.5	4,634	6.1	3,320	6.1	3,931	5.8
Total	27,190	100.0	76,035	100.0	54,511	100.0	68,023	100.0

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Our cost of sales increased from RMB27.2 million in 2022 to RMB76.0 million in 2023, and further increased from RMB54.5 million for the nine months ended September 30, 2023 to RMB68.0 million for the nine months ended September 30, 2024, primarily due to (i) the increase in cost of pharmaceutical and other products as a result of the increased consumption of decocting pieces and TCM lifestyle products in line with our business expansion and revenue growth and (ii) an increase in employee benefit expenses as a result of our expanded physician base to cater to our business expansion needs.

Gross Profit and Gross Profit Margin

Our gross profit represents the excess of total revenue over total cost of sales. Gross profit margin represents gross profit as a percentage of total revenue. For the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2023 and 2024, our overall gross profit amounted to RMB35.0 million, RMB113.0 million, RMB74.9 million and RMB105.1 million, respectively. Our overall gross profit margin amounted to 56.3%, 59.8%, 57.9% and 60.7%, respectively, for the same periods.

The following table sets forth a breakdown of our gross profit and gross profit margins by business line for the periods indicated:

	Year ended December 31,				Nine months ended September 30,			
	2022		2023		2023		2024	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
					<i>(unaudited)</i>		<i>(unaudited)</i>	
TCM healthcare services	25,533	50.6	97,236	58.1	64,735	56.1	91,998	59.4
TCM lifestyle products	4,714	77.8	8,860	65.2	5,327	64.5	6,453	62.5
TCM Brain subscription services	4,732	83.2	6,867	84.2	4,807	84.2	6,664	84.3
Total	34,979	56.3	112,963	59.8	74,869	57.9	105,115	60.7

During the Track Record Period, our gross profit increased primarily due to the increase in our gross profit of TCM healthcare services, which was mainly attributable to the rapid growth of revenue from TCM healthcare services. For the years ended December 31, 2022 and 2023, our gross profit margin increased from 56.3% to 59.8%, primarily due to the increased gross profit margin of our TCM healthcare services owing to our improved efficiency in view of the increase in number of patient visits per physician. Our gross profit margin increased from 57.9% for the nine months ended September 30, 2023 to 60.7% for the nine months ended September 30, 2024, primarily due to the increased gross profit margin of our TCM healthcare services. For details, see “— Period to Period Comparison of Results of Operations.”

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Other Income and Gains

Our other income and gains primarily consist of (i) government grants, mainly comprising tax rebates, (ii) fair value gains on financial assets at fair value through profit or loss (“FVTPL”), representing gains from structured deposits we purchased, and (iii) interest income from our bank deposits.

The following table sets forth a breakdown of our other income and gains for the periods indicated:

	Year ended December 31,		Nine months ended September 30,	
	2022	2023	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i> <i>(unaudited)</i>
Government grants	817	1,052	666	1,089
Fair value gains on financial assets at FVTPL	544	1,115	657	910
Interest income	100	98	89	258
Others	40	21	—	317
Total	<u>1,501</u>	<u>2,286</u>	<u>1,412</u>	<u>2,574</u>

Our other income and gains increased from RMB1.5 million in 2022 to RMB2.3 million in 2023, primarily due to an increase in fair value gains on financial assets at FVTPL as a result of more investments in structured deposits to better utilize our spare cash as we generated significant cash inflows from operating activities in 2023. Our other income and gains increased from RMB1.4 million for the nine months ended September 30, 2023 to RMB2.6 million for the nine months ended September 30, 2024, primarily due to (i) an increase in government grants received as a result of VAT refund for our TCM Brain subscription services and (ii) an increase in fair value gains on financial assets at FVTPL representing gains on our investments in structured deposits.

Selling Expenses

Our selling expenses consist of (i) promotion, branding and marketing expenses, which are primarily related to promotion activities of our Jingyi Academy through social media platforms, as well as the marketing expenses for our TCM lifestyle products, (ii) employee benefit expenses, mainly representing salaries, bonuses, social insurance and other welfare paid to our selling and marketing staff, and (iii) depreciation and rental related expenses, mainly representing depreciation of our property, plant and equipment and right-of-use assets, and rental related expenses.

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FINANCIAL INFORMATION

The following table sets forth a breakdown of our selling expenses for the periods indicated:

	Year ended December 31,				Nine months ended September 30,			
	2022		2023		2023		2024	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
					<i>(unaudited)</i>		<i>(unaudited)</i>	
Promotion, branding and marketing expenses	8,014	91.8	23,483	93.4	23,008	94.9	16,575	89.4
Employee benefit expenses	694	8.0	1,554	6.2	1,169	4.8	1,859	10.1
Depreciation and rental related expenses	17	0.2	103	0.4	78	0.3	89	0.5
Total	8,725	100.0	25,140	100.0	24,255	100.0	18,523	100.0

For the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2023 and 2024, our selling expenses amounted to RMB8.7 million, RMB25.1 million, RMB24.3 million and RMB18.5 million, respectively, representing 14.0%, 13.3%, 18.7% and 10.7% of our total revenue for the same periods. For detailed analysis, see “— Period to Period Comparison of Results of Operations.”

Administrative Expenses

Our administrative expenses primarily consist of (i) employee benefit expenses, mainly representing salaries, bonuses, social insurance and other welfare paid to our administrative staff, (ii) depreciation and rental related expenses, mainly representing depreciation of our property, plant and equipment and right-of-use assets, and rental related expenses for our office premises, (iii) office expenses, such as bank charges, office and travel expenses incurred in connection with our administrative activities, and (iv) professional fees paid to third party consulting firms and legal advisors.

The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	Year ended December 31,				Nine months ended September 30,			
	2022		2023		2023		2024	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
					<i>(unaudited)</i>		<i>(unaudited)</i>	
Employee benefit expenses	13,448	66.7	15,913	60.9	12,287	66.7	14,236	59.0
Depreciation and rental related expenses	1,833	9.1	3,581	13.7	2,635	14.3	4,308	17.8
Office expenses	3,257	16.1	4,307	16.5	2,804	15.2	4,072	16.9
Professional fees	1,638	8.1	2,331	8.9	709	3.8	1,523	6.3
Total	20,176	100.0	26,132	100.0	18,435	100.0	24,139	100.0

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For the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2023 and 2024, our administrative expenses amounted to RMB20.2 million, RMB26.1 million, RMB18.4 million and RMB24.1 million, respectively, representing 32.5%, 13.8%, 14.2% and 13.9% of our total revenue for the same periods. For detailed analysis, see “— Period to Period Comparison of Results of Operations.”

Research and Development Expenses

Our research and development expenses primarily consist of employee benefit expenses, mainly representing salaries, bonuses, social insurance and other welfare paid to our research and development staff, service fees and other expenses incurred for our research and development activities.

For the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2023 and 2024, our research and development expenses amounted to RMB5.4 million, RMB9.0 million, RMB7.2 million and RMB8.4 million, respectively, representing 8.7%, 4.8%, 5.6% and 4.9% of our total revenue for the same periods. For detailed analysis, see “— Period to Period Comparison of Results of Operations.”

Fair Value Changes of Convertible Redeemable Preference Shares

Since the date of incorporation, the Company has completed several rounds of financing by issuing series of convertible redeemable preference shares. Our fair value changes of convertible redeemable preference shares represented the fair value fluctuation of our convertible redeemable preference shares. For the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2023 and 2024, our fair value changes of convertible redeemable preference shares amounted to RMB159.6 million, RMB236.9 million, RMB235.9 million and RMB98.9 million, respectively. For details, see Note 22 to the Accountants’ Report as set out in Appendix IA and Note 12 to the unaudited interim condensed consolidated financial information for nine months ended September 30, 2024 as set out in Appendix IB. Our convertible redeemable preference shares will be automatically converted into our Shares upon [REDACTED] and we do not expect to recognize any further loss or gain on fair value changes from convertible redeemable preference shares thereafter.

Other Expenses

Our other expenses consist of [REDACTED] expenses, donation and other miscellaneous expenses. The following table sets forth a breakdown of our other expenses for the periods indicated:

	Year ended December 31,				Nine months ended September 30,			
	2022		2023		2023		2024	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
					<i>(unaudited)</i>		<i>(unaudited)</i>	
[REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Donation	—	—	300	88.2	—	—	105	1.6
Others	267	100.0	40	11.8	40	100.0	—	—
Total	267	100.0	340	100.0	40	100.0	6,407	100.0

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For the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2023 and 2024, our other expenses amounted to RMB267 thousand, RMB340 thousand, RMB40 thousand and RMB6.4 million, respectively. For detailed analysis, see “— Period to Period Comparison of Results of Operations.”

Finance Costs

Our finance costs consist of interests on lease liabilities. For the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2023 and 2024, our finance costs, i.e. interests on lease liabilities, amounted to RMB0.5 million, RMB1.2 million, RMB0.9 million and RMB1.1 million, respectively.

The increase in our finance costs from RMB0.5 million in 2022 to RMB1.2 million in 2023 was primarily due to more properties we leased for clinics, decoction centers and office premises. The increase in our finance costs from RMB0.9 million for the nine months ended September 30, 2023 to RMB1.1 million for the corresponding period in 2024 was primarily due to an increase in interests on lease liabilities, as a result of the full-period effect of the addition of leased properties for our new clinics and office in 2023.

Income Tax Credit/Expense

We are subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of our Group are domiciled and operate.

Cayman Islands

Pursuant to the rules and regulations of the Cayman Islands, we are not subject to any income tax in the Cayman Islands. In addition, upon payments of dividends by our Company to its shareholders, no withholding tax in the Cayman Islands is imposed.

Mainland China

Pursuant to the EIT Law of the PRC and the respective regulations (the “**EIT Law**”), subsidiaries of our Group that operate in mainland China are subject to corporate income tax at a rate of 25% on the taxable income unless those are subject to tax exemption set out below, except that a subsidiary of our Group that is qualified as a “High and New Technology Enterprise” and therefore was entitled to a preferential income tax rate of 15% for the relevant periods.

Hong Kong

No provision for Hong Kong profits tax has been made as our Company had no assessable profits derived from or earned in Hong Kong during the relevant period. The subsidiary incorporated in Hong Kong is subject to income tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year.

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For the year ended December 31, 2022, we recorded income tax credit of RMB3.7 million primarily due to the recognition of deferred tax assets with respect to tax losses available for offsetting against future taxable profits, which was in line with the substantial improvement in our business operation results during the year. For the year ended December 31, 2023, we recorded income tax expense of RMB10.4 million primarily due to the significant increase in our taxable income. For the nine months ended September 30, 2023 and 2024, we recorded income tax expense of RMB4.6 million and RMB5.9 million, respectively.

Loss for the Year/Period

For the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2023 and 2024, we recorded loss for year/period of RMB154.4 million, RMB193.9 million, RMB215.0 million and RMB55.7 million, respectively.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Nine Months Ended September 30, 2024 Compared to Nine Months Ended September 30, 2023

Revenue

Our total revenue increased by 33.8% from RMB129.4 million for the nine months ended September 30, 2023 to RMB173.1 million for the nine months ended September 30, 2024, primarily due to the continuous revenue growth of our three business lines.

TCM healthcare services

Revenue from TCM healthcare services increased by 34.2% from RMB115.4 million for the nine months ended September 30, 2023 to RMB154.9 million for the nine months ended September 30, 2024, primarily due to the increase in the number of patient visits from approximately 122.0 thousand for the nine months ended September 30, 2023 to approximately 164.2 thousand for the same period in 2024. Such increases were primarily attributable to (i) our expanded physician base which enhanced our service capacity and (ii) the expansion of our service network by establishing new clinics.

TCM lifestyle products

Revenue from TCM lifestyle products increased by 25.0% from RMB8.3 million for the nine months ended September 30, 2023 to RMB10.3 million for the nine months ended September 30, 2024, primarily due to an increase in revenue from our newly launched TCM knowledge products during the period.

TCM Brain subscription services

Revenue from TCM Brain subscription services increased by 38.6% from RMB5.7 million for the nine months ended September 30, 2023 to RMB7.9 million for the nine months ended September 30, 2024, primarily due to revenue contribution from our newly developed customers during the period as well as retentions of our existing customers for TCM Brain subscription services.

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Cost of sales

Our cost of sales increased by 24.8% from RMB54.5 million for the nine months ended September 30, 2023 to RMB68.0 million for the nine months ended September 30, 2024, primarily due to (i) the increase in cost of pharmaceutical and other products as a result of the increased consumption of decocting pieces and TCM lifestyle products in line with our business expansion and revenue growth and (ii) an increase in employee benefit expenses as a result of our expanded physician base to cater to our business expansion needs.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 40.4% from RMB74.9 million for the nine months ended September 30, 2023 to RMB105.1 million for the nine months ended September 30, 2024. Our gross profit margin increased from 57.9% for the nine months ended September 30, 2023 to 60.7% for the nine months ended September 30, 2024.

The gross profit margin of our TCM healthcare services increased from 56.1% for the nine months ended September 30, 2023 to 59.4% for the nine months ended September 30, 2024, primarily due to (i) a decrease in cost of pharmaceutical and other products as a percentage of revenue as the unit purchase prices of certain types of TCM decocting pieces decreased for the nine months ended September 30, 2024 and (ii) a decrease in employee benefit expenses as a percentage of revenue as a result of the increase in the number of newly enrolled physicians.

The gross profit margin of TCM lifestyle products decreased from 64.5% for the nine months ended September 30, 2023 to 62.5% for the nine months ended September 30, 2024, primarily due to the increase in portion of revenue from products with lower profit margins, such as certain TCM knowledge products.

The gross profit margin of our TCM Brain subscription services remained relatively stable at 84.2% and 84.3% for the nine months ended September 30, 2023 and 2024, respectively.

Other income and gains

Other income and gains increased by 82.3% from RMB1.4 million for the nine months ended September 30, 2023 to RMB2.6 million for the nine months ended September 30, 2024, primarily due to (i) an increase in government grants as a result of VAT refund for our TCM Brain subscription services and (ii) an increase in fair value gains on financial assets at FVTPL representing gains on our investments in structured deposits.

Selling expenses

Our selling expenses decreased by 23.6% from RMB24.3 million for the nine months ended September 30, 2023 to RMB18.5 million for the nine months ended September 30, 2024, primarily due to a decrease in promotion and marketing expenses as we adjusted our promotional efforts to adapt to our business development needs.

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Administrative expenses

Our administrative expenses increased by 30.9% from RMB18.4 million for the nine months ended September 30, 2023 to RMB24.1 million for the nine months ended September 30, 2024, primarily due to (i) an increase in employee benefit expenses and office expenses, as a result of our expanded management and administrative team as well as (ii) an increase in depreciation and rental related expenses as a result of our expanded office space.

Research and development expenses

Our research and development expenses increased by 15.9% from RMB7.2 million for the nine months ended September 30, 2023 to RMB8.4 million for the nine months ended September 30, 2024, primarily due to the increase in the headcount of research and development team in order to upgrade our TCM Brain.

Fair value changes of convertible redeemable preference shares

Fair value changes of convertible redeemable preference shares decreased by 58.1% from RMB235.9 million for the nine months ended September 30, 2023 to RMB98.9 million for the nine months ended September 30, 2024, primarily due to a relatively smaller increase in the fair value of convertible redeemable preference shares of our Company.

Other expenses

Other expenses increased from RMB40 thousand for the nine months ended September 30, 2023 to RMB6.4 million for the nine months ended September 30, 2024, primarily due to an increase in [REDACTED] expenses in connection with the [REDACTED].

Finance costs

Our finance costs increased by 22.4% from RMB0.9 million for the nine months ended September 30, 2023 to RMB1.1 million for the nine months ended September 30, 2024, primarily due to an increase in interests on lease liabilities as a result of the full-period effect of the addition of leased properties for our new clinics and office in 2023.

Income tax expense

Our income tax expense increased by 30.1% from RMB4.6 million for the nine months ended September 30, 2023 to RMB5.9 million for the nine months ended September 30, 2024, primarily due to an increase in taxable income for the nine months ended September 30, 2024.

Loss for the period

As a result of the foregoing, our loss for the period decreased by 74.1% from RMB215.0 million for the nine months ended September 30, 2023 to RMB55.7 million for the nine months ended September 30, 2024.

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Year Ended December 31, 2023 Compared to Year Ended December 31, 2022

Revenue

Our total revenue increased by 204.0% from RMB62.2 million in 2022 to RMB189.0 million in 2023, primarily due to increases in revenue contribution from all of our three business lines.

TCM healthcare services

Revenue from TCM healthcare services increased by 231.7% from RMB50.4 million in 2022 to RMB167.2 million in 2023, primarily due to the increase in the number of patient visits from approximately 61.6 thousand in 2022 to approximately 179.2 thousand in 2023. We believe such increase primarily resulted from our increased brand awareness and recognition attributable to both our branding initiatives and treatment outcomes, thus attracting more patients. We in turn expanded our healthcare service network and physician base to enhance service capacity to satisfy growing customer demand.

TCM lifestyle products

Revenue from TCM lifestyle products increased by 124.3% from RMB6.1 million in 2022 to RMB13.6 million in 2023, primarily due to increased sales of our TCM healthcare products and online recorded courses as a result of our increased brand awareness attributable largely to our promotional and marketing efforts.

TCM Brain subscription services

Revenue from TCM Brain subscription services increased by 43.4% from RMB5.7 million in 2022 to RMB8.2 million in 2023, primarily due to the enlargement in our customer base as evidenced by the increased number of accounts in subscription in 2023.

Cost of sales

Our cost of sales increased by 179.6% from RMB27.2 million in 2022 to RMB76.0 million in 2023, primarily due to (i) an increase in cost of pharmaceutical and other products as a result of the increased consumption of decocting pieces and TCM lifestyle products in line with our business expansion and revenue growth, and (ii) an increase in employee benefit expenses as a result of our expanded physician base to cater to our business expansion needs.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 222.9% from RMB35.0 million in 2022 to RMB113.0 million in 2023. Our overall gross profit margin increased from 56.3% in 2022 to 59.8% in 2023, primarily due to the improvement of our operational efficiency in provision of TCM healthcare services.

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The gross profit margin of our TCM healthcare services increased from 50.6% in 2022 to 58.1% in 2023, primarily due to the improved efficiency of our TCM healthcare services in view of the increase in number of patient visits per physician from approximately 2.9 thousand in 2022 to approximately 3.8 thousand in 2023.

The gross profit margin of TCM lifestyle products decreased from 77.8% in 2022 to 65.2% in 2023, primarily due to a change in product mix. The sales of TCM healthcare products increased in 2023 and accounted for a higher proportion of our revenue from TCM lifestyle products. However, TCM healthcare products generally have relatively lower product margins than other types of TCM lifestyle products offered by us. As a result, the gross profit margin of TCM lifestyle products decreased in 2023.

The gross profit margin of our TCM Brain subscription services remained relatively stable at 83.2% and 84.2% in 2022 and 2023, respectively.

Other income and gains

Other income and gains increased by 52.3% from RMB1.5 million in 2022 to RMB2.3 million in 2023, primarily due to an increase in fair value gains on financial assets at FVTPL as a result of more investments in structured deposits to better utilize our spare cash as we generated significant cash flows from operating activities in 2023.

Selling expenses

Our selling expenses increased by 188.1% from RMB8.7 million in 2022 to RMB25.1 million in 2023, primarily due to an increase in promotion, branding and marketing expenses attributable to our increased promotion activities for our Jingyi Academy through social media platforms as well as marketing expenses for our TCM lifestyle products. Our selling expenses as a percentage of revenue remained relatively stable at 14.0% and 13.3% in 2022 and 2023, respectively.

Administrative expenses

Our administrative expenses increased by 29.5% from RMB20.2 million in 2022 to RMB26.1 million in 2023, primarily due to (i) an increase in employee benefit expenses as a result of the increased headcount of our administrative staff and (ii) an increase in office expenses along with our business expansion. Our administrative expenses as a percentage of revenue decreased from 32.5% in 2022 to 13.8% in 2023, primarily due to the improvement in our operating efficiency as we achieved economies of scale as our revenue grew.

Research and development expenses

Our research and development expenses increased by 67.5% from RMB5.4 million in 2022 to RMB9.0 million in 2023, primarily due to more efforts in the research and development of TCM Brain, mainly including (i) the expansion of our research and development team, and (ii) increasing research and development activities such as collecting and processing clinical data along with our business growth.

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Fair value changes of convertible redeemable preference shares

Fair value changes of convertible redeemable preference shares increased by 48.5% from RMB159.6 million in 2022 to RMB236.9 million in 2023, primarily due to the increase in the fair value of convertible redeemable preference shares of our Company along with the continuous improvement in our operating results.

Other expenses

Other expenses increased by 27.3% from RMB267 thousand in 2022 to RMB340 thousand in 2023, primarily due to an increase in our donations in 2023.

Finance costs

Our finance costs increased by 144.3% from RMB0.5 million in 2022 to RMB1.2 million in 2023, primarily due to an increase in interests on lease liabilities as a result of more properties we leased for new clinics, decoction center and office in 2023.

Income tax credit/expense

We recorded income tax credit of RMB3.7 million in 2022 whereas we incurred income tax expense of RMB10.4 million in 2023, primarily due to the significant increase in our taxable income. Our income tax credit of RMB3.7 million in 2022 was primarily because the recognition of deferred tax assets with respect to tax losses available for offsetting against future taxable profits, which was in line with the substantial improvement in our business operation results during the year.

Loss for the year

As a result of the foregoing, our loss for the year increased by 25.6% from RMB154.4 million in 2022 to RMB193.9 million in 2023.

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FINANCIAL INFORMATION

SELECTED KEY ITEMS OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The following table sets forth our financial position as of the dates indicated:

	As of December 31,		As of
	2022	2023	September 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>
Non-current assets			
Property, plant and equipment	2,439	7,608	8,786
Right-of-use assets	10,325	23,821	26,935
Deferred tax assets	4,736	1,459	1,421
Total non-current assets	17,500	32,888	37,142
Current assets			
Inventories	3,685	8,159	11,545
Prepayments and other receivables	6,758	8,691	10,698
Financial assets at FVTPL	9,200	80,352	36,202
Cash and cash equivalents	36,767	14,286	96,873
Total current assets	56,410	111,488	155,318
Current liabilities			
Trade payables	5,856	9,068	10,396
Other payables and accruals	8,587	14,509	18,327
Convertible redeemable preference shares	263,486	506,108	598,236
Lease liabilities	4,223	7,986	8,748
Tax payable	506	4,081	882
Total current liabilities	282,658	541,752	636,589
Net current liabilities	(226,248)	(430,264)	(481,271)
Total assets less current liabilities	(208,748)	(397,376)	(444,129)
Non-current liabilities			
Lease liabilities	6,686	17,355	19,629
Total non-current liabilities	6,686	17,355	19,629
Net liabilities	(215,434)	(414,731)	(463,758)

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	As of December 31,		As of September 30,
	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>
Deficiency in assets			
Equity attributable to owners of the Company			
Share capital	27	27	50
Reserves	(215,461)	(414,758)	(463,808)
Total deficit	(215,434)¹	(414,731)	(463,758)

Note:

- We recorded total deficit at the beginning of the Track Record Period, primarily due to accumulated losses incurred for the previous years and the impact of convertible redeemable preference shares.

Inventories

Our inventories primarily consist of decocting pieces and TCM lifestyle products. We adopt strict inventory management measures and use our HIS to closely monitor our inventory level. For details, see “Business — Inventory Management.” We generally maintain approximately 35 days of inventory to meet the needs of our daily operations. We periodically review obsolete and slow-moving inventories by using the lower of cost and net realizable value rule pursuant to our accounting policy at the end of each year/period during the Track Record Period. Provision is made when the carrying amounts of inventories below their net realizable value are identified. There was no inventory provision recognized during the Track Record Period.

Our inventories increased by 121.4% from RMB3.7 million as of December 31, 2022 to RMB8.2 million as of December 31, 2023, primarily due to the expansion of our business scale. Our inventories then increased by 41.5% to RMB11.5 million as of September 30, 2024, primarily due to the expansion of our business scale, and our bulk purchases of decocting pieces near the period-end when the purchase prices were relatively low and in anticipation of future business needs. The majority of our inventories as of December 31, 2022 and 2023 and September 30, 2024 were aged within six months.

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The following table sets forth our inventory turnover days for the periods indicated:

	Year ended December 31,		Nine months ended September 30,
	2022	2023	2024
Inventory turnover days	28.7	28.4	39.1

Note: Inventory turnover days are calculated by the average of the beginning and ending balance of inventories for the year/period divided by cost of sales for the year/period and multiplied by 365 days for 2022 and 2023 and 270 days for the nine months ended September 30, 2024.

Our inventory turnover days remained relatively stable at 28.7 days in 2022 and 28.4 days in 2023, respectively. Our inventory turnover days then increased to 39.1 days for the nine months ended September 30, 2024 as we increased our inventory level near period-end.

As of November 30, 2024, RMB7.0 million, or 60.2% of our inventories as of September 30, 2024 had been used, consumed or sold subsequently.

Prepayments and Other Receivables

Our prepayments and other receivables consist of (i) prepayments to suppliers, mainly representing prepayments for procurement of inventories and raw materials, and prepaid expenses for our operating premises, (ii) other receivables, mainly comprising deposits for our leased properties and balances with third-party payment platforms, (iii) deferred [REDACTED] expense, and (iv) amount due from a director.

The following table sets forth the breakdown of our prepayments and other receivables as of the dates indicated:

	As of December 31,		As of September 30,
	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>
Prepayments to suppliers	2,119	2,770	3,260
Other receivables	1,205	2,261	3,232
Deferred [REDACTED] expense	[REDACTED]	[REDACTED]	[REDACTED]
Due from a director	3,434	3,660	1,976
Total	6,758	8,691	10,698

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Our prepayments and other receivables increased by 28.6% from RMB6.8 million as of December 31, 2022 to RMB8.7 million as of December 31, 2023, primarily due to (i) an increase in prepayments to suppliers as a result of the increase in prepaid expenses for our operating premises and (ii) an increase in other receivables attributable to increased deposits for our newly leased properties and increased receivables due from third-party payment platforms in line with our business expansion. Our prepayments and other receivables increased by 23.1% from RMB8.7 million as of December 31, 2023 to RMB10.7 million as of September 30, 2024, primarily due to an increase in deferred [REDACTED] expense of [REDACTED] in relation to the [REDACTED].

Our amount due from a director amounted to RMB3.4 million, RMB3.7 million and RMB2.0 million as of December 31, 2022 and 2023 and September 30, 2024, respectively. Our amount due from a director was unsecured, interest-free and repayable on demand. Our amount due from a director as of September 30, 2024 had been fully settled as of the Latest Practicable Date.

As of November 30, 2024, RMB1.8 million, or 16.5% of our prepayments and other receivables as of September 30, 2024 had been settled subsequently.

Financial Assets at Fair Value Through Profit or Loss

Our financial assets at FVTPL represent our investments in principal guaranteed structured deposits. The structured deposits are placed with reputable commercial banks in the PRC with expected return rates linked to certain exchange rates in the contracts. The annual expected return rates range from 1.75% to 2.55%. The initial maturities are usually within one to three months.

Our financial assets at FVTPL increased significantly by 773.4% from RMB9.2 million as of December 31, 2022 to RMB80.4 million as of December 31, 2023, primarily due to more investments in structured deposits to better utilize our spare cash as we generated significant cash inflows from operating activities in 2023. Our financial assets at FVTPL then decreased by 54.9% to RMB36.2 million as of September 30, 2024, primarily due to redemption of structured deposits we purchased according to changing market conditions and our working capital needs.

Our finance department headed by the finance director is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance director reports directly to the chief executive officer and the board of directors of the Company. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief executive officer. The fair values of financial products issued by banks in mainland China included in the financial assets at FVTPL are quoted from active markets.

In the future, we may continue to invest in principal guaranteed structured deposits or other types of wealth management products in accordance with our internal investment management policies to maximize our capital utilization efficiency. We typically invest in products with low risks and high asset security. We make investment decisions on a case-by-case basis after thoroughly considering a number of factors, including but not limited to maturity,

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expected returns and underlying assets of wealth management products, general market conditions and our short-term capital needs. We ensure the separation of duties in respect of the selection and approval of purchasing our wealth management products. The proposed investment shall be approved by our chief executive officer, our Board or the Shareholders’ meeting depending on the size of such investment. Our finance department is responsible for the bookkeeping of our investments.

Our investments after the [REDACTED] will be subject to applicable relevant laws, regulations and rules, including Chapter 14 and other applicable rules under the Listing Rules.

Property, Plant and Equipment

Our property, plant and equipment consist of leasehold improvements, furniture, fixtures and equipment. The following table sets forth a breakdown of our property, plant and equipment in net carrying amounts as of the dates indicated:

	As of December 31,		As of September 30,
	2022	2023	2024
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i> <i>(unaudited)</i>
Leasehold improvements	1,006	4,737	6,134
Furniture, fixtures and equipment	1,433	2,871	2,656
Total	2,439	7,608	8,790

Our property, plant and equipment increased by 211.9% from RMB2.4 million as of December 31, 2022 to RMB7.6 million as of December 31, 2023, and further increased by 15.5% to RMB8.8 million as of September 30, 2024, primarily due to additions of leasehold improvements and medical equipment in our newly opened clinic and decoction center.

Right-of-use Assets

Our right-of-use assets represent leases of our clinics, decoction centers and office premises. Our right-of-use assets increased by 130.7% from RMB10.3 million as of December 31, 2022 to RMB23.8 million as of December 31, 2023, primarily due to the new leases we entered into for our newly-opened clinics and expanded office premises, which was in line with our business expansion. Our right-of-use assets further increased by 13.1% to RMB26.9 million as of September 30, 2024, primarily due to the addition of new leases for our newly opened clinic and decoction center.

Trade Payables

Our trade payables primarily represent outstanding amounts due to our suppliers of decocting pieces. Our trade payables are normally settled on credit terms of one to three months after the invoice date.

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Our trade payables increased by 54.8% from RMB5.9 million as of December 31, 2022 to RMB9.1 million as of December 31, 2023, and further increased by 14.6% to RMB10.4 million as of September 30, 2024, primarily due to our increased procurement as a result of our business expansion.

The following table sets forth an aging analysis of our trade payables as of the dates indicated, presented based on the invoice date:

	As of December 31,		As of September 30,
	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>
Within three months	5,856	9,068	10,396

The following table sets forth our trade payable turnover days for the periods indicated:

	Year ended December 31,		Nine months ended September 30,
	2022	2023	2024
Trade payable turnover days	54.9	35.8	38.6

Note: Trade payable turnover days are calculated by the average of the beginning and ending balance of trade payables for the year/period divided by cost of sales for the year/period and multiplied by 365 days for 2022 and 2023 and 270 days for the nine months ended September 30, 2024.

Our trade payable turnover days decreased from 54.9 days in 2022 to 35.8 days in 2023, primarily because we adopted a refined procurement strategy and increased purchase frequency to ensure steady supply for our emerging business, resulting in accelerated settlement with our suppliers. Our trade payable turnover days remained relatively stable at 35.8 days in 2023 and 38.6 days for the nine months ended September 30, 2024, respectively.

As of November 30, 2024, RMB7.2 million, or 69.2% of our trade payables as of September 30, 2024 had been settled subsequently.

Other Payables and Accruals

Our other payables and accruals primarily comprise (i) contract liabilities, representing the advanced payments of subscription fees that are initially recognized as contract liabilities and subsequently recognized as revenue evenly over the subscription period and advanced payments of service package sold to customers, as well as the customer loyalty award credits that are deferred in contract liabilities and recognized as revenue when the award credits are redeemed and our Group’s obligations have been fulfilled, (ii) salary and welfare payable to our employees, (iii) other payables to suppliers of equipment and third-party professionals which

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are non-interest-bearing and would be settled in a period ranging from three months to one year, (iv) accrued [REDACTED] expense in connection with the [REDACTED], (v) other tax payable and (vi) accruals.

The following table sets forth the breakdown of our other payables and accruals as of the dates indicated:

	As of December 31,		As of
	2022	2023	September 30, 2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>
Contract liabilities	5,143	8,392	8,366
Salary and welfare payable	1,184	2,940	4,665
Other payables	1,665	2,024	2,259
Accrued [REDACTED] expense	[REDACTED]	[REDACTED]	[REDACTED]
Other tax payable	338	732	535
Accruals	257	421	401
Total	8,587	14,509	18,327

Our other payables and accruals increased by 69.0% from RMB8.6 million as of December 31, 2022 to RMB14.5 million as of December 31, 2023, primarily due to the increases in contract liabilities and salary and welfare payable in line with our revenue growth and expansion in business scale. Our other payables and accruals further increased by 26.3% to RMB18.3 million as of September 30, 2024, primarily due to (i) an increase in accrued [REDACTED] expense as of September 30, 2024 and (ii) an increase in salary and welfare payable resulted from increased headcount for business expansion and the adjustment of company policy to uniformly make payments for salary after the end of each month, while some of the salary payments were made before the end of each month previously.

As of November 30, 2024, RMB9.5 million, or 51.9% of our other payables and accruals as of September 30, 2024 had been settled subsequently.

Convertible Redeemable Preference Shares

Our convertible redeemable preference shares was attributable to several rounds of financing by issuing series of preference shares. Our convertible redeemable preference shares had a fair value of RMB263.5 million, RMB506.1 million and RMB598.2 million as of December 31, 2022 and 2023 and September 30, 2024, respectively. The increase in the fair value of our convertible redeemable preference shares was primarily due to the increase in the Group’s valuation along with the expansion of our business scale. For details, see Note 22 to the Accountants’ Report as set out in Appendix IA and Note 12 to the unaudited interim condensed consolidated financial information for nine months ended September 30, 2024 as set out in Appendix IB.

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NET CURRENT LIABILITIES

The following table sets forth the details of our current assets and current liabilities as of the dates indicated:

	<u>As of December 31,</u>		<u>As of</u> <u>September 30,</u>	<u>As of</u> <u>November 30,</u>
	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2024</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i> <i>(unaudited)</i>
Current assets				
Inventories	3,685	8,159	11,545	[10,904]
Prepayments and other receivables	6,758	8,691	10,698	[16,746]
Financial assets at FVTPL	9,200	80,352	36,202	[92,247]
Cash and cash equivalents	<u>36,767</u>	<u>14,286</u>	<u>96,873</u>	<u>[127,108]</u>
Total current assets	<u>56,410</u>	<u>111,488</u>	<u>155,318</u>	<u>[247,005]</u>
Current liabilities				
Trade payables	5,856	9,068	10,396	[9,038]
Other payables and accruals	8,587	14,509	18,327	[16,118]
Convertible redeemable preference shares	263,486	506,108	598,236	[694,986]
Lease liabilities	4,223	7,986	8,748	[10,725]
Tax payable	<u>506</u>	<u>4,081</u>	<u>882</u>	<u>[302]</u>
Total current liabilities	<u>282,658</u>	<u>541,752</u>	<u>636,589</u>	<u>[731,169]</u>
Net current liabilities	<u>(226,248)</u>	<u>(430,264)</u>	<u>(481,271)</u>	<u>[(484,164)]</u>

We recorded net current liabilities of RMB226.2 million, RMB430.3 million, RMB481.3 million, and RMB[484.2] million as of December 31, 2022 and 2023, September 30, 2024 and November 30, 2024, respectively, primarily attributable to convertible redeemable preference shares of RMB263.5 million, RMB506.1 million, RMB598.2 million and RMB[695.0] million as of the respective dates, the fair value of which increased along with the continuous improvement in our operating results. The convertible redeemable preference shares will be automatically converted into our Shares upon [REDACTED], the fair value of which will be re-designated from liabilities to equity.

Our net current liabilities remained relatively stable at RMB481.3 million as of September 30, 2024 and RMB[484.2] million as of November 30, 2024, respectively.

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Our net current liabilities increased by 11.9% from RMB430.3 million as of December 31, 2023 to RMB481.3 million as of September 30, 2024, primarily due to (i) an increase in our convertible redeemable preference shares of RMB92.1 million attributable to the increase in our Group’s valuation, and (ii) a decrease in financial assets at FVTPL of RMB44.2 million as a result of redemption of structured deposits we purchased, partially offset by (iii) an increase in cash and cash equivalents of RMB82.6 million mainly resulted from cash inflows from our operations as well as redemption of structured deposits.

Our net current liabilities increased by 90.2% from RMB226.2 million as of December 31, 2022 to RMB430.3 million as of December 31, 2023, primarily due to (i) a significant increase in our convertible redeemable preference shares of RMB242.6 million attributable to the increase in our Group’s valuation, (ii) an increase in other payables and accruals of RMB5.9 million, (iii) an increase in lease liabilities of RMB3.8 million, and (iv) an increase in tax payable of RMB3.6 million along with our business expansion, partially offset by the increase in current assets mainly attributable to (v) an increase in financial assets at FVTPL of RMB71.2 million as a result of structured deposits we purchased to better utilize our spare cash as we generated significant cash flows from operating activities in 2023.

LIQUIDITY AND CAPITAL RESOURCES

The following table sets forth a summary of our cash flows for the periods indicated:

	Year ended December 31,		Nine months ended September 30,	
	2022	2023	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i> <i>(unaudited)</i>
Net cash flows from operating activities	5,387	62,049	34,465	48,977
Net cash flows (used in)/ from investing activities	(5,439)	(77,208)	(46,290)	41,489
Net cash flows from/(used in) financing activities	<u>26,209</u>	<u>(7,360)</u>	<u>(5,078)</u>	<u>(7,880)</u>
Net increase/(decrease) in cash and cash equivalents	26,157	(22,519)	(16,903)	82,586
Cash and cash equivalents at beginning of the year/ period	10,467	36,767	36,767	14,286
Effect of foreign exchange rate changes, net	<u>143</u>	<u>38</u>	<u>70</u>	<u>1</u>
Cash and cash equivalents at end of year/period	<u>36,767</u>	<u>14,286</u>	<u>19,934</u>	<u>96,873</u>

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Net Cash Flows from Operating Activities

For the nine months ended September 30, 2024, our net cash flows from operating activities of RMB49.0 million was primarily attributable to loss before tax of RMB49.8 million, as adjusted by non-cash and non-operational items totaling RMB108.0 million, changes in working capital of RMB0.4 million, interests received of RMB258 thousand and income tax paid of RMB9.1 million. Changes in working capital mainly consisted of (i) an increase in inventories of RMB3.4 million, (ii) an increase in prepayments and other receivables of RMB2.1 million, (iii) an increase in trade payables of RMB1.3 million and (iv) an increase in other payables and accruals of RMB3.8 million.

For the nine months ended September 30, 2023, our net cash flows from operating activities of RMB34.5 million was primarily attributable to loss before tax of RMB210.4 million, as adjusted by non-cash and non-operational items totaling RMB242.4 million, changes in working capital of RMB3.1 million, interests received of approximately RMB89 thousand and income tax paid of RMB0.7 million. Changes in working capital mainly consisted of (i) an increase in inventories of RMB3.1 million, (ii) an increase in prepayments and other receivables of approximately RMB2.4 million, (iii) an increase in trade payables of RMB3.4 million and (iv) an increase in other payables and accruals of RMB5.2 million.

For the year ended December 31, 2023, our net cash flows from operating activities of RMB62.0 million were primarily attributable to loss before tax of RMB183.5 million, as adjusted by non-cash and non-operational items totaling RMB246.0 million, changes in working capital of RMB3.0 million, interests received of approximately RMB98 thousand and income tax paid of RMB3.5 million. Changes in working capital mainly consisted of (i) an increase in inventories of RMB4.5 million, (ii) an increase in prepayments and other receivables of RMB1.7 million, (iii) an increase in trade payables of RMB3.2 million and (iv) an increase in other payables and accruals of RMB5.9 million.

For the year ended December 31, 2022, our net cash flows from operating activities of RMB5.4 million were primarily attributable to loss before tax of RMB158.1 million, as adjusted by non-cash and non-operational items totaling RMB163.9 million, changes in working capital of RMB120 thousand, interests received of approximately RMB100 thousand and income tax paid of RMB312 thousand. Changes in working capital mainly consisted of (i) an increase in inventories of RMB3.1 million, (ii) an increase in prepayments and other receivables of RMB1.0 million, (iii) an increase in trade payables of RMB3.5 million and (iv) an increase in other payables and accruals of RMB0.4 million.

See “— Selected Key Items of Consolidated Statement of Financial Position” for primary reasons relating to the underlying causes for our operating cash flow changes.

Net Cash Flows Used in Investing Activities

For the nine months ended September 30, 2024, our net cash flows from investing activities amounted to RMB41.5 million, which was primarily attributable to (i) proceeds from redemption of financial assets at FVTPL of RMB194.6 million, partially offset by (ii) purchase of financial assets at FVTPL of RMB149.5 million and (iii) acquisition of items of property, plant and equipment of RMB3.6 million.

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For the nine months ended September 30, 2023, our net cash flows used in investing activities amounted to RMB46.3 million, which was primarily attributable to (i) acquisition of financial assets at FVTPL of RMB263.1 million and (ii) purchases of items of property, plant and equipment of RMB5.6 million, partially offset by (iii) proceeds from redemption of financial assets at FVTPL of RMB222.4 million.

For the year ended December 31, 2023, our net cash flows used in investing activities amounted to RMB77.2 million, which was primarily attributable to (i) acquisition of items of property, plant and equipment of RMB7.2 million and (ii) purchase of financial assets at FVTPL of RMB358.1 million, partially offset by (iii) proceeds from redemption of financial assets at FVTPL of RMB288.1 million.

For the year ended December 31, 2022, our net cash flows used in investing activities amounted to RMB5.4 million, which was primarily attributable to (i) acquisition of items of property, plant and equipment of RMB1.3 million and (ii) purchase of financial assets at FVTPL of RMB187.4 million, partially offset by (iii) proceeds from redemption of financial assets at FVTPL of RMB183.3 million.

Net Cash Flows from/(Used in) Financing Activities

For the nine months ended September 30, 2024, our net cash flows used in financing activities amounted to RMB7.9 million, which was primarily attributable to (i) the principal portion of lease payments of RMB6.8 million and (ii) interests paid of RMB1.1 million.

For the nine months ended September 30, 2023, our net cash flows used in financing activities amounted to RMB5.1 million, which was primarily attributable to (i) the principal portion of lease payments of RMB4.2 million and (ii) interests paid of RMB0.9 million.

For the year ended December 31, 2023, our net cash flows used in financing activities amounted to RMB7.4 million, which was primarily attributable to (i) the principal portion of lease payments of RMB6.2 million and (ii) interests paid of RMB1.2 million.

For the year ended December 31, 2022, our net cash flows from financing activities amounted to RMB26.2 million, which was primarily attributable to (i) the principal portion of lease payments of RMB3.1 million, (ii) ordinary shares repurchased of RMB2.1 million, and (iii) proceeds from the issuance of convertible redeemable preference shares of RMB31.8 million in the year, see “History, Reorganization and Corporate Structure — History and Development of Our Company and Our Major Subsidiaries — Our Company” for details.

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Working Capital Sufficiency

During the Track Record Period, we met our working capital requirements mainly by cash flows generated from operating activities and [REDACTED] from the [REDACTED] investments.

Taking into account the estimated net [REDACTED] from the [REDACTED] and the financial resources presently available to us, including our cash and cash equivalents, financial assets at fair value through profit or loss, cash flows from operating activities, our Directors are of the opinion that we have sufficient funds to meet our working capital requirements for at least the next 12 months from the date of this document.

Our Directors confirm that there were no material defaults in payment of trade and non-trade payables, and/or breaches of financial covenants during the Track Record Period and up to the Latest Practicable Date.

INDEBTEDNESS

Lease Liabilities

Our lease liabilities primarily arise from leases of properties from third parties for our operations. The following table sets forth our lease liabilities as of the dates indicated:

	As of December 31,		As of September 30,	As of November 30,
	2022	2023	2024	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			<i>(unaudited)</i>	<i>(unaudited)</i>
Current	4,223	7,986	8,748	[10,725]
Non-current	6,686	17,355	19,629	[21,598]
Total	10,909	25,341	28,377	[32,323]

Our lease liabilities amounted to RMB10.9 million, RMB25.3 million, RMB28.4 million and RMB[32.3] million as of December 31, 2022 and 2023, September 30, 2024 and November 30, 2024, respectively. The increase in our lease liabilities was primarily due to the addition of leases for our clinics, decoction centers and office as a result of our business expansion.

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Convertible Redeemable Preference Shares

As of December 31, 2022 and 2023, September 30, 2024 and November 30, 2024, our convertible redeemable preference shares had a fair value of RMB263.5 million, RMB506.1 million, RMB598.2 million and RMB[695.0] million, respectively. The increase in the fair value of our convertible redeemable preference shares during the Track Record Period was primarily due to the increase in our Group’s valuation along with the expansion of our business scale. For further information regarding the convertible redeemable preference shares, see Note 22 to the Accountants’ Report as set out in Appendix IA and Note 11 to the unaudited interim condensed consolidated financial information for nine months ended September 30, 2024 as set out in Appendix IB.

Contingent Liabilities

As of December 31, 2022 and 2023, September 30, 2024 and November 30, 2024, we did not have any significant contingent liabilities. Our Directors confirmed that there had not been any material change in our contingent liabilities since November 30, 2024 and up to the Latest Practicable Date.

No Other Outstanding Indebtedness

Save as disclosed above, we did not have any outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities or any covenant in connection therewith as of November 30, 2024, being our indebtedness statement date. Our Directors confirm that, as of the Latest Practicable Date, there was no material change in our Company’s indebtedness since November 30, 2024.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we did not enter into any significant transactions with related parties.

Our outstanding balances with a related party as of December 31, 2022 and 2023 and September 30, 2024 amounted to RMB3.4 million, RMB3.7 million and RMB2.0 million, respectively. These balances with a related party represented amounts due from a director that were unsecured, interest-free and repayable on demand. The outstanding balances with a related party as of September 30, 2024, which were non-trade in nature, have been fully settled subsequently.

For details of our related party transactions, see Note 28 to the Accountants’ Report as set out in Appendix IA and Note 14 to the unaudited interim condensed consolidated financial information for nine months ended September 30, 2024 as set out in Appendix IB.

FINANCIAL INFORMATION

CAPITAL EXPENDITURES

Our capital expenditures during the Track Record Period primarily comprised the acquisition of items of property, plant and equipment, mainly representing purchases of medical and office equipment and renovation of our clinics, decoction centers and office space. The following table sets forth our capital expenditures for the periods indicated:

	Year ended December 31,		Nine months ended September 30,	
	2022	2023	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i> <i>(unaudited)</i>
Acquisition of items of property, plant and equipment	1,283	7,171	5,583	3,571

Our capital expenditures amounted to RMB1.3 million, RMB7.3 million, RMB5.6 million and RMB3.6 million for the year ended December 31, 2022 and 2023 and nine months ended September 30, 2023 and 2024, respectively. We intend to fund our future capital expenditures with a combination of operating cash flow, equity and debt financing and net [REDACTED] from the [REDACTED]. See “Future Plans and [REDACTED].” We may reallocate the fund to be utilized on capital expenditure based on our ongoing business needs.

CAPITAL COMMITMENTS

As of December 31, 2022 and 2023 and September 30, 2024, the Group did not have any significant capital commitments.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as of the dates indicated:

	Year ended/As of December 31,		Nine months ended/As of September 30,
	2022	2023	2024
	Revenue growth rate ¹ (%)	N/A	204.0
Return on assets ² (%)	N/A	N/A	N/A
Adjusted return on assets ³ (%)	N/A	39.4	39.7
Current ratio ⁴ (times)	0.2	0.2	0.2
Quick ratio ⁵ (times)	0.2	0.2	0.2
Gearing ratio ⁶ (%)	N/A	N/A	N/A

FINANCIAL INFORMATION

Notes:

1. Revenue growth rate is calculated using the difference between revenue for the year/period and that for the previous year/period divided by revenue for the previous year/period and multiplied by 100%.
2. Return on assets is calculated using profit for the year/period divided by the average of the beginning and ending balances of total assets of the year/period and multiplied by 100%.
3. Adjusted return on assets is calculated by using adjusted net profit (non-HKFRS measures) for the year/period divided by the average of the beginning and ending balances of total assets of the year/period and multiplied by 100%. The adjusted return on assets for the nine months ended September 30, 2024 is annualized to reflect a yearly rate.
4. Current ratio is calculated using current assets divided by current liabilities as of the date indicated.
5. Quick ratio is calculated using current assets less inventories divided by current liabilities as of the date indicated.
6. Gearing ratio is calculated using total debt divided by total equity as of the date indicated and multiplied by 100%.

Revenue Growth Rate

Our revenue increased by 204.0% from RMB62.2 million for year ended December 31, 2022 to RMB189.0 million for year ended December 31, 2023, and further increased by 33.8% from RMB129.4 million for the nine months ended September 30, 2023 to RMB173.1 million for the nine months ended September 30, 2024. For details, see “— Period to Period Comparison of Results of Operations.”

Revenue growth rate of the Group for the year ended December 31, 2022 is not applicable as the previous year, i.e., the year of 2021, is beyond the Track Record Period and revenue of the Group for the year ended December 31, 2021 has not been audited by the Reporting Accountants.

Return on Assets

During the Track Record Period, return on assets was not meaningful, primarily as we recorded losses for the relevant years/periods.

Adjusted Return on Assets

Our adjusted return on assets was 39.4% for the year ended December 31, 2023. The annualized adjusted return on assets for the nine months ended September 30, 2024 remained relatively stable at 39.7%.

Current Ratio

Our current ratio remained stable at 0.2 times as of December 31, 2022 and 2023 and September 30, 2024, respectively.

Quick Ratio

Our quick ratio remained stable at 0.2 times as of December 31, 2022 and 2023 and September 30, 2024, respectively.

FINANCIAL INFORMATION

Gearing Ratio

As we recorded total deficit as of December 31, 2022 and 2023 and September 30, 2024, our gearing ratio as of such dates was not meaningful.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT FINANCIAL RISKS

We are exposed to financial risks including credit risk and liquidity risk in the normal course of our business. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. Our risk management is carried out under policies approved by our Board. For further details, see Note 31 to the Accountants’ Report as set out in Appendix IA. The discussion below provides a summary of our market risks.

Credit Risk

We trade only with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant. For more details, including the credit quality and the maximum exposure to credit risk based on our credit policy, see Note 31 to the Accountants’ Report as set out in Appendix IA.

Liquidity Risk

We aim to maintain sufficient cash and credit lines to meet our liquidity requirements. We finance our working capital requirements through a combination of funds generated from operations and alternative funding resources from equity and debt. For more details, including the maturity profile of our financial liabilities, see Note 31 to the Accountants’ Report as set out in Appendix IA.

DIVIDENDS

No dividend had been paid or declared by our Company during the Track Record Period. Going forward, we may distribute dividends by way of cash or by other means that we consider appropriate.

Under Cayman Islands law, our Company may pay a dividend out of either our profits (realized or unrealized) or out of our share premium account, provided that this would not result in our Company being unable to pay our debts as they fall due in the ordinary course of business. The declaration and payment of any dividends in the future will be determined by our Board and subject to our Articles of Association and the Cayman Companies Act, and will depend on a number of factors, including our earnings, capital requirements, financial condition, statutory and contractual restrictions applying to the payment of dividends, future business development strategies and estimates and other factors that our Board deems relevant. In addition, any final dividends for a financial year will be subject to the Shareholders’ approval. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distributions.

FINANCIAL INFORMATION

As of the Latest Practicable Date, we did not have any specific dividend policy nor any pre-determined dividend payout ratio.

[REDACTED] EXPENSES

[REDACTED] expenses to be borne by us are estimated to be approximately [REDACTED] or [REDACTED] of the gross [REDACTED] of the [REDACTED] (assuming an [REDACTED] of [REDACTED] per Share, being the mid-point of the indicative [REDACTED], without taking into account the [REDACTED]), including (i) [REDACTED] commission of approximately [REDACTED], and (ii) non-[REDACTED] related expenses of approximately [REDACTED] which consist of (a) fees and expenses of legal advisors and the Reporting Accountants of approximately [REDACTED] and (b) other fees and expenses of approximately [REDACTED]. Approximately [REDACTED] of our [REDACTED] expenses is expected to be charged to our consolidated statements of profit or loss and other comprehensive income and approximately [REDACTED] is expected to be accounted for as a deduction from equity upon [REDACTED] under the relevant accounting standard. The [REDACTED] expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

DISTRIBUTABLE RESERVES

As of September 30, 2024, our Company did not have any distributable reserve.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

During the Track Record Period, we had not entered into any material off-balance sheet arrangements or any variable interest in any unconsolidated entity that provides financing, liquidity, financial risk or credit support for us. In addition, we have not entered into any derivative contracts that are indexed to our equity interests and classified as owners' equity. As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

UNAUDITED [REDACTED] FINANCIAL INFORMATION

See “Appendix II — Unaudited [REDACTED] Financial Information” for details.

NO MATERIAL ADVERSE CHANGE

After due and careful consideration, our Directors confirm that, as of the date of this document, there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since September 30, 2024, being the end of the Track Record Period, and there is no event since September 30, 2024 which would materially affect the information shown in the Accountants' Report as set out in Appendix IA and the unaudited interim condensed consolidated financial information for nine months ended September 30, 2024 as set out in Appendix IB.

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FINANCIAL INFORMATION

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our directors have confirmed that as of the Latest Practicable Date, there were no circumstances which, had they been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

FUTURE PLANS AND [REDACTED]

FUTURE PLANS

See the section headed “Business — Strategies” for a detailed description of our future plans.

[REDACTED]

We estimate that we will receive net [REDACTED] from the [REDACTED] of approximately [REDACTED], after deducting [REDACTED] fees and commissions and other estimated expenses paid and payable by us in relation to the [REDACTED], assuming an [REDACTED] of [REDACTED] per Share, being the mid-point of the [REDACTED] from [REDACTED] to [REDACTED] per Share, and that the [REDACTED] is not exercised.

We currently intend to use these net [REDACTED] for the purposes and in the amounts set forth below:

- (i) approximately [REDACTED], or [REDACTED], for expanding our online and offline TCM healthcare service network, and expanding the scope of applicable scenarios, among which:
 - approximately [REDACTED], or [REDACTED], for the expansion and development of our team of physicians. We plan to expand our physician team through recruiting qualified TCM university graduates and experienced practicing TCM professionals. The [REDACTED] will be used primarily for physicians’ salaries and training costs. To enrich our talent pipeline, we will establish talent referral and joint training platforms with renowned universities, local governments and other private institutions. We will also expand our existing teams of recruitment personnel in different cities in mainland China and engage recruitment agencies to recruit talents across the country. Besides, we plan to design and provide enhanced on-the-spot training programs and implement advanced assessment mechanisms to facilitate the professional progression and development of our physicians;
 - approximately [REDACTED], or [REDACTED], for enhancing the breadth and depth of our online and offline TCM healthcare services, increasing the accessibility of our TCM healthcare services and expanding our business scale as well as market penetration. We plan to broaden our geographical coverage and deepen our offline market penetration through establishing new offline clinics in mainland China. The [REDACTED] will be used for covering the estimated leasehold improvements, purchase of equipment, facilities and fixtures, as well as costs of operation such as rental and labor costs. Concurrently, we will invest in the iteration of our online platform. In particular, for the purpose of refining our online consultation and prescription process, we plan to upgrade our registration system, optimize the user interface and expand the functions of our online platform, which will increase the efficiency of patient information collection as well as elevate user experience; and

FUTURE PLANS AND [REDACTED]

- approximately [REDACTED], or [REDACTED], for upgrading our healthcare services by establishing TCM rehabilitation centers in tier-one and/or new-tier one cities in mainland China. Based on years of experience in the provision of TCM healthcare services, we believe that there is a growing demand of rehabilitation services for long-term chronic conditions, which, in addition to the usage of TCM medication, is a crucial step in the overall treatment plans of such conditions. To provide the rehabilitation services, we expect to incur capital expenditures including decoration of premises and purchase of TCM rehabilitation facilities and equipment. In our newly established TCM rehabilitation centers, we plan to recruit additional personnel to design, develop and deliver the rehabilitation programs. In particular, we plan to provide customers suffering from stroke, cerebral palsy, ALS, and other long-term chronic diseases with TCM rehabilitation guidance and services through medication, acupuncture, physical activities and psychological healing;
- (ii) approximately [REDACTED], or [REDACTED], for strengthening our supply chain capabilities, expanding our decoction centers and exploring the development of in-house preparations, among which:
 - approximately [REDACTED], or [REDACTED], for strengthening our supply chain capabilities and expanding our decoction centers. In particular, through strategic site selection, we plan to establish new decoction centers in mainland China to increase regional coverage, shorten the delivery time of our medication and enhance the quality of our services and customers’ experience; and
 - approximately [REDACTED], or [REDACTED], for the research and development of our in-house preparations and establishment of a GMP-compliant production site and research and development base for such in-house preparations. For details, see “Business — Development of In-House Preparations;”
- (iii) approximately [REDACTED], or [REDACTED], for advancing our existing AI-empowered TCM software as well as strengthening our technological capabilities, among which:
 - approximately [REDACTED], or [REDACTED], for strengthening our research and development capabilities through recruitment and retention of R&D personnel. We plan to recruit additional system developers and senior engineers with dual backgrounds in information technology and TCM to join our R&D team to enhance the functions and capabilities of the TCM Brain, mainly in terms of its core functions and modules as well as medical condition coverage, through algorithm optimization, technology iteration, and the application of big data processing. In particular, we plan to recruit R&D talents for (a) researching knowledge graph and deep mining in TCM and improving our labelling capabilities, (b) strengthening our cybersecurity measures, and (c) enhancing the functions of the various modules of our TCM Brain such as the Clinical Management and Learning Brain modules; and

FUTURE PLANS AND [REDACTED]

- approximately [REDACTED], or [REDACTED], for upgrading and optimizing the hardware infrastructure of our TCM Brain, collaborating with external laboratories and consultants, as well as procuring cloud services. We plan to procure advanced hardware equipment, to enhance the computing power, storage capacity and security of the TCM Brain to support our software upgrades in the future;
- (iv) approximately [REDACTED], or [REDACTED], for the continuous development of Jingyi Academy, our TCM community, among which:
- approximately [REDACTED], or [REDACTED], for expanding the scale of Jingyi Academy. We plan to attract a wider and larger base of community members through various promotional strategies, such as thematic activities, precision marketing, and private domain traffic attraction. We plan to open more registration channels and refine the segmentation of our community members to facilitate learning and communications among members with similar backgrounds and demands. We also plan to expand Jingyi Academy’s reach to overseas regions, fostering a global TCM community; and
 - approximately [REDACTED], or [REDACTED], for enriching our TCM community engagement activities and enhancing member experience. We plan to organize weekly offline events, inviting TCM experts from the TCM healthcare service industry and academia to regularly provide our members with interactive learning and communication opportunities. We will also introduce practical, real-life applicable workshops. To support online operations of our community, we intend to increase expenditure on developing interactive live-streaming sessions, engaging professional and feature-rich third-party live-streaming services and procuring relevant supportive services;
- (v) approximately [REDACTED], or [REDACTED], for raising our brand awareness and industry influence. We plan to recruit new media creators to support the expansion of our marketing channels and enhancement of our new media capabilities. We will continuously invest in the development of online recorded TCM courses under our “Dr. Lin’s Mini Courses” channel and the organization of offline activities. We will collaborate with new media platforms to promote TCM culture and our brand. We will also cooperate with local governments, medical institutions, research institutes and universities to develop research and development or other cooperative programs to increase our industry influence;
- (vi) approximately [REDACTED], or [REDACTED], for expanding our business into overseas markets. We plan to establish offline clinics starting from exploring Asian countries and regions with relatively large Chinese populations, high acceptance of TCM, strong purchasing power and willingness to pay for TCM products and treatments, as well as an adequate number of local TCM physicians to tap into overseas markets gradually; and
- (vii) the remaining amount of approximately [REDACTED], or [REDACTED], for working capital and general corporate purposes.

FUTURE PLANS AND [REDACTED]

The above allocation of the [REDACTED] will be adjusted on a pro-rata basis in the event that the [REDACTED] is fixed at a higher or lower level compared to the mid-point of the [REDACTED] stated in this document.

If the [REDACTED] is fixed at [REDACTED] per Share (being the high end of the [REDACTED] stated in this document), we will receive additional net [REDACTED] of approximately [REDACTED], assuming the [REDACTED] is not exercised. If the [REDACTED] is fixed at [REDACTED] per Share (being the low end of the [REDACTED] stated in this document), the net [REDACTED] we receive will be reduced by approximately [REDACTED], assuming the [REDACTED] is not exercised.

In the event that the [REDACTED] is exercised in full, the additional net [REDACTED] that we would receive would be [REDACTED] assuming an [REDACTED] of [REDACTED] per Share, being the mid-point of the [REDACTED] stated in this document, after deduction of [REDACTED] fees and commissions and other estimated expenses paid and payable by us in relation to the [REDACTED]. Additional net [REDACTED] received due to the exercise of any [REDACTED] will be used for the above purposes accordingly on a pro-rata basis if the [REDACTED] is exercised.

If any part of our development plan does not proceed as planned for reasons such as changes in government policies that would render the development of any of our projects not viable, or the occurrence of force majeure events, we will carefully evaluate the situation and may reallocate the net [REDACTED] from the [REDACTED].

If the net [REDACTED] of the [REDACTED] are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we will deposit the net [REDACTED] into short-term demand deposits with licensed banks or other authorized financial institutions as defined under the Securities and Futures Ordinance/the applicable laws in the relevant jurisdiction for non-Hong Kong based deposits, so long as it is deemed to be in the best interests of our Company. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules and make an appropriate announcement if there is any change to the above proposed [REDACTED].

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[REDACTED]

[REDACTED]

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[REDACTED]

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[REDACTED]

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[REDACTED]

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[REDACTED]

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STRUCTURE OF THE [REDACTED]

[REDACTED]

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STRUCTURE OF THE [REDACTED]

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HOW TO APPLY FOR [REDACTED]

[REDACTED]

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HOW TO APPLY FOR [REDACTED]

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APPENDIX IA**ACCOUNTANTS’ REPORT**

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[To insert the firm’s letterhead]

ACCOUNTANTS’ REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF TCMTECH INC. AND HAITONG INTERNATIONAL CAPITAL LIMITED

Introduction

We report on the historical financial information of TCMTech Inc. (the “Company”) and its subsidiaries (together, the “Group”) set out on pages IA-[3] to IA-[54], which comprises the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2022 and 2023 (the “Relevant Periods”), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2022 and 2023 and material accounting policy information and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages IA-[3] to IA-[54] forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [REDACTED] (the “document”) in connection with the initial [REDACTED] of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Directors’ responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants’ responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants’ Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants’ judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk

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assessments, the reporting accountants consider internal control relevant to the entity’s preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants’ report, a true and fair view of the financial position of the Group and the Company as at 31 December 2022 and 2023 and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**Adjustments**

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page IA-[3] have been made.

Dividends

We refer to note [11] to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

No historical financial statements for the Company

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

[•]

Certified Public Accountants

Hong Kong

[Date]

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I. HISTORICAL FINANCIAL INFORMATION**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants’ report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the “Underlying Financial Statements”).

The Historical Financial Information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

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CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Years ended 31 December 2022 and 2023

	<i>Notes</i>	2022 <i>RMB’000</i>	2023 <i>RMB’000</i>
REVENUE	5	62,169	188,998
Cost of sales		<u>(27,190)</u>	<u>(76,035)</u>
Gross profit		34,979	112,963
Other income and gains	5	1,501	2,286
Selling and distribution expenses		(8,725)	(25,140)
Administrative expenses		(20,176)	(26,132)
Research and development expenses		(5,394)	(9,037)
Fair value changes of convertible redeemable preference shares	22	(159,573)	(236,944)
Other expenses		(267)	(340)
Finance costs	6	<u>(488)</u>	<u>(1,192)</u>
LOSS BEFORE TAX	7	(158,143)	(183,536)
Income tax credit/(expense)	10	<u>3,722</u>	<u>(10,378)</u>
LOSS FOR THE YEAR		<u><u>(154,421)</u></u>	<u><u>(193,914)</u></u>
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of financial statements of other group companies		<u>(4,034)</u>	<u>(768)</u>
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of the Company’s financial statements		<u>(8,652)</u>	<u>(4,615)</u>
OTHER COMPREHENSIVE LOSS, NET OF TAX		<u>(12,686)</u>	<u>(5,383)</u>
TOTAL COMPREHENSIVE LOSS		<u><u>(167,107)</u></u>	<u><u>(199,297)</u></u>

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		2022	2023
	<i>Note</i>	<i>RMB’000</i>	<i>RMB’000</i>
Loss attributable to:			
Owners of the Company		<u>(154,421)</u>	<u>(193,914)</u>
Total comprehensive loss attributable to:			
Owners of the Company		<u>(167,107)</u>	<u>(199,297)</u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted (RMB)	12	<u>(3.69)</u>	<u>(4.66)</u>

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

31 December 2022 and 2023

	<i>Notes</i>	2022 <i>RMB’000</i>	2023 <i>RMB’000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	13	2,439	7,608
Right-of-use assets	14	10,325	23,821
Deferred tax assets	21	<u>4,736</u>	<u>1,459</u>
Total non-current assets		<u>17,500</u>	<u>32,888</u>
CURRENT ASSETS			
Inventories	15	3,685	8,159
Prepayments and other receivables	16	6,758	8,691
Financial assets at fair value through profit or loss	17	9,200	80,352
Cash and cash equivalents	18	<u>36,767</u>	<u>14,286</u>
Total current assets		<u>56,410</u>	<u>111,488</u>
CURRENT LIABILITIES			
Trade payables	19	5,856	9,068
Other payables and accruals	20	8,587	14,509
Lease liabilities	14	4,223	7,986
Convertible redeemable preference shares	22	263,486	506,108
Tax payable		<u>506</u>	<u>4,081</u>
Total current liabilities		<u>282,658</u>	<u>541,752</u>
NET CURRENT LIABILITIES		<u>(226,248)</u>	<u>(430,264)</u>
TOTAL ASSETS LESS			
CURRENT LIABILITIES		<u>(208,748)</u>	<u>(397,376)</u>
NON-CURRENT LIABILITIES			
Lease liabilities	14	<u>6,686</u>	<u>17,355</u>
NET LIABILITIES		<u>(215,434)</u>	<u>(414,731)</u>
DEFICIENCY IN ASSETS			
Equity attributable to owners of the Company			
Share capital	23	27	27
Reserves	25	<u>(215,461)</u>	<u>(414,758)</u>
Total deficiency in assets		<u>(215,434)</u>	<u>(414,731)</u>

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years ended 31 December 2022 and 2023

	Notes	Share capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	Statutory surplus reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
At 1 January 2022		31	(1,407)	2,470	—	1,708	(50,551)	(47,749)
Loss for the year		—	—	—	—	—	(154,421)	(154,421)
Other comprehensive loss for the year:								
Exchange differences on translation of financial statements of other group companies		—	—	—	—	(4,034)	—	(4,034)
Exchange differences on translation of the Company’s financial statements		—	—	—	—	(8,652)	—	(8,652)
Total comprehensive loss for the year		—	—	—	—	(12,686)	(154,421)	(167,107)
Shares repurchased for cancellation		(4)	(574)	—	—	—	—	(578)
Transfer to statutory surplus reserve	23	—	—	—	123	—	(123)	—
At 31 December 2022		<u>27</u>	<u>(1,981)*</u>	<u>2,470*</u>	<u>123*</u>	<u>(10,978)</u>	<u>(205,095)</u>	<u>(215,434)</u>
At 1 January 2023		27	(1,981)	2,470	123	(10,978)	(205,095)	(215,434)
Loss for the year		—	—	—	—	—	(193,914)	(193,914)
Other comprehensive loss for the year:								
Exchange differences on translation of financial statements of other group companies		—	—	—	—	(768)	—	(768)
Exchange differences on translation of the Company’s financial statements		—	—	—	—	(4,615)	—	(4,615)
Total comprehensive loss for the year		—	—	—	—	(5,383)	(193,914)	(199,297)
Transfer to statutory surplus reserve		—	—	—	2,901	—	(2,901)	—
At 31 December 2023		<u>27</u>	<u>(1,981)*</u>	<u>2,470*</u>	<u>3,024*</u>	<u>(16,361)</u>	<u>(401,910)</u>	<u>(414,731)</u>

* These reserve accounts comprise the consolidated other reserves of RMB215,461,000 (negative) and RMB414,758,000 (negative) in the consolidated statements of financial position as at 31 December 2022 and 2023, respectively.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended 31 December 2022 and 2023

	<i>Notes</i>	2022 <i>RMB’000</i>	2023 <i>RMB’000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(158,143)	(183,536)
Adjustments for:			
Interest income	5	(100)	(98)
Fair value gain on financial assets at fair value through profit or loss	5	(544)	(1,115)
Fair value loss on convertible redeemable preference shares		159,573	236,944
Finance costs	6	488	1,192
Depreciation of property, plant and equipment	7	1,384	2,002
Depreciation of right-of-use assets	7	<u>3,061</u>	<u>7,104</u>
		5,719	62,493
Increase in inventories		(3,092)	(4,474)
Increase in prepayments and other receivables		(956)	(1,676)
Increase in trade payables		3,538	3,212
Increase in other payables and accruals		<u>390</u>	<u>5,922</u>
Cash generated from operations		5,599	65,477
Interest received		100	98
Income tax paid		<u>(312)</u>	<u>(3,526)</u>
Net cash flows from operating activities		<u>5,387</u>	<u>62,049</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of items of property, plant and equipment		(1,283)	(7,171)
Purchase of financial assets at fair value through profit or loss		(187,410)	(358,100)
Proceeds of redemption of financial assets at fair value through profit or loss		<u>183,254</u>	<u>288,063</u>
Net cash flows used in investing activities		<u>(5,439)</u>	<u>(77,208)</u>

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	<i>Notes</i>	2022 <i>RMB’000</i>	2023 <i>RMB’000</i>
Net cash flows used in operating and investing activities		<u>(52)</u>	<u>(15,159)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of convertible redeemable preference shares	22	31,838	—
Principal portion of lease payments	26	(3,052)	(6,168)
Interest paid	26	(488)	(1,192)
Repurchase of ordinary shares by the Company	23	<u>(2,089)</u>	<u>—</u>
Net cash flows from/(used in) financing activities		<u>26,209</u>	<u>(7,360)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		26,157	(22,519)
Cash and cash equivalents at beginning of the year		10,467	36,767
Effect of foreign exchange rate changes, net		<u>143</u>	<u>38</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		<u><u>36,767</u></u>	<u><u>14,286</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances as stated in the consolidated statements of financial position and the consolidated statements of cash flows	18	<u><u>36,767</u></u>	<u><u>14,286</u></u>

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STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

31 December 2022 and 2023

	<i>Notes</i>	2022 <i>RMB’000</i>	2023 <i>RMB’000</i>
NON-CURRENT ASSET			
Investment in a subsidiary		<u>696</u>	<u>708</u>
CURRENT ASSETS			
Due from a subsidiary		56,199	56,991
Other receivable	16	3,434	3,660
Cash and cash equivalents		<u>2,575</u>	<u>1,597</u>
Total current assets		<u>62,208</u>	<u>62,248</u>
CURRENT LIABILITIES			
Convertible redeemable preference shares	22	<u>263,486</u>	<u>506,108</u>
NET CURRENT LIABILITIES		<u>(201,278)</u>	<u>(443,860)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(200,582)</u>	<u>(443,152)</u>
NET LIABILITIES		<u>(200,582)</u>	<u>(443,152)</u>
DEFICIENCY IN ASSETS			
Share capital	23	27	27
Reserves	25	<u>(200,609)</u>	<u>(443,179)</u>
Total deficiency in assets		<u>(200,582)</u>	<u>(443,152)</u>

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ACCOUNTANTS’ REPORT

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

TCMTech Inc. (the “Company”) is an exempted company incorporated in the Cayman Islands with limited liability on 19 June 2018. The registered office of the Company is located at Harneys Fiduciary (Cayman) Limited 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY 1–1002, Cayman Islands.

The Company is an investment holding company. During the Relevant Periods, the Company’s subsidiaries are mainly engaged in the provision of traditional Chinese medicine (“TCM”) healthcare services, TCM lifestyle products and TCM Brain (a proprietary AI-assisted clinical decision support system) subscription services.

The Company and its subsidiaries now comprising the Group underwent the Reorganisation as set out in the paragraph headed “Reorganisation” in the section headed “History, Reorganisation and Corporate Structure” in the document. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

As at the end of the Relevant Periods, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies. Particulars of the Company’s principal subsidiaries are as follows:

Company name	Place and date of registration and place of operations	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
TCMTech Limited (“TCMTech HK”)	Hong Kong 10 July 2018	USD9,718,234	100%	—	Investment holding
Beijing TECHTCM Information Technology Co. Ltd. (“Beijing TECHTCM”) ^(c)	People’s Republic of China (“PRC”)/ Mainland China 16 August 2018	USD10,000,000	—	100%	Onshore holding company of the PRC subsidiaries
Shenzhen Wenzhi Technology Co., Ltd.	PRC/Mainland China 26 September 2021	RMB10,000,000	—	100%	Provision of TCM Brain subscription services
Shenzhen Dayi Xiaoke Culture Communication Co., Ltd.	PRC/Mainland China 23 January 2024	RMB50,000	—	100%	Provision of E-commerce business
Chengdu Wenjiang Wenzhi Internet Hospital Co., Ltd. ^(a) (“Wenzhi Internet Hospital”)	PRC/Mainland China 27 August 2021	RMB50,000,000	—	100%	Provision of online TCM medical services
Chengdu Jinniu Wenzhi Baizhi TCM Clinic Co., Ltd.	PRC/Mainland China 11 July 2023	RMB1,000,000	—	100%	Provision of TCM healthcare services
Chengdu Wenjiang Wenzhi Qiuwei TCM Clinic Co., Ltd.	PRC/Mainland China 12 March 2024	RMB1,000,000	—	100%	Provision of TCM healthcare services
Shenzhen Wenzhi TCM Health Technology Co., Ltd. ^(a) (“Wenzhi TCM Health”)	PRC/Mainland China 21 March 2019	RMB10,010,000	—	100%	Provision of TCM healthcare services, sale of complementary TCM products and content and the operation of the Jingyi Academy the online TCM community, where the public can study and explore TCM-related publications
Guangzhou Wenzhi TCM Outpatient Department Co., Ltd.	PRC/Mainland China 27 March 2020	RMB1,000,000	—	100%	Provision of TCM healthcare services

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Company name	Place and date of registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Xiamen Siming Wenzhi Xuelian Traditional Chinese Medicine Clinic Co., Ltd.	PRC/Mainland China 12 December 2022	RMB1,000,000	—	100%	Provision of TCM healthcare services
Jinan Wenzhi Chuyue Traditional Chinese Medicine Clinic Co., Ltd.	PRC/Mainland China 8 April 2024	RMB1,000,000	—	100%	Provision of TCM healthcare services
Zhengzhou Wenzhi Traditional Chinese Medicine Clinic Co., Ltd.	PRC/Mainland China 13 July 2023	RMB1,000,000	—	100%	Provision of TCM healthcare services
Changsha Furong District Wenzhi Traditional Chinese Medicine Clinic Co., Ltd.	PRC/Mainland China 8 November 2023	RMB1,000,000	—	100%	Provision of TCM healthcare services
Xianyang Wenzhi Hecao Intelligent Technology Co., Ltd.	PRC/Mainland China 5 December 2023	RMB1,000,000	—	100%	Development of artificial intelligence (“AI”) theory and AI software and provision of AI software and technical service
Bozhou Wenzhi TCM Clinic Co., Ltd.	PRC/Mainland China 3 September 2024	RMB1,000,000	—	100%	Provision of TCM healthcare services
Shenzhen Wenzhi Chuhui TCM Clinic	PRC/Mainland China 14 October 2024	RMB1,000,000	—	100%	Provision of TCM healthcare services

Notes:

- (a) As a result of the contractual agreements, the Group is exposed, or has rights, to variable returns from its involvement with Wenzhi Internet Hospital and Wenzhi TCM Health and has the ability to affect those returns through its power over Wenzhi Internet Hospital and Wenzhi TCM Health and is considered to control Wenzhi Internet Hospital and Wenzhi TCM Health, respectively.
- (b) No statutory financial statements have been prepared for all subsidiaries for the years ended 31 December 2022 and 2023 as the entities were not subject to any statutory audit requirements under the relevant rules and regulations in their jurisdiction of incorporation.
- (c) Beijing TECHTCM is registered as a wholly-foreign-owned enterprise (the “WFOE”) under PRC law.
- (d) The English names of the above subsidiaries represent the best efforts made by the directors of the Company to translate the Chinese names of these companies as they have not been registered with any official English names.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganization, as more fully explained in the paragraph headed “Reorganization” in the section headed “History, Reorganization and Corporate Structure” in the document, the Company became the holding company of the companies comprising the Group on 16 August 2018. The Reorganisation has not resulted in any changes of economic substances of the businesses of the Group before and after the Reorganisation.

Due to regulatory restrictions on foreign ownership of companies that involve TCM business, which include activities and businesses operated by the Group, the Business was carried out by Wenzhi Internet Hospital and Wenzhi TCM Health and its subsidiaries (the “PRC Operating Entities”) during the Relevant Periods. Pursuant to the Reorganisation, the WFOE, the Company’s wholly-owned subsidiaries, has entered into structured contracts with, among others, the PRC Operating Entities and their respective equity holders (the “Structured Contracts”). The arrangements of the Structured Contracts enable the WFOE to exercise effective control over the PRC Operating Entities and, accordingly, the WFOE has rights to variable returns from its involvement with the PRC Operating

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Entities and has the ability to affect those returns through its power over the PRC Operating Entities. Accordingly, after the Structured Contracts have been signed, the PRC Operating Entities are controlled by the Company based on the Structured Contracts though the Company does not have any direct or indirect equity interest in the PRC Operating Entities. Details of the Structured Contracts are disclosed in the section headed “Contractual Arrangements” in the document.

The Reorganisation included the transfer of ownership of Wenzhi TCM Health in the group and disposal of a subsidiary with no actual business operations. Except for the deregistration and disposal of the subsidiary, which are accounted for when they were incurred, the Reorganisation results in no change in subsidiaries or businesses being consolidated during the Relevant Periods.

All intra-group transactions and balances have been eliminated on consolidation.

2.2 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2024, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods.

The Historical Financial Information has been prepared under the historical cost convention, except for convertible redeemable preference shares and financial assets at fair value through profit or loss which have been measured at fair value.

Going concern issue

The Group and the Company recorded net current liabilities of RMB430.3 million and RMB443.9 million, respectively, both of which included the convertible redeemable preference shares (“Preference Shares”) of RMB506.1 million classified as current liabilities as at 31 December 2023. As further explained in note 22 to the Historical Financial Information, the Preference Shares cannot be demanded for cash redemption before 31 December 2026. Therefore, the directors of the Company (the “Directors”) are of the opinion that no cash outflow is expected to be made in relation to the Preference Shares in the coming twelve months. The Directors prepared a cash flow forecast for the Group which covers a period of over twelve months from the end of the reporting period based on the aforementioned measures and approved business plans, and concluded that the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, the Directors are of the opinion that it is appropriate to prepare the consolidated financial statements of the Group and the Company for the year ended 31 December 2023 on a going concern basis.

Basis of consolidation

The consolidated financial statements include the financial information of the Company and its subsidiaries for the Relevant Periods. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;

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- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial information of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Historical Financial Information. The Group intends to apply these new and revised HKFRSs, if applicable, when they become effective.

HKFRS 18	<i>Presentation and Disclosure in Financial Statements</i> ³
HKFRS 19	<i>Subsidiaries without Public Accountability: Disclosures</i> ³
Amendments to HKFRS 9 and HKFRS 7	<i>Amendments to the Classification and Measurement of Financial Instruments</i> ²
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
Amendments to HKAS 21	<i>Lack of Exchangeability</i> ¹
<i>Annual Improvements to HKFRS Accounting Standards — Volume 11</i>	Amendments to HKFRS 1, HKFRS 7, HKFRS 9, HKFRS 10 and HKAS 7 ²

¹ Effective for annual periods beginning on or after 1 January 2025

² Effective for annual periods beginning on or after 1 January 2026

³ Effective for annual/reporting periods beginning on or after 1 January 2027

⁴ No mandatory effective date yet determined but available for adoption

The Group is in the process of making a detailed assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs may result in changes in certain accounting policies and are unlikely to have a significant impact on the Group’s financial performance and financial position in the period of initial application.

2.4 MATERIAL ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), any non-controlling interest and the exchange fluctuation reserve; and recognises the fair value of any investment retained and any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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The results of a subsidiary are included in the Company’s profit or loss to the extent of dividends received and receivable. The Company’s investment in a subsidiary is stated at cost less any impairment losses.

All assets and liabilities for which fair value is measured or disclosed in the Historical Financial Information are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Historical Financial Information on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person’s family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

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- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	Over the shorter of the lease term or 20%
Furniture, fixtures and equipment	20% to 33%

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date of the underlying assets is available for use). Right-of-use assets are measured at cost, less accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms, and the estimated useful lives of the assets as follows:

Office premises	2 to 7 years
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(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate), a change in the lease term or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of office premises (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).

Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Group’s business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for “Revenue recognition” below.

In order for a financial asset (debt instrument) to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest (“SPPI”) on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group’s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are

held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset.

Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group’s consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group’s continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (“ECLs”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group generally considers a financial asset in default when contractual payments are one year past due. The Group has rebutted the 90 days past due presumption of default based on reasonable and supportable information, including the Group’s credit risk control practices and the historical recovery rate of financial assets over 90 days past due. However, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

- Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss and loans and borrowings, or payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group’s financial liabilities include trade payables, and financial liabilities included in other payables and accruals, lease liabilities, and convertible redeemable preference shares.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in profit or loss. The net fair value gain or loss recognized in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognized in profit or loss, except for the gains or losses arising from the Group’s own credit risk which are presented in other comprehensive income with no subsequent reclassification to profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost (trade and other payables, and borrowings)

After initial recognition, trade and other payables and accrual are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

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Convertible redeemable preference shares

The Series A-1, A-2, A-3 and A-4 Preference Shares issued by the Company are classified, on the basis of their component parts, as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Preference Shares issued are classified as equity if they are non-redeemable by the Company or redeemable only at the Company’s option, and any dividends are discretionary. Dividends on Preference Shares classified as equity are recognised as distributions within equity. Preference shares are classified as financial liabilities if they are redeemable on a specific date or at the option of the shareholders (including options that are only exercisable in case of triggering events having occurred).

The Preference Shares are redeemable upon occurrence of certain future events. These instruments can also be converted into ordinary shares of the Company at any time at the option of the holders, or automatically upon occurrence of an [REDACTED] of the Company, or when agreed by the majority of the holders as detailed in note 22 to the Historical Financial Information.

The Group designated the Preference Shares as financial liabilities at fair value through profit or loss. They are initially recognised at fair value. Any directly attributable transaction costs are recognized as finance costs in profit or loss. The component of fair value changes relating to the Company’s own credit risk is recognized in other comprehensive income. Amounts recorded in other comprehensive income related to credit risk are not subject to recycling in profit or loss, but are transferred to retained earnings when realised. Fair value changes relating to market risk are recognised in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand and at banks, and short-term highly liquid deposits with a maturity of generally within three months that are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value, and held for the purpose of meeting short-term cash commitments.

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For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and at banks, and short-term deposits as defined above, less bank overdrafts which are repayable on demand and form an integral part of the Group’s cash management.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the country in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes with certain exceptions (e.g., initial recognition exceptions).

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

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Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) TCM healthcare services

TCM healthcare services comprise a full range of TCM consultation, prescription, treatments and follow-up services. These services constitute three performance obligations: i) consultation, diagnosis and prescription, ii) decoction and medication, and iii) other treatment. The Group allocates the transaction price to each performance obligation based on the relative stand-alone selling price. For both of the performance obligations, control of the respective services is transferred at a point in time, i.e., upon completion of the respective services or delivery of medicative healthcare products to the customer. Revenue from consultation, diagnosis and prescription is recognised when those services are completed. Revenue from decoction and medication is recognised when the related medicative healthcare products are delivered to the customer. Revenue from other treatment is recognized evenly upon each of the services completed. Transactions are paid via third-party payment platforms or bank transfer.

The Group establishes a customer loyalty incentive program that customers can earn award credits from each order and the award credits can be redeemed to deduct payment for the following orders. Award credits for customers are accounted for as separate performance obligations and the fair value of the consideration received or receivable is allocated among the performance obligations in the provision of healthcare services based on their stand-alone selling price. The stand-alone selling price with respect to each of the performance obligations in the provision of healthcare services is directly observable and determined by the price that they are sold separately. The stand-alone selling price of award credits is measured by reference to the amount for which the award credits could be sold separately considering the breakage based on the Group’s best estimation. Such consideration is not recognized as revenue at the time of the initial sale transaction, but is deferred in “contract liabilities” and recognized as revenue when the award credits are redeemed and the Group’s obligations have been fulfilled.

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(b) TCM lifestyle products

The Group offers TCM lifestyle products including TCM healthcare products, online recorded courses and books. Revenue from the sale of TCM lifestyle products is recognised at the point in time when control of the products is transferred to the customers, generally on receipts of the products.

(c) TCM Brain subscription services

The Group earns subscription fees from individual practitioners, hospitals, clinics, and other healthcare institutions in respect of the TCM Brain subscription services that allow them to use the Group’s subscription-based version of TCM Brain for a specific contracted service period. The subscription fees are paid in advance, and all these subscription fees are initially deferred as contract liabilities when received and revenue is recognised evenly over the terms of the respective service contracts as the services are provided.

Other income

Interest income is recognised, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument of the net carrying amount of the financial asset.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Share-based payments

The Company operates a share option scheme. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services in exchange for equity instruments (“equity-settled transactions”). The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group’s best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

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For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Employee retirement benefits

As stipulated by the rules and regulations of the PRC, the Group is required to contribute to a state-sponsored retirement plan for all its PRC employees at certain percentages of the basic salaries predetermined by the local governments. The Group has no further obligations for the actual retirement benefit payments or other post-retirement benefits beyond the annual contributions. The contributions made by the Group are charged to profit or loss as they become payable in accordance with the rules of the retirement plan.

Foreign currencies

This Historical Financial Information is presented in RMB, while the United States dollar (“USD”) is the Company’s functional currency. As all revenues and the major assets of the Group are derived from operations in Mainland China, RMB is chosen as the presentation currency to present the Historical Financial Information. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group’s financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

Contractual arrangements

The PRC Operating Entities are engaged in TCM services in the PRC, which falls in the scope of TCM services that foreign investors are prohibited to invest.

As disclosed in note 2.1 to the Historical Financial Information, the Group exercises control over the PRC Operating Entities and enjoys all economic benefits of the PRC Operating Entities through the Contractual Arrangements.

The Group considers that it controls the PRC Operating Entities, notwithstanding the fact that it does not hold direct equity interests in the PRC Operating Entities, as it has power over the financial and operating policies of the PRC Operating Entities and receives substantially all the economic benefits from the business activities of the PRC Operating Entities through the Contractual Arrangements. Accordingly, the PRC Operating Entities have been accounted for as subsidiaries during the Relevant Periods.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate (“IBR”) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group “would have to pay”, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary’s functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary’s stand-alone credit rating).

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the provision of a variety of healthcare businesses, including TCM healthcare services, TCM lifestyle products and TCM Brain subscription services.

HKFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to segments and to assess their performance. The information reported to the directors of the Company, who are the chief operating decision-makers, for the purpose of resource allocation and assessment of performance, does not contain discrete operating segment financial information and the directors reviewed the financial results of the Group as a whole. Therefore, no further information about the operating segment is presented.

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Geographical information

(a) Revenue from external customers

All external customers of the Group are located in Mainland China. Accordingly, no geographical information of revenue from external customers is presented.

(b) Non-current assets

All significant non-current assets of the Group are located in Mainland China. Accordingly, no geographical information of non-current assets is presented.

Information about major customers

No revenue from sales to a single customer or a group of customers under common control accounted for 10% or more of the Group’s revenue for the Relevant Periods.

5. REVENUE, OTHER INCOME AND GAINS

Revenue

An analysis of the Group’s revenue is as follows:

	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>
Revenue from contracts with customers	<u>62,169</u>	<u>188,998</u>

Revenue from contracts with customers

(a) Disaggregated revenue information

	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>
Types of goods or services		
TCM healthcare services	50,421	167,247
TCM lifestyle products	6,062	13,598
TCM Brain subscription services	<u>5,686</u>	<u>8,153</u>

Total revenue from contracts with customers	<u>62,169</u>	<u>188,998</u>
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	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>
Timing of revenue recognition		
At a point	56,483	180,845
Over time	<u>5,686</u>	<u>8,153</u>
Total revenue from contracts with customers	<u>62,169</u>	<u>188,998</u>

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The following table shows the amounts of revenue recognised in the Relevant Periods that were included in the contract liabilities at the beginning of each of the Relevant Periods:

	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
TCM healthcare services	3,240	2,449
TCM Brain subscription services	<u>1,056</u>	<u>2,694</u>
Total	<u><u>4,296</u></u>	<u><u>5,143</u></u>

(b) *Performance obligations*

Information about the Group’s performance obligations is summarised below:

TCM healthcare services

TCM healthcare services comprise a full range of TCM consultation, prescription, treatments and follow-up services. These services constitute three performance obligations: i) consultation, diagnosis and prescription, ii) decoction and medication and iii) other treatment. The Group allocates the transaction price to each performance obligation based on the relative stand-alone selling price. For both of the performance obligations, control of the respective services is transferred at a point in time, i.e., upon completion of the respective services or delivery of medicative healthcare products to the customer. Revenue from consultation, diagnosis and prescription is recognised when those services are completed. Revenue from decoction and medication is recognised when the related medicative healthcare products are delivered to the customer. Revenue from other treatment is recognized evenly upon each of the services completed. Transactions are paid via third-party payment platforms or bank transfer.

The Group establishes a customer loyalty incentive program that customers can earn award credits from each order and the award credits can be redeemed to deduct payment for the following orders. Award credits for customers are accounted for as separate performance obligations and the fair value of the consideration received or receivable is allocated among the performance obligations in the provision of healthcare services based on their stand-alone selling price. The stand-alone selling price with respect to each of the performance obligations in the provision of healthcare services is directly observable and determined by the price that they are sold separately. The stand-alone selling price of award credits is measured by reference to the amount for which the award credits could be sold separately considering the breakage based on the Group’s best estimation. Such consideration is not recognized as revenue at the time of the initial sale transaction, but is deferred in “contract liabilities” and recognized as revenue when the award credits are redeemed and the Group’s obligations have been fulfilled.

TCM lifestyle products

The Group offers TCM lifestyle products such as dietary herbal snacks and external use products under its owned brand and online recorded TCM courses. Revenue from the sale of TCM lifestyle products is recognised at the point in time when control of the products is transferred to the customers, generally on receipts of the products.

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TCM Brain subscription services

The Group earns subscription fee revenue from individual practitioners, hospitals, clinics, and other healthcare institutions in respect of the TCM Brain subscription services that allow them to use the Group’s subscription-based version of TCM Brain for a specific contracted service period. The subscription fees are paid in advance, and all these subscription fees are initially deferred as contract liabilities when received and revenue is recognised evenly over the terms of the respective service contracts as the services are provided.

The amounts of the transaction prices allocated to remaining obligations (unsatisfied or partially satisfied) are as follows:

	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>
Amounts expected to be recognised as revenue within one year	<u>5,143</u>	<u>8,392</u>

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue after one year relate to TCM healthcare services and TCM Brain subscription services, of which the performance obligations are to be satisfied within one years. All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

Other income and gains

	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>
Fair value gains on financial assets at fair value through profit or loss, net	544	1,115
Government grants*	817	1,052
Interest income	100	98
Others	<u>40</u>	<u>21</u>
Total other income and gains	<u>1,501</u>	<u>2,286</u>

* There are no unfulfilled conditions or contingencies related to these government grants.

6. FINANCE COSTS

	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>
Interest on lease liabilities	<u>488</u>	<u>1,192</u>

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7. LOSS BEFORE TAX

The Group’s loss before tax is arrived at after charging/(crediting):

	<i>Notes</i>	2022 <i>RMB’000</i>	2023 <i>RMB’000</i>
Cost of TCM healthcare solutions		24,888	70,011
Cost of TCM lifestyle products		1,348	4,738
Cost of TCM Brain subscription services		954	1,286
Depreciation of property, plant and equipment	13	1,384	2,002
Depreciation of right-of-use assets	14(a)	3,061	7,104
Lease payments not included in the measurement of lease liabilities	14(c)	924	1,536
Employee benefit expense (excluding directors’ remuneration (note 8)):			
Wages and salaries		26,004	45,201
Pension scheme contributions		<u>1,752</u>	<u>1,829</u>
		<u>27,756</u>	<u>47,030</u>
Fair value loss on convertible redeemable preference shares	22	159,573	236,944
Fair value gain on financial assets at fair value through profit or loss, net	5	<u>(544)</u>	<u>(1,115)</u>

8. DIRECTORS’ AND CHIEF EXECUTIVE’S REMUNERATION

Mr. Cui Xiangrui was appointed as the chairman of the board of the Company (the “Board”), an executive director and the chief executive officer of the Company on 19 June 2018.

Mr. Li Yongfeng was appointed as an executive director on 12 September 2024 while Dr. Chang Nan-Hsig was appointed as a non-executive director on 4 September 2024. In addition, Mr. Zeng Jun, Mr. Ta Ergai and Ms. Chau Chi Yan Amanda were appointed as independent non-executive directors with effect from the [REDACTED].

The remuneration of each of the Company’s directors is set out below:

	2022 <i>RMB’000</i>	2023 <i>RMB’000</i>
Fees	—	—
Other emoluments		
Salaries, allowances and benefits in kind	600	600
Pension scheme contributions	<u>28</u>	<u>28</u>
Subtotal	<u>628</u>	<u>628</u>
Total fees and other emoluments	<u>628</u>	<u>628</u>

During the Relevant Periods, no remuneration was paid or payable by the Group to the executive directors, a chief executive as an inducement to join or upon joining the Group or as compensation for loss of office.

There was no arrangement under which a director, a chief executive waived or agreed to waive any remuneration during each of the Relevant Periods.

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	Fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Pension scheme contributions <i>RMB'000</i>	Total remuneration <i>RMB'000</i>
2022				
Executive director:				
Mr. Cui Xiangrui	<u>—</u>	<u>600</u>	<u>28</u>	<u>628</u>
2023				
Executive director:				
Mr. Cui Xiangrui	<u>—</u>	<u>600</u>	<u>28</u>	<u>628</u>

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during each of the years ended 31 December 2022 and 2023 included one and one, respectively, details of whose remuneration are set out in note 8 above.

Details of the remuneration of the remaining highest paid employees, who are neither a director nor chief executive of the Company for each of the Relevant Periods are as follows:

	2022 <i>RMB'000</i>	2023 <i>RMB'000</i>
Salaries, allowances and benefits in kind	2,491	2,935
Pension scheme contributions	<u>46</u>	<u>43</u>
Total	<u>2,537</u>	<u>2,978</u>

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	2022	2023
Nil to HK\$1,000,000	3	3
HK\$1,000,001 to HK\$1,500,000	<u>1</u>	<u>1</u>
Total	<u>4</u>	<u>4</u>

During each of the Relevant Periods, no highest paid employees waived or agreed to waive any remuneration.

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Cayman Islands

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. In addition, upon payments of dividends by the Company to its shareholders, no withholding tax in the Cayman Islands is imposed.

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Mainland China

Pursuant to the Corporate Income Tax Law of the PRC and the respective regulations (the “CIT Law”), subsidiaries of the Group which operate in Mainland China are subject to corporate income tax at a rate of 25% on the taxable income, unless they are subject to tax exemption set out below, except for certain subsidiaries of the Group that is qualified as a “High and New Technology Enterprise” and therefore was entitled to a preferential income tax rate of 15% for the Relevant Periods.

Hong Kong

No provision for Hong Kong profits tax has been made as the Company had no assessable profits derived from or earned in Hong Kong during the Relevant Periods. The subsidiary incorporated in Hong Kong is subject to income tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year.

The income tax (credit)/expense for the Relevant Periods are as follows:

	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Current	506	7,101
Deferred (<i>note 21</i>)	<u>(4,228)</u>	<u>3,277</u>
Total	<u><u>(3,722)</u></u>	<u><u>10,378</u></u>

A reconciliation of the income tax (credit)/expense applicable to loss before tax using the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Loss before tax	<u>(158,143)</u>	<u>(183,536)</u>
Tax at the statutory tax rate of 25%	(39,536)	(45,884)
Lower tax rate for specific provinces or enacted by local authority	77	52
Expenses not deductible for tax	39,981	59,439
Tax losses recognised from previous periods	(3,743)	—
Tax losses utilised from previous periods	—	(4)
Additional tax deduction for qualified research and development expenses	<u>(501)</u>	<u>(3,225)</u>
Tax (credit)/charge at the effective rate	<u><u>(3,722)</u></u>	<u><u>10,378</u></u>

11. DIVIDENDS

No dividends were paid or declared by the Company during the Relevant Periods.

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12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share amount is based on the loss for each of the Relevant Periods attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 41,863,577 and 41,616,682 outstanding during the years ended 31 December 2022 and 2023, respectively.

Because the diluted loss per share amount decreased when taking the convertible shares and share options into account, the convertible shares and share options had an anti-dilutive effect on the basic loss per share and were ignored in the calculation of diluted loss per share during the years ended 31 December 2022 and 2023. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares outstanding during the Relevant Periods, as used in the basic loss per share calculation.

The calculation of basic and diluted loss per share is based on:

	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Loss:		
Loss attributable to ordinary equity holders of the Company, used in the basic loss per share calculation	<u>(154,421)</u>	<u>(193,914)</u>
	Number of shares	
Shares:		
Weighted average number of ordinary shares outstanding used in the basic loss per share calculation	<u>41,863,577</u>	<u>41,616,682</u>

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13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture, fixtures and equipment	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2022			
At 1 January 2022:			
Cost	1,488	1,695	3,183
Accumulated depreciation	<u>—</u>	<u>(643)</u>	<u>(643)</u>
Net carrying amount	<u>1,488</u>	<u>1,052</u>	<u>2,540</u>
At 1 January 2022, net of accumulated depreciation	1,488	1,052	2,540
Additions	409	874	1,283
Depreciation provided during the year	<u>(891)</u>	<u>(493)</u>	<u>(1,384)</u>
At 31 December 2022, net of accumulated depreciation	<u>1,006</u>	<u>1,433</u>	<u>2,439</u>
At 31 December 2022:			
Cost	1,897	2,569	4,466
Accumulated depreciation	<u>(891)</u>	<u>(1,136)</u>	<u>(2,027)</u>
Net carrying amount	<u>1,006</u>	<u>1,433</u>	<u>2,439</u>
31 December 2023			
At 1 January 2023:			
Cost	1,897	2,569	4,466
Accumulated depreciation	<u>(891)</u>	<u>(1,136)</u>	<u>(2,027)</u>
Net carrying amount	<u>1,006</u>	<u>1,433</u>	<u>2,439</u>
At 1 January 2023, net of accumulated depreciation	1,006	1,433	2,439
Additions	4,946	2,225	7,171
Depreciation provided during the year	<u>(1,215)</u>	<u>(787)</u>	<u>(2,002)</u>
At 31 December 2023, net of accumulated depreciation	<u>4,737</u>	<u>2,871</u>	<u>7,608</u>
At 31 December 2023:			
Cost	6,843	4,794	11,637
Accumulated depreciation	<u>(2,106)</u>	<u>(1,923)</u>	<u>(4,029)</u>
Net carrying amount	<u>4,737</u>	<u>2,871</u>	<u>7,608</u>

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14. LEASES

The Group as a lessee

The Group has property lease contracts for various clinics, decoction centers and its headquarter’s office used in its operations. Property leases generally have lease terms between 2 and 7 years. Generally, the Group is restricted from assigning and subleasing the leased property outside the Group.

(a) Right-of-use assets

The carrying amounts of the Group’s right-of-use assets and the movements during the Relevant Periods are as follows:

	Office premises <i>RMB’000</i>
As at 1 January 2022	10,034
Additions	3,352
Depreciation charge	<u>(3,061)</u>
As at 31 December 2022 and 1 January 2023	10,325
Additions	20,600
Depreciation charge	<u>(7,104)</u>
As at 31 December 2023	<u><u>23,821</u></u>

(b) Lease liabilities

The carrying amount of the Group’s lease liabilities and the movements during the Relevant Periods are as follows:

	2022 <i>RMB’000</i>	2023 <i>RMB’000</i>
Carrying amount at beginning of the year	10,609	10,909
New leases	3,352	20,600
Accretion of interest recognised during the year	488	1,192
Payments	<u>(3,540)</u>	<u>(7,360)</u>
Carrying amount at end of the year	<u><u>10,909</u></u>	<u><u>25,341</u></u>
Analysed into:		
Current portion	4,223	7,986
Non-current portion	<u>6,686</u>	<u>17,355</u>
	<u><u>10,909</u></u>	<u><u>25,341</u></u>

The maturity analysis of lease liabilities is disclosed in note 31 to the Historical Financial Information.

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(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on lease liabilities	488	1,192
Depreciation charge of right-of-use assets	3,061	7,104
Expense relating to short-term leases	<u>924</u>	<u>1,536</u>
Total amount recognised in profit or loss	<u><u>4,473</u></u>	<u><u>9,832</u></u>

(d) The total cash outflows for leases are disclosed in note 24 to the Historical Financial Information.

15. INVENTORIES

	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Decocting pieces, medical consumables and TCM lifestyle products	<u>3,685</u>	<u>8,159</u>

There was no inventory provision recognised during the Relevant Periods.

16. PREPAYMENTS AND OTHER RECEIVABLES

The Group

	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Due from a director	3,434	3,660
Prepayments to suppliers	2,119	2,770
Other receivables	<u>1,205</u>	<u>2,261</u>
Total	<u><u>6,758</u></u>	<u><u>8,691</u></u>

The Company

	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Due from a director	<u>3,434</u>	<u>3,660</u>

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at the end of each of the Relevant Periods, the loss allowance of the Group and the Company was assessed to be minimal.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Structured deposits	<u>9,200</u>	<u>80,352</u>

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The Group’s financial assets at fair value through profit or loss represent principal guaranteed structured deposits. The structured deposits are placed with banks in the PRC with expected return rates linked to certain exchange rates in the contracts. The annual expected return rates range from 1.75% to 2.55%. The initial maturities are usually within one to three months.

18. CASH AND CASH EQUIVALENTS

	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>
Cash and cash equivalents	<u>36,767</u>	<u>14,286</u>
Denominated in		
RMB*	34,192	12,689
USD	<u>2,575</u>	<u>1,597</u>
Total	<u>36,767</u>	<u>14,286</u>

* The RMB is not freely convertible into other currencies, however, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates.

19. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>
Within three months	<u>5,856</u>	<u>9,068</u>

The trade payables to third parties are normally settled on credit terms of one to three months after the invoice date, extending to longer periods for those long standing suppliers.

The fair values of trade payables as at the end of each of the Relevant Periods approximated to their corresponding carrying amounts due to their relatively short maturity terms.

20. OTHER PAYABLES AND ACCRUALS

	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>
Contract liabilities (<i>note (i)</i>)	5,143	8,392
Salary and welfare payable	1,184	2,940
Other payables (<i>note (ii)</i>)	1,665	2,024
Other tax payable	338	732
Accruals	<u>257</u>	<u>421</u>
Total	<u>8,587</u>	<u>14,509</u>

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Notes:

(i) Details of contract liabilities are as follows:

	1 January 2022	31 December 2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
TCM healthcare services	3,240	2,449	4,074
TCM Brain subscription services	<u>1,056</u>	<u>2,694</u>	<u>4,318</u>
Total	<u><u>4,296</u></u>	<u><u>5,143</u></u>	<u><u>8,392</u></u>

The balances of contract liabilities as at the end of each of the Relevant Periods included sales incentives in relation to TCM healthcare services and the advance payment received from customers for both of the TCM healthcare services and TCM Brain subscription services.

(ii) Other payables are non-interest-bearing and would be settled in a period ranging from three months to one year.

21. DEFERRED TAX

The movements in deferred tax assets and liabilities during the Relevant Periods are as follows:

Deferred tax assets

	Lease liabilities	Tax losses available for offsetting against future taxable profits	Others	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
At 1 January 2022	2,653	—	240	2,893
Deferred tax credited to profit or loss during the year (<i>note 10</i>)	<u>75</u>	<u>4,096</u>	<u>130</u>	<u>4,301</u>
Gross deferred tax assets at 31 December 2022 and 1 January 2023	2,728	4,096	370	7,194
Deferred tax credited/(charged) to profit or loss during the year (<i>note 10</i>)	<u>1,398</u>	<u>(4,001)</u>	<u>571</u>	<u>(2,032)</u>
Gross deferred tax assets at 31 December 2023	<u><u>4,126</u></u>	<u><u>95</u></u>	<u><u>941</u></u>	<u><u>5,162</u></u>

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Deferred tax liabilities

	Right-of-use assets
	<i>RMB'000</i>
At 1 January 2022	2,385
Deferred tax charged to profit or loss during the year (<i>note 10</i>)	<u>73</u>
Gross deferred tax liabilities at 31 December 2022 and 1 January 2023	2,458
Deferred tax charged to profit or loss during the year (<i>note 10</i>)	<u>1,245</u>
Gross deferred tax liabilities at 31 December 2023	<u><u>3,703</u></u>

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Net deferred tax assets recognised in the consolidated statement of financial position	<u>4,736</u>	<u>1,459</u>

22. CONVERTIBLE REDEEMABLE PREFERENCE SHARES

The Company and the Group

Since the date of incorporation, the Company has completed several rounds of financing by issuing series of Preference Share. For details, please refer to below table:

	Date of issuance	Purchase price (USD/share)	Number of shares	Total consideration	
				<i>USD'000</i>	<i>RMB'000</i>
Series A-1 Preference Shares	7 September 2018	0.049	4,220,000	207	1,411
Series A-2 Preference Shares	7 September 2018	0.082	18,503,091	1,511	10,310
Series A-3 Preference Shares	20 March 2019	0.209	14,327,801	3,000	20,130
Series A-4 Preference Shares	14 January 2022	0.367	13,610,452	5,000	31,838
Total			<u>50,661,344</u>	<u>9,718</u>	<u>63,689</u>

The key terms of the Preference Share are summarised as follows:

Conversion rights

Each class of Preference Share shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such class of Preference Share, into such number of fully paid and non-assessable ordinary shares as is determined by dividing the applicable original issue price of each class of Preference Share by the conversion price applicable to such class of Preference Share (the “Conversion Price”), determined as hereafter provided, in effect on the date the certificate is surrendered for conversion. The initial Conversion

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Price shall initially equal to the original issue price, and shall be adjusted from time to time, including but not limited to (1) share splits and combinations, (2) ordinary share dividends and distributions, (3) other dividends, (4) reorganizations, mergers, consolidations, reclassifications, exchanges, substitutions, (5) sale of shares below the Conversion Price and (6) deemed Issue of additional stock. For the avoidance of doubt, the initial conversion ratio for each class of Preference Shares to ordinary shares shall be 1:1.

Without any action being required by the holder of such share and whether or not the certificates representing such share are surrendered to the Company or its transfer agent, each class of Preference Share shall automatically be converted into ordinary shares at the then effective applicable Conversion Price upon the closing of an [REDACTED] of ordinary shares (or ordinary share equivalents) in the United States approved by the board (“Broad”) at a [REDACTED] price per share corresponding to a [REDACTED] valuation of the Company of at least RMB500 million with net [REDACTED] to the Company in excess of RMB300 million (excluding [REDACTED] discounts, commissions and expenses) or in a substantially similar [REDACTED] of ordinary shares (or ordinary share equivalents) in a jurisdiction and on an internationally recognized securities exchange outside of the United States approved by the Board provided that such [REDACTED] price, [REDACTED] and regulatory approval is reasonably equivalent to the aforementioned [REDACTED] in the United States (the “[REDACTED]”) or at the election of the holder(s) of more than 50% of the then outstanding Preference Shares, calculated on an as converted basis. (such event being referred to herein as a “Automatic Conversion”).

On and after the date of an Automatic Conversion, notwithstanding that any certificates for the each class of Preference Shares shall not have been surrendered for conversion, the each of class Preference Shares evidenced thereby shall be deemed to be no longer outstanding, and all rights with respect thereto shall forthwith cease and terminate, except only the rights of the holder (i) to receive the ordinary shares to which such holder shall be entitled upon conversion thereof, (ii) to receive the amount of cash payable in respect of any fractional share of ordinary shares to which it shall be entitled and (iii) with respect to dividends declared but unpaid on the each class of Preference Shares prior to such conversion date.

The convertible redeemable preference shares will be converted to ordinary shares upon the [REDACTED].

Redemption features

Notwithstanding anything to the contrary herein (including but not limited to article 11 of the articles of association), at any time after the earlier of: (i) the failure to consummate a [REDACTED] of the Group before the fifth anniversary of the Series A-4 original issue date; or (ii) the occurrence of any material breach by any companies in the Group and/or any individual and entities defined in the shareholders’ agreement (the “Key Holders”) of the transaction documents or any fraud or dishonesty of any company in the Group or any Key Holder, which has brought or may bring any material adverse effect to any holder of Preference Shares; (iii) any material adverse change in the regulatory environment, under which circumstance the restructuring documents have become or will become invalid, illegal or unenforceable, and no reasonably acceptable substitute mechanism has been proposed by the Company within reasonable time (the “Redemption Events”, and each a “Redemption Event”), any holder of Preference Shares, as applicable, separately but not jointly, may give a written notice by hand or letter mail or courier service to the Company at its principal executive offices at any time or from time to time (the “Redemption Notice”) requesting redemption of all or part of such class of Preference Shares, in which case the Company shall pay to each holder (each, a “Redeeming Preference Shareholder”, as to each holder of each class of Preference Share of a Preference Share for which an Redemption Notice has been timely submitted (each, a “Redeeming Preference Share”), in respect of such Redeeming Preference Share, an amount (the “Redemption Price”) equal to the sum of the original issue price of each Preference Share, plus eight percent simple annual interest and any accrued but unpaid dividends on such share, proportionally adjusted for share subdivisions, share dividends, reorganizations, reclassifications, consolidations, or mergers, with each Redemption Price to be paid on a date to be determined at the discretion of the Company, but in any event within sixty days of the date of the Redemption Notice (the “Redemption Price Payment Date”).

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If any of the Redemption Events is attributable to the default by any of the Key Holders, then each Key holder irrevocably and unconditionally undertakes and covenants to the holders of the Series A Preference Shares that, upon any of the Redemption Events, the Key Holders and the Company shall be jointly responsible for any and all obligations under this Article 143. For avoidance of doubt, except for any fraud, willful misconduct or dishonesty of the Key Holder, the responsibility of each Key Holder under this Article 143 shall be limited to no other personal assets of such Key Holder except for the value of all the equity interests of the Company directly or indirectly held by such Key Holder.

Liquidation preferences

In the event of the liquidation event described in the article, whether voluntarily or involuntarily, the proceeds or assets from such liquidation event (the “Proceeds”) available for distribution to the holders of each class of Preference Shares with an amount equal to one hundred percent (100%) of the original issue price if, plus all declared but unpaid dividends on such class of Preference Share (the “Preference Amount”) in the sequence below:

- (a) Series A-4 Preference Shares;
- (b) Series A-3 Preference Shares; and
- (c) Series A-2 and Series A-1 Preference Shares.

If the assets and funds thus distributed among the holders of such class of Preference Shares shall be insufficient to permit the payment to such holders of the full relevant Preference Amount, then the entire assets and funds of the Company legally available for distribution to the class of Preference Shares shall be distributed ratably among the holders of the class of Preference Shares in proportion to the aggregate such relevant Preference Amount.

Voting rights

Each Preference Share shall carry such number of votes as is equal to the number of votes of Ordinary Shares then issuable upon the conversion of such Preference Shares. The holders of Preference Shares and the holders of Ordinary Shares shall vote together and not as a separate class, unless otherwise provided in these Articles, the Memorandum and the applicable Statute.

Dividends

The Board may from time to time declare dividends (including interim dividends) and distributions on shares of the Company outstanding and authorize payment of the same out of the funds of the Company lawfully available therefor.

Each holder of Preference Share shall, on a *pari passu* basis, be entitled to receive non-cumulative dividends at the rate of eight percent (8%) of the original issue price of each class of Preference Share per annum for each Preference Share (As Adjusted), when and if declared by the Board, payable out of funds or assets when and as such funds or assets become legally available therefore, prior and in preference to any declaration or payment of any dividend in the sequence below:

- (a) Series A-4 Preference Shares;
- (b) Series A-3 Preference Shares;
- (c) Series A-2 and Series A-1 Preference Shares; and
- (d) Ordinary shares

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After the preferential dividends relating to the Preference Shares above have been paid in full or declared and set apart in any fiscal year of the Company, any additional dividends out of funds legally available therefore may be declared in that fiscal year for the ordinary shares and, if such additional dividends are declared, then such additional dividends shall be declared pro rata on the ordinary shares and Preference Shares on an as-converted basis.

Presentation and classification

The Group designated host debt and conversion derivative of Preference Shares as financial liabilities measured as fair value through profit or loss, presented as convertible redeemable preference shares included in the current liabilities in the consolidated statements of financial position, as the Preference Shares is unconditionally convertible at any time after the issuance. Changes in fair value of Preference Shares were recorded in “fair value changes of convertible redeemable preference shares”. Management considered that fair value change in the Preference Shares attributable to changes of own credit risk is not significant.

The movements of the convertible redeemable preference share are set out as below:

	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year	58,069	263,486
Issuance of Preference Shares	31,838	—
Fair value losses on Preference Shares	159,573	236,944
Exchange realignment	<u>14,006</u>	<u>5,678</u>
At end of year	<u><u>263,486</u></u>	<u><u>506,108</u></u>

The Group applied the discount cash flow method to determine the underlying share value of the Company and adopted equity allocation model to determine the fair value of the Preference Shares as at 1 January 2022, 31 December 2022 and 2023. Key valuation assumptions used to determine the fair value of the Preference Shares are set as below:

	1 January	31 December	31 December
	2022	2022	2023
Risk-free interest rate	0.78%	4.10%	4.77%
Discounts for lack of marketability (“DLOM”)	6.70%–17.98%	18.59%–23.79%	17.84%–20.62%
Volatility	46.23%	54.09%	51.73%
Possibilities under liquidation scenario	25.00%	22.50%	17.50%
Possibilities under redemption scenario	25.00%	22.50%	17.50%
Possibilities under [REDACTED] scenario	50.00%	55.00%	65.00%

The Group estimated the risk-free interest rate based on the US Treasury Par Yield with maturity close to the expected exit timing as of the valuation date. The DLOM was estimated based on the Hybrid Method. Under the Hybrid Method, the cost of put option, which can hedge the price change before the privately held share can be sold, was considered as a basis to determine the lack of marketability discount. Volatility was estimated based on annualized standard deviation of daily stock price return of comparable companies for a period from the valuation date and with a similar time span to expiration.

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23. SHARE CAPITAL

The Group and the Company

Shares

The Company was incorporated on 19 June 2018 with authorised share capital of USD50,000 divided into 500,000,000 shares with a par value of USD0.0001 each, consisting of 449,338,656 ordinary shares of par value of USD0.0001 each, 4,220,000 convertible and redeemable Series A-1 Preference Shares of par value of USD0.0001 each, 18,503,091 convertible and redeemable Series A-2 Preference Shares of par value of USD0.0001 each, 14,327,801 convertible and redeemable Series A-3 Preference Shares of par value of USD0.0001 each and 13,610,452 convertible and redeemable Series A-4 Preference Shares of par value of USD0.0001 each, as mentioned in note 22 to the Historical Financial Information.

	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Shares		
Issued and paid:		
41,616,682 and 41,616,682 ordinary shares of USD0.0001 each	<u>27</u>	<u>27</u>

Save for the aforesaid and the Reorganization as more fully explained in the document, the Company has not conducted any business since the date of its incorporation.

Each Preference Share shall be converted into one ordinary share (subject to certain adjustment, as applicable, according to the article of association of the Company), which will immediately be re-classified and re-designated as one ordinary share upon the closing of a [REDACTED] or at the election of the Series A Majority. Details of the Company’s Preference Shares issued are included in note 22 to the Historical Financial Information.

A summary of movements in the Company’s share capital is as follows:

	Number of ordinary shares in issue	Share capital <i>RMB'000</i>
At 1 January 2022	48,548,727	31
Ordinary shares repurchased by the Company (note)	<u>(6,932,045)</u>	<u>(4)</u>
At 31 December 2022 and 2023	<u>41,616,682</u>	<u>27</u>

Note:

On 14 January 2022, 6,932,045 ordinary shares of the Company were repurchased and cancelled by the Company from the original shareholders, together with the repurchase of 8,728,182 ordinary shares in the year ended 31 December 2019, at the total consideration of USD300,000 (equivalent to RMB2,089,000).

24. SHARE OPTION SCHEME

On 7 September 2018 (the “Adoption Date”), the Company adopted the 2018 share plan (the “Plan”), the purpose of which is to offer selected persons (“Optionee”) an opportunity to acquire a proprietary interest in the success of the Company, or to increase such interest, by purchasing ordinary shares of the Company. The Plan provides both for the direct award or sale of ordinary shares and for the grant of options (the “Options”) to purchase ordinary shares. The Plan shall remain in force for 10 years from the Adoption Date, unless otherwise terminated or amended.

The maximum aggregate number of shares that may be issued under the Plan shall not exceed 20,000,000 ordinary shares. The number of ordinary shares that are subject to Options or other rights outstanding at any time under the Plan shall not exceed the number of ordinary shares that are available for issuance under the Plan. The Company, during the term of the Plan, shall at all times reserve and keep available sufficient authorised but unissued ordinary shares to satisfy the requirements of the Plan. In the event that ordinary shares previously issued under the Plan are reacquired by the Company, an equivalent number of ordinary shares shall be added to the number of shares then available for issuance under the Plan. In the event that an outstanding Option or other right for any reason expires or is cancelled, the ordinary shares allocable to the unexercised portion of such Option or other right shall be added to the number of shares then available for issuance under the Plan.

Each grant of an Option under the Plan shall be evidenced by a share option agreement (the “Share Option Agreement”) between the Optionee and the Company. Such Option shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions which are not inconsistent with the Plan and which the Board of Directors deems appropriate for inclusion in the Share Option Agreement. The provisions of the various Share Option Agreements entered into under the Plan need not be identical. Each Share Option Agreement shall specify the exercise price, which of any Option shall not be less than 100% of the fair market value of an ordinary share on the date of grant, or, if higher, the par value of such ordinary share, and a higher percentage may be required by the Plan. Notwithstanding the preceding sentence, the exercise price shall be determined by the Board at its sole discretion.

There are no cash settlement alternatives. The Group does not have a past practice of cash settlement for these share options. The Group accounts for the Plan as an equity-settled plan.

Movements in share options

There was no movement in the outstanding balance of share options granted. And the outstanding balance of share options was 7,240,000 at the end of each of the Relevant Periods, whose exercise price was USD0.0001 for each share.

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The exercise price and exercise periods of the share options outstanding as at the end of each of the Relevant Periods are as follows:

Number of Options '000	Exercise price <i>USD per share</i>	Exercise period
31 December 2022		
3,570	0.0001	1–10–2019 to 30–9–2028
3,570	0.0001	1–10–2020 to 30–9–2028
50	0.0001	1–3–2020 to 28–2–2029
<u>50</u>	0.0001	1–3–2021 to 28–2–2029
<u>7,240</u>		
31 December 2023		
3,570	0.0001	1–10–2019 to 30–9–2028
3,570	0.0001	1–10–2020 to 30–9–2028
50	0.0001	1–3–2020 to 28–2–2029
<u>50</u>	0.0001	1–3–2021 to 28–2–2029
<u>7,240</u>		

25. RESERVES

Group

The amounts of the Group’s reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity.

Share premium

The share premium account represents i) the amount paid by shareholders for capital injection in excess of the par value of the shares issued; and ii) the amount paid by Company to repurchase its shares in excess of the capital injection or consideration paid by the predecessor shareholders.

Share option reserve

The share option reserve comprises the fair value of equity-settled share-based payments, details of which are disclosed in note 24 to the Historical Financial Information. The amount will either be transferred to the share premium account when the related options are exercised or be transferred to retained profits should the related options expire or be forfeited.

Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of companies whose functional currency is not RMB. The reserve is dealt with in accordance with the accounting policy set out in note 2.4 to the Historical Financial Information.

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Statutory surplus reserve

In accordance with the PRC Company Law and the articles of association of the subsidiaries established in the PRC, the Group is required to appropriate 10% of its net profits after tax, as determined under Chinese Accounting Standards, to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital. Subject to certain restrictions set out in the relevant PRC regulations and in the articles of association of the Group, the statutory surplus reserve may be used either to offset losses, or to be converted to increase the share capital of the Company and subsidiaries provided that the reserve balance after such conversion is not less than 25% of the registered capital of the Company and subsidiaries. The reserve cannot be used for purposes other than those for which it is created and is not distributable as cash dividends.

Statements of changes in equity of the Company

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Share options reserve <i>RMB'000</i>	Exchange fluctuation reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2022	31	(1,407)	2,470	410	(33,370)	(31,866)
Loss for the year	—	—	—	—	(159,486)	(159,486)
Other comprehensive loss for the year:						
Exchange differences on translation of the Company’s financial statements	—	—	—	(8,652)	—	(8,652)
Total comprehensive loss for the year	—	—	—	(8,652)	(159,486)	(168,138)
Shares repurchased for cancellation	(4)	(574)	—	—	—	(578)
At 31 December 2022 and 1 January 2023	<u>27</u>	<u>(1,981)</u>	<u>2,470</u>	<u>(8,242)</u>	<u>(192,856)</u>	<u>(200,582)</u>
Loss for the year	—	—	—	—	(237,955)	(237,955)
Other comprehensive loss for the year:						
Exchange differences on translation of the Company’s financial statements	—	—	—	(4,615)	—	(4,615)
Total comprehensive loss for the year	—	—	—	(4,615)	(237,955)	(242,570)
At 31 December 2023	<u><u>27</u></u>	<u><u>(1,981)</u></u>	<u><u>2,470</u></u>	<u><u>(12,857)</u></u>	<u><u>(430,811)</u></u>	<u><u>(443,152)</u></u>

26. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions

During the years ended 31 December 2022 and 2023, the Group had non-cash additions to right-of-use assets of RMB3,352,000 and RMB20,600,000, respectively, with the corresponding amounts of lease liabilities, amounting to RMB3,352,000 and RMB20,600,000, respectively, in respect of lease arrangements for office premises.

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(b) Reconciliation of liabilities arising from financing activities during the Relevant Periods is as follows

	Lease liabilities <i>RMB'000</i>	Convertible redeemable preference shares <i>RMB'000</i>
At 1 January 2022	10,609	58,069
Changes from financing cash flows:		
Issuance of convertible redeemable preference shares	—	31,838
Capital element of lease liabilities	(3,052)	—
Interest paid	(488)	—
Other changes:		
Fair value loss on the convertible redeemable preference shares	—	159,573
New lease liabilities arising from additional leases during the year	3,352	—
Interest expenses	488	—
Exchange realignment	—	14,006
	<u>10,909</u>	<u>263,486</u>
At 31 December 2022 and 1 January 2023		
Changes from financing cash flows:		
Capital element of lease liabilities	(6,168)	—
Interest paid	(1,192)	—
Other changes:		
Fair value loss on the convertible redeemable preference shares	—	236,944
New lease liabilities arising from additional leases during the year	20,600	—
Interest expenses	1,192	—
Exchange realignment	—	5,678
	<u>25,341</u>	<u>506,108</u>

(c) Total cash outflows for leases

The total cash outflow for leases included in the statements of cash flows is as follows:

	2022 <i>RMB'000</i>	2023 <i>RMB'000</i>
Within operating activities	924	1,536
Within financing activities	<u>3,540</u>	<u>7,360</u>
Total	<u>4,464</u>	<u>8,896</u>

27. COMMITMENTS

At the end of each of the Relevant Periods, the Group did not have any significant contractual commitments.

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28. RELATED PARTY TRANSACTIONS AND BALANCES

The directors of the Company are of the view that the following parties are related parties that had material transactions or balances with the Group during the reporting period.

(a) **Name of and relationship with a related party**

Name	Relationship
Mr. Cui Xiangrui	The executive director of the Company

(b) **Transaction with related parties**

During the Relevant Periods, there were no significant transactions with related parties.

(c) **Balances with a related party**

	2022 <i>RMB'000</i>	2023 <i>RMB'000</i>
Due from a director	<u>3,434</u>	<u>3,660</u>

The balance with a related party was unsecured, interest-free and settled on demand. The balance had been fully settled in December 2024.

(d) **Compensation of key management personnel and related parties of the Group**

Details of the compensation of key management personnel of the Group are disclosed as follows:

	2022 <i>RMB'000</i>	2023 <i>RMB'000</i>
Short-term employee benefits	<u>3,508</u>	<u>3,935</u>

29. FINANCIAL INSTRUMENTS BY CATEGORY

Both the financial assets and liabilities of the Group as at the end of each of the Relevant Periods were measured at amortised cost and their carrying amounts are as follows:

Financial assets

	2022 <i>RMB'000</i>	2023 <i>RMB'000</i>
<i>Financial assets at amortised cost</i>		
Financial assets included in prepayments and other receivables	4,639	5,921
Cash and cash equivalents	<u>36,767</u>	<u>14,286</u>
Subtotal	<u>41,406</u>	<u>20,207</u>
<i>Financial assets at fair value through profit or loss</i>		
— Designated as such upon initial recognition		
Financial assets at fair value through profit or loss	<u>9,200</u>	<u>80,352</u>
Total	<u>50,606</u>	<u>100,559</u>

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Financial liabilities

	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>
<i>Financial liabilities at amortised cost</i>		
Trade payables	5,856	9,068
Financial liabilities included in other payables and accruals	1,922	2,445
Lease liabilities	<u>10,909</u>	<u>25,341</u>
Subtotal	<u>18,687</u>	<u>36,854</u>
<i>Financial liabilities at fair value through profit or loss</i>		
Convertible redeemable preference shares	<u>263,486</u>	<u>506,108</u>
Total	<u><u>282,173</u></u>	<u><u>542,962</u></u>

30. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group’s financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amount		Fair value	
	2022	2023	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets				
Financial assets at fair value through profit or loss	<u>9,200</u>	<u>80,352</u>	<u>9,200</u>	<u>80,352</u>
Financial liabilities				
Convertible redeemable preference shares	<u>263,486</u>	<u>506,108</u>	<u>263,486</u>	<u>506,108</u>

Management has assessed that the fair values of cash and cash equivalents, financial assets included in prepayments and other receivables, trade payables, financial liabilities included in other payables and accruals, approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of financial products issued by banks in Mainland China included in the financial assets at fair value through profit or loss are quoted from active markets.

The fair values of convertible redeemable preference shares are determined using the Hybrid Method using significant unobservable market inputs. Details of the method were disclosed in note 22 to the Historical Financial Information.

The Group’s finance department headed by the finance director is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance director reports directly to the chief executive officer and the Board. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief executive officer.

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ACCOUNTANTS’ REPORT

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at the end of each of the Relevant Periods:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Convertible redeemable preference shares	Hybrid Method	Risk-free interest rate	31 December 2022: 4.10%	1% increase/decrease in risk-free interest rate would result in decrease/increase in fair value by RMB389,000.
			31 December 2023: 4.77%	1% increase/decrease in risk-free interest rate would result in decrease/increase in fair value by RMB201,000.
		Volatility	31 December 2022: 54.09%	1% increase/decrease in volatility would result in decrease/increase in fair value by RMB840,000.
			31 December 2023: 51.73%	1% increase/decrease in volatility would result in decrease/increase in fair value by RMB869,000.
		DLOM	31 December 2022: 18.59%–23.79%	1% increase/decrease in DLOM would result in decrease/increase in fair value by RMB3,749,000.
			31 December 2023: 17.84%–20.62%	1% increase/decrease in DLOM would result in decrease/increase in fair value by RMB6,975,000.

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ACCOUNTANTS’ REPORT

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group’s financial instruments:

Assets measured at fair value:

	Fair value measurement using			Total <i>RMB’000</i>
	Quoted prices in active markets (Level 1) <i>RMB’000</i>	Significant observable inputs (Level 2) <i>RMB’000</i>	Significant unobservable inputs (Level 3) <i>RMB’000</i>	
31 December 2022				
Financial assets at fair value through profit or loss	—	9,200	—	9,200
31 December 2023				
Financial assets at fair value through profit or loss	—	80,352	—	80,352

Liabilities measured at fair value:

	Fair value measurement using			Total <i>RMB’000</i>
	Quoted prices in active markets (Level 1) <i>RMB’000</i>	Significant observable inputs (Level 2) <i>RMB’000</i>	Significant unobservable inputs (Level 3) <i>RMB’000</i>	
31 December 2022				
Convertible redeemable preference shares	—	—	263,486	263,486
31 December 2023				
Convertible redeemable preference shares	—	—	506,108	506,108

The movements in fair value measurements within Level 3 during the year are as follows:

	2022 <i>RMB’000</i>	2023 <i>RMB’000</i>
At 1 January	58,069	263,486
Additions	31,838	—
Total losses charged to profit or loss	159,573	236,944
Exchanges realignment	14,006	5,678
At 31 December	263,486	506,108

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group’s principal financial instruments comprise cash and cash equivalents and financial assets at fair value through profit or loss. The main purpose of these financial instruments is to raise finance for the Group’s operations. The Group has various other financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from its operations.

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The main risks arising from the Group’s financial instruments are credit risk and liquidity risk. The board of directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group’s policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group’s exposure to bad debts is not significant.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group’s credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at the end of each of the Relevant Periods.

The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs Stage 1 RMB’000
At 31 December 2022	
Financial assets included in prepayments and other receivables	
— Normal*	4,639
Cash and cash equivalents	
— Not yet past due	<u>36,767</u>
	<u><u>41,406</u></u>
At 31 December 2023	
Financial assets included in prepayments and other receivables	
— Normal*	5,921
Cash and cash equivalents	
— Not yet past due	<u>14,286</u>
	<u><u>20,207</u></u>

* The credit quality of the financial assets included in prepayments and other receivables is considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be “doubtful”.

Liquidity risk

The Group aims to maintain sufficient cash and credit lines to meet its liquidity requirements. The Group finances its working capital requirements through a combination of funds generated from operations and alternative funding resources from equity and debt.

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The maturity profile of the Group’s financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

At 31 December 2022

	On demand	Within one year	One to three years	Three to five years	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Trade payables	—	5,856	—	—	5,856
Financial liabilities included in other payables and accruals	—	1,922	—	—	1,922
Lease liabilities	—	4,223	5,722	1,855	11,800
Convertible redeemable preference shares	80,975	—	—	—	80,975
Total	80,975	12,001	5,722	1,855	100,553

At 31 December 2023

	On demand	Within one year	One to three years	Three to five years	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Trade payables	—	9,068	—	—	9,068
Financial liabilities included in other payables and accruals	—	2,445	—	—	2,445
Lease liabilities	—	7,988	13,762	5,896	27,646
Convertible redeemable preference shares	87,928	—	—	—	87,928
Total	87,928	19,501	13,762	5,896	127,087

Capital management

The primary objectives of the Group’s capital management are to safeguard the Group’s ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders’ value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

32. EVENTS AFTER THE RELEVANT PERIODS

There were no significant events subsequent to the end of the Relevant Periods.

33. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, the Group or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2023.

**APPENDIX IB UNAUDITED INTERIM CONDENSED CONSOLIDATED
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[To insert the firm’s letterhead]

To the board of directors of TCMTech Inc. and Haitong International Capital Limited
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages IB-2 to IB-24, which comprises the condensed consolidated statement of financial position of TCMTech Inc. (the “Company”) and its subsidiaries (the “Group”) as at 30 September 2024 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the nine-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *Interim Financial Reporting* (“HKAS 34”) issued by the Hong Kong institute of Certified Public Accountants (“HKICPA”). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

[•]

Certified Public Accountants

Hong Kong

[Date]

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**APPENDIX IB UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**

I. INTERIM FINANCIAL INFORMATION

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

		Nine months ended	
		30 September	
		2024	2023
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
REVENUE	3	173,138	129,380
Cost of sales		<u>(68,023)</u>	<u>(54,511)</u>
Gross profit		105,115	74,869
Other income and gains	3	2,574	1,412
Selling and distribution expenses		(18,523)	(24,255)
Administrative expenses		(24,139)	(18,435)
Research and development expenses		(8,399)	(7,249)
Other expenses		(6,407)	(40)
Fair value changes of convertible redeemable preference shares		(98,926)	(235,872)
Finance costs		<u>(1,072)</u>	<u>(876)</u>
LOSS BEFORE TAX	4	(49,777)	(210,446)
Income tax expense	5	<u>(5,944)</u>	<u>(4,568)</u>
LOSS FOR THE PERIOD		<u><u>(55,721)</u></u>	<u><u>(215,014)</u></u>
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods			
Exchange difference on translation of financial statements of other group companies		<u>499</u>	<u>(1,399)</u>
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of the Company's financial statements		<u>6,172</u>	<u>(11,754)</u>
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAX		<u>6,671</u>	<u>(13,153)</u>
TOTAL COMPREHENSIVE LOSS		<u><u>(49,050)</u></u>	<u><u>(228,167)</u></u>

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**APPENDIX IB UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**

		Nine months ended	
		30 September	
		2024	2023
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
Loss attributable to:			
Owners of the Company		<u>(55,721)</u>	<u>(215,014)</u>
Total comprehensive loss attributable to:			
Owners of the Company		<u>(49,050)</u>	<u>(228,167)</u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted (RMB)	7	<u>(1.06)</u>	<u>(5.17)</u>

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**APPENDIX IB UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 September 2024	As at 31 December 2023
	<i>Notes</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Audited)</i>
NON-CURRENT ASSETS			
Property, plant and equipment	8	8,786	7,608
Right-of-use assets	9	26,935	23,821
Deferred tax assets		<u>1,421</u>	<u>1,459</u>
Total non-current assets		<u>37,142</u>	<u>32,888</u>
CURRENT ASSETS			
Inventories		11,545	8,159
Prepayments and other receivables		10,698	8,691
Financial assets at fair value through profit or loss		36,202	80,352
Cash and cash equivalents		<u>96,873</u>	<u>14,286</u>
Total current assets		<u>155,318</u>	<u>111,488</u>
CURRENT LIABILITIES			
Trade payables	10	10,396	9,068
Other payables and accruals		18,327	14,509
Lease liabilities	9	8,748	7,986
Convertible redeemable preference shares	11	598,236	506,108
Tax payable		<u>882</u>	<u>4,081</u>
Total current liabilities		<u>636,589</u>	<u>541,752</u>
NET CURRENT LIABILITIES		<u>(481,271)</u>	<u>(430,264)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(444,129)</u>	<u>(397,376)</u>
NON-CURRENT LIABILITIES			
Lease liabilities	9	<u>19,629</u>	<u>17,355</u>
NET LIABILITIES		<u>(463,758)</u>	<u>(414,731)</u>
DEFICIENCY IN ASSETS			
Equity attributable to owners of the Company			
Share capital	12	50	27
Reserves		<u>(463,808)</u>	<u>(414,758)</u>
Total deficiency in assets		<u>(463,758)</u>	<u>(414,731)</u>

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APPENDIX IB UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>Note</i>	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Share option reserve <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Exchange fluctuation reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total deficiency in assets <i>RMB'000</i>
At 1 January 2024 (audited)	27	(1,981)	2,470	3,024	(16,361)	(401,910)	(414,731)
Loss for the period	—	—	—	—	—	(55,721)	(55,721)
Other comprehensive loss for the period:							
Exchange differences on translation of financial statements of other group companies	—	—	—	—	499	—	499
Exchange differences on translation of the Company's financial statements	—	—	—	—	6,172	—	6,172
Total comprehensive income/(loss) for the period	—	—	—	—	6,671	(55,721)	(49,050)
Issuance of ordinary shares	12	—	—	—	—	—	18
Transfer to statutory surplus reserve	—	—	—	2,097	—	(2,097)	—
Exercise of share options	12	2,470	(2,470)	—	—	—	5
At 30 September 2024 (unaudited)	50	489	—	5,121	(9,690)	(459,728)	(463,758)
	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Share option reserve <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Exchange fluctuation reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total deficiency in assets <i>RMB'000</i>
At 1 January 2023 (audited)	27	(1,981)	2,470	123	(10,978)	(205,095)	(215,434)
Loss for the period	—	—	—	—	—	(215,014)	(215,014)
Other comprehensive loss for the period:							
Exchange differences on translation of financial statements of other group companies	—	—	—	—	(1,399)	—	(1,399)
Translation of the Company's functional currency to presentation currency	—	—	—	—	(11,754)	—	(11,754)
Total comprehensive loss for the period	—	—	—	—	(13,153)	(215,014)	(228,167)
Transfer to statutory surplus reserve	—	—	—	2,901	—	(2,901)	—
At 30 September 2023 (unaudited)	27	(1,981)	2,470	3,024	(24,131)	(423,010)	(443,601)

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**APPENDIX IB UNAUDITED INTERIM CONDENSED CONSOLIDATED
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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		Nine months ended	
		30 September	
		2024	2023
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		<u>(49,777)</u>	<u>(210,446)</u>
Adjustments for:			
Interest income	3	(258)	(89)
Fair value gain on financial assets at fair value through profit or loss	3	(910)	(657)
Fair value changes of convertible redeemable preference shares		98,926	235,872
Finance costs		1,072	876
Depreciation of property, plant and equipment	4	2,393	1,257
Depreciation of right-of-use assets	4	<u>6,730</u>	<u>5,127</u>
		58,176	31,940
Increase in inventories		(3,386)	(3,053)
Increase in prepayments and other receivables		(2,112)	(2,400)
Increase in trade payables		1,328	3,393
Increase in other payables and accruals		<u>3,818</u>	<u>5,191</u>
Cash generated from operations		<u>57,824</u>	<u>35,071</u>
Interest received		258	89
Income tax paid		<u>(9,105)</u>	<u>(695)</u>
Net cash flows from operating activities		<u>48,977</u>	<u>34,465</u>

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**APPENDIX IB UNAUDITED INTERIM CONDENSED CONSOLIDATED
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		Nine months ended	
		30 September	
		2024	2023
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	8	(3,571)	(5,583)
Purchases of financial assets at fair value through profit or loss		(149,500)	(263,100)
Proceeds from redemption of financial assets at fair value through profit or loss		<u>194,560</u>	<u>222,393</u>
Net cash outflow from/(used in) investing activities		<u>41,489</u>	<u>(46,290)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal portion of lease payments		(6,808)	(4,202)
Interest paid		<u>(1,072)</u>	<u>(876)</u>
Net cash flows used in financing activities		<u>(7,880)</u>	<u>(5,078)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of the period		82,586	(16,903)
Effect of foreign exchange rate changes, net		14,286	36,767
		<u>1</u>	<u>70</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		<u><u>96,873</u></u>	<u><u>19,934</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances as stated in the consolidated statement of financial position and the consolidated statement of cash flows		<u><u>96,873</u></u>	<u><u>19,934</u></u>

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**APPENDIX IB UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

		As at 30 September 2024	As at 31 December 2023
	<i>Notes</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Audited)</i>
NON-CURRENT ASSET			
Investment in a subsidiary		<u>701</u>	<u>708</u>
CURRENT ASSETS			
Due from a subsidiary		56,771	56,991
Other receivable		1,976	3,660
Cash and cash equivalent		<u>338</u>	<u>1,597</u>
Total current assets		<u>59,085</u>	<u>62,248</u>
CURRENT LIABILITIES			
Other payables		486	—
Convertible redeemable preference shares	12	<u>598,236</u>	<u>506,108</u>
Total current liabilities		<u>598,722</u>	<u>506,108</u>
NET CURRENT LIABILITIES		<u>(539,637)</u>	<u>(443,860)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(538,936)</u>	<u>(443,152)</u>
NET LIABILITIES		<u>(538,936)</u>	<u>(443,152)</u>
DEFICIENCY IN ASSETS			
Equity attributable to owners of the Company			
Share capital	13	50	27
Reserves		<u>(538,986)</u>	<u>(443,179)</u>
Total deficiency in assets		<u>(538,936)</u>	<u>(443,152)</u>

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APPENDIX IB UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

II. NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1.1 BASIS OF PRESENTATION

The Company and its subsidiaries now comprising the Group underwent the Reorganisation as set out in the paragraph headed “Reorganisation” in the section headed “History, Reorganization and Corporate Structure” in the document. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

Pursuant to the Reorganisation, as more fully explained in the paragraph headed “Corporate Reorganization” in the section headed “History, Reorganisation and Corporate Structure” in the document, the Company became the holding company of the companies comprising the Group on 16 August 2018. The Reorganisation has not resulted in any changes of economic substances of the businesses of the Group before and after the Reorganisation.

Due to regulatory restrictions on foreign ownership of companies that involve traditional Chinese medicine (“TCM”) business, which include activities and businesses operated by the Group, the Business was carried out by Wenzhi TCM Health and Wenzhi Internet Hospital and its subsidiaries (the “PRC Operating Entities”) during the Period and nine months ended 30 September 2023. Pursuant to the Reorganisation, WFOE, the Company’s wholly-owned subsidiaries, has entered into the structured contracts with, among others, the PRC Operating Entities and their respective equity holders (the “Structured Contracts”). The arrangements of the Structured Contracts enable WFOE to exercise effective control over the PRC Operating Entities and, accordingly, WFOE has rights to variable returns from its involvement with the PRC Operating Entities and has the ability to affect those returns through its power over the PRC Operating Entities. Accordingly, after the Structured Contracts have been signed in [16 August 2018], the PRC Operating Entities are controlled by the Company based on the Structured Contracts though the Company does not have any direct or indirect equity interest in the PRC Operating Entities. Details of the Structured Contracts are disclosed in the section headed “Contractual Arrangements” in the Document.

As the Reorganisation included transfer of ownership of Wenzhi TCM Health in the group and disposal of certain subsidiary with no actual business operations. Except for the deregistration and disposal of the subsidiary, which are accounted for when they were incurred, the Reorganisation results in no change in subsidiaries or businesses being consolidated during the Period.

All intra-group transactions and balances have been eliminated in full on consolidation.

1.2 BASIS OF PREPARATION

The unaudited interim financial information for the nine months ended 30 September 2024 has been prepared in accordance with IAS 34 Interim Financial Reporting.

This interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s Historical Financial Information for the years ended 31 December 2022 and 2023.

The accounting policies applied in the preparation and presentation of the interim condensed consolidated financial information are consistent with those used in the Group’s Historical Financial Information for the years ended 31 December 2022 and 2023.

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Going concern

The Group and the Company recorded net current liabilities of RMB481.3 million and RMB539.6 million, both of which included the convertible redeemable preference shares (the “Preference Shares”) of RMB598.2 million classified as current liabilities as at 30 September 2024. As further explained in note 12, the Preference Shares cannot be demanded for cash redemption before 31 December 2026. Therefore, the directors of the Company (the “Directors”) are of the opinion that no cash outflow is expected to be made in relation to the Preference Shares in the coming twelve months and that it would only constitute non-cash equity transaction with no legal enforcement for redemption. The Directors prepared a cash flow forecast for the Group which covers a period over twelve months from the end of the reporting period based on the aforementioned measures and approved business plans, and concluded that the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, the Directors are of the opinion that it is appropriate to prepare the consolidated financial statements of the Group and the Company for the Period on a going concern basis.

2. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the provision of a variety of healthcare businesses, including TCM healthcare services, TCM lifestyle products, and TCM Brain subscription services.

HKFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to segments and to assess their performance. The information reported to the directors of the Company, who are the chief operating decision-makers, for the purpose of resource allocation and assessment of performance does not contain discrete operating segment financial information and the directors reviewed the financial results of the Group as a whole. Therefore, no further information about the operating segment is presented.

Information about major customers

No revenue from sales to a single customer or a group of customers under common control accounted for 10% or more of the Group’s revenue for the Period and the nine months ended 30 September 2023.

3. REVENUE, OTHER INCOME AND GAINS

Revenue

An analysis of the Group’s revenue is as follows:

	Nine months ended 30 September	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue from contracts with customers	<u>173,138</u>	<u>129,380</u>

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Revenue from contracts with customers

(a) *Disaggregated revenue information*

	Nine months ended	
	30 September	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Types of goods or services		
TCM healthcare services	154,906	115,414
TCM lifestyle products	10,324	8,259
TCM Brain subscription services	<u>7,908</u>	<u>5,707</u>
Total	<u><u>173,138</u></u>	<u><u>129,380</u></u>
Timing of revenue recognition		
At a point	165,230	123,673
Over time	<u>7,908</u>	<u>5,707</u>
Total	<u><u>173,138</u></u>	<u><u>129,380</u></u>

All revenues are earned from external customers in Mainland China.

Other income and gains

	Nine months ended	
	30 September	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Interest income	258	89
Government grants*	1,089	666
Fair value gains on financial assets at fair value through profit or loss, net	910	657
Others	<u>317</u>	<u>—</u>
Revenue from contracts with customers	<u><u>2,574</u></u>	<u><u>1,412</u></u>

* There are no unfulfilled conditions or contingencies related to these government grants.

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4. LOSS BEFORE TAX

The Group’s loss before tax is arrived at after charging/(crediting):

		Nine months ended	
		30 September	
		2024	2023
	<i>Note</i>	<i>RMB’000</i>	<i>RMB’000</i>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
Cost of TCM healthcare services		62,908	50,679
Cost of TCM Brain subscription services		1,244	900
Cost of TCM lifestyle products		3,871	2,932
Depreciation of property, plant and equipment*		2,393	1,257
Depreciation of right-of-use assets*		6,730	5,127
Lease payments not included in the measurement of lease liabilities		1,999	993
[REDACTED] expenses***		[REDACTED]	[REDACTED]
Fair value gain on financial assets at fair value through profit or loss, net**	5	910	657

* The depreciation of property, plant and equipment and right-of-use assets is included in “Cost of sales” and “Administrative expenses” in profit or loss, respectively.

** The amounts are included in “Other income and gains” in profit or loss.

*** The amounts are included in “Other expenses” in profit or loss.

5. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Cayman Islands

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. In addition, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax is imposed.

Mainland China

Pursuant to the Corporate Income Tax Law of the PRC and the respective regulations (the “CIT Law”), certain subsidiaries of the Group which operate in Mainland China are subject to corporate income tax at a rate of 25% on the taxable income, unless they are subject to tax exemption set out below. Certain subsidiaries of the Group are qualified as “High and New Technology Enterprise” and therefore were entitled to a preferential income tax policy of “two year exemptions and three year reductions” for the Period and the nine months ended 30 September 2023, that is, the income tax was exempted in 2021 and 2022, and the income tax rate of 12.5% will be applied from 2023 to 2025.

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Hong Kong

No provision for Hong Kong profits tax has been made as the company had no assessable profits derived from or earned in Hong Kong during the reporting period. The subsidiary incorporated in Hong Kong is subject to income tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year.

The income tax expense for the Period and the nine months ended 30 September 2023 are as follows:

	Nine months ended 30 September	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Current	5,906	1,224
Deferred	<u>38</u>	<u>3,344</u>
Total	<u><u>5,944</u></u>	<u><u>4,568</u></u>

6. DIVIDENDS

No dividends was paid or declared by the Company during the Period and the nine months ended 30 September 2023.

7. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share amount is based on the loss for the Period and the nine months ended 30 September 2023 attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 52,370,674 and 41,616,682 outstanding during the Period and the nine months ended 30 September 2023, respectively.

Because the diluted loss per share amount decreased when taking the convertible shares and share options into account, the convertible shares and share options had an anti-dilutive effect on the basic loss per share and were ignored in the calculation of diluted loss per share during the Period and the nine months ended 30 September 2023. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the Period and the nine months ended 30 September 2023, as used in the basic loss per share calculation.

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The calculation of basic and diluted loss per share is based on:

	Nine months ended 30 September	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Loss:		
Loss attributable to ordinary equity holders of the Company, used in the basic loss per share calculation	<u>(55,721)</u>	<u>(215,014)</u>
	Number of shares	
Shares		
Weighted average number of ordinary shares outstanding used in the basic loss per share calculation	<u>52,370,674</u>	<u>41,616,682</u>

8. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group acquired assets at a cost of RMB3,571,000 (30 September 2023: RMB5,583,000). There was no disposal of assets by the Group during the Period and the nine months ended 30 September 2023.

9. LEASES

The Group as a lessee

(a) Right-of-use assets

The Group has lease contracts for various office premises used in its operations. Leases of office premises generally have lease terms between 2 and 7 years. Generally, the Group is restricted from assigning and subleasing the leased office premises outside the Group. During the Period, the Group recognised the right-of-use assets with an aggregate cost of RMB9,844,000 (30 September 2023: RMB20,600,000).

(b) Lease liabilities

During the Period, the Group recognised the new lease liabilities of RMB9,844,000 (30 September 2023: RMB20,600,000) and an interest expense of RMB1,072,000 (30 September 2023: RMB876,000) was charged. Furthermore, the Group paid for the lease liabilities of RMB7,880,000 (30 September 2023: RMB5,078,000).

10. TRADE PAYABLES

An ageing analysis of the trade and bills payables as at 30 September 2024 and 31 December 2023, based on the invoice date, is as follows:

	30 September 2024	31 December 2023
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Within three months	<u>10,396</u>	<u>9,068</u>

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11. CONVERTIBLE REDEEMABLE PREFERENCE SHARES

The Company and the Group

Since the date of incorporation, the Company has completed several rounds of financing by issuing series of Preference Share. For details, please refer to below table:

	Date of issuance	Purchase price (USD/share)	Number of shares	Total consideration	
				USD'000	RMB'000
Series A-1 Preference Shares	7 September 2018	0.049	4,220,000	207	1,411
Series A-2 Preference Shares	7 September 2018	0.082	18,503,091	1,511	10,310
Series A-3 Preference Shares	20 March 2019	0.209	14,327,801	3,000	20,130
Series A-4 Preference Shares	14 January 2022	0.367	13,610,452	5,000	31,838
Total			<u>50,661,344</u>	<u>9,718</u>	<u>63,689</u>

The key terms of the Preference Share are summarised as follows:

Conversion rights

Each class of Preference Share shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such class of Preference Share, into such number of fully paid and non-assessable ordinary shares as is determined by dividing the applicable original issue price of each class of Preference Share by the conversion price applicable to such class of Preference Share (the “Conversion Price”), determined as hereafter provided, in effect on the date the certificate is surrendered for conversion. The initial Conversion Price shall initially equal to the original issue price, and shall be adjusted from time to time, including but not limited to (1) share splits and combinations, (2) ordinary share dividends and distributions, (3) other dividends, (4) reorganizations, mergers, consolidations, reclassifications, exchanges, substitutions, (5) sale of shares below the Conversion Price and (6) deemed issue of additional stock. For the avoidance of doubt, the initial conversion ratio for each class of Preference Shares to ordinary shares shall be 1:1.

Without any action being required by the holder of such share and whether or not the certificates representing such share are surrendered to the Company or its transfer agent, each class of Preference Share shall automatically be converted into ordinary shares at the then effective applicable Conversion Price upon the closing of an [REDACTED] of ordinary shares (or ordinary share equivalents) in the United States approved by the board (“Broad”) at a [REDACTED] price per share corresponding to a [REDACTED] valuation of the Company of at least RMB500 million with net [REDACTED] to the Company in excess of RMB300 million (excluding [REDACTED] discounts, commissions and expenses) or in a substantially similar [REDACTED] of ordinary shares (or ordinary share equivalents) in a jurisdiction and on an internationally recognized securities exchange outside of the United States approved by the Board provided that such [REDACTED] price, [REDACTED] and regulatory approval is reasonably equivalent to the aforementioned [REDACTED] in the United States (the “[REDACTED]”) or at the election of the holder(s) of more than 50% of the then outstanding Preference Shares, calculated on an as converted basis. (such event being referred to herein as a “Automatic Conversion”).

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On and after the date of an Automatic Conversion, notwithstanding that any certificates for the each class of Preference Shares shall not have been surrendered for conversion, the each of class Preference Shares evidenced thereby shall be deemed to be no longer outstanding, and all rights with respect thereto shall forthwith cease and terminate, except only the rights of the holder (i) to receive the ordinary shares to which such holder shall be entitled upon conversion thereof, (ii) to receive the amount of cash payable in respect of any fractional share of ordinary shares to which it shall be entitled and (iii) with respect to dividends declared but unpaid on the each class of Preference Shares prior to such conversion date.

The convertible redeemable preference shares will be converted to ordinary shares upon the [REDACTED].

Redemption features

Notwithstanding anything to the contrary herein (including but not limited to article 11 of the articles of association), at any time after the earlier of: (i) the failure to consummate a [REDACTED] of the Group before the fifth anniversary of the Series A-4 original issue date; or (ii) the occurrence of any material breach by any companies in the Group and/or any individual and entities defined in the shareholders’ agreement (the “Key Holders”) of the transaction documents or any fraud or dishonesty of any company in the Group or any Key Holder, which has brought or may bring any material adverse effect to any holder of Preference Shares; (iii) any material adverse change in the regulatory environment, under which circumstance the restructuring documents have become or will become invalid, illegal or unenforceable, and no reasonably acceptable substitute mechanism has been proposed by the Company within reasonable time (the “Redemption Events”, and each a “Redemption Event”), any holder of Preference Shares, as applicable, separately but not jointly, may give a written notice by hand or letter mail or courier service to the Company at its principal executive offices at any time or from time to time (the “Redemption Notice”) requesting redemption of all or part of such class of Preference Shares, in which case the Company shall pay to each holder (each, a “Redeeming Preference Shareholder”), as to each holder of each class of Preference Share of a Preference Share for which an Redemption Notice has been timely submitted (each, a “Redeeming Preference Share”), in respect of such Redeeming Preference Share, an amount (the “Redemption Price”) equal to the sum of the original issue price of each Preference Share, plus eight percent simple annual interest and any accrued but unpaid dividends on such share, proportionally adjusted for share subdivisions, share dividends, reorganizations, reclassifications, consolidations, or mergers, with each Redemption Price to be paid on a date to be determined at the discretion of the Company, but in any event within sixty days of the date of the Redemption Notice (the “Redemption Price Payment Date”).

If any of the Redemption Events is attributable to the default by any of the Key Holders, then each Key holder irrevocably and unconditionally undertakes and covenants to the holders of the Series A Preference Shares that, upon any of the Redemption Events, the Key Holders and the Company shall be jointly responsible for any and all obligations under this Article 143. For avoidance of doubt, except for any fraud, willful misconduct or dishonesty of the Key Holder, the responsibility of each Key Holder under this Article 143 shall be limited to no other personal assets of such Key Holder except for the value of all the equity interests of the Company directly or indirectly held by such Key Holder.

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Liquidation preferences

In the event of the liquidation event described in the article, whether voluntarily or involuntarily, the proceeds or assets from such liquidation event (the “Proceeds”) available for distribution to the holders of each class of Preference Shares with an amount equal to one hundred percent (100%) of the original issue price if, plus all declared but unpaid dividends on such class of Preference Share (the “Preference Amount”) in the sequence below:

- (a) Series A-4 Preference Shares;
- (b) Series A-3 Preference Shares; and
- (c) Series A-2 and Series A-1 Preference Shares.

If the assets and funds thus distributed among the holders of such class of Preference Shares shall be insufficient to permit the payment to such holders of the full relevant Preference Amount, then the entire assets and funds of the Company legally available for distribution to the class of Preference Shares shall be distributed ratably among the holders of the class of Preference Shares in proportion to the aggregate such relevant Preference Amount.

Voting rights

Each Preference Share shall carry such number of votes as is equal to the number of votes of Ordinary Shares then issuable upon the conversion of such Preference Shares. The holders of Preference Shares and the holders of Ordinary Shares shall vote together and not as a separate class, unless otherwise provided in these Articles, the Memorandum and the applicable Statute.

Dividends

The Board may from time to time declare dividends (including interim dividends) and distributions on shares of the Company outstanding and authorize payment of the same out of the funds of the Company lawfully available therefor.

Each holder of Preference Share shall, on a *pari passu* basis, be entitled to receive non-cumulative dividends at the rate of eight percent (8%) of the original issue price of each class of Preference Share per annum for each Preference Share (As adjusted), when and if declared by the Board, payable out of funds or assets when and as such funds or assets become legally available therefore, prior and in preference to any declaration or payment of any dividend in the sequence below:

- (a) Series A-4 Preference Shares;
- (b) Series A-3 Preference Shares;
- (c) Series A-2 and Series A-1 Preference Shares; and
- (d) Ordinary shares

After the preferential dividends relating to the Preference Shares above have been paid in full or declared and set apart in any fiscal year of the Company, any additional dividends out of funds legally available therefore may be declared in that fiscal year for the ordinary shares and, if such additional dividends are declared, then such additional dividends shall be declared pro rata on the ordinary shares and Preference Shares on an as-converted basis.

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Presentation and classification

The Group designated host debt and conversion derivative of Preference Shares as financial liabilities measured as fair value through profit or loss, presented as convertible redeemable preference shares included in the current liabilities in the consolidated statements of financial position, as the Preference Shares is unconditionally convertible at any time after the issuance. Changes in fair value of Preference Shares were recorded in “fair value changes of convertible redeemable preference shares”. Management considered that fair value change in the Preference Shares attributable to changes of own credit risk is not significant.

The movements of the convertible redeemable preference share are set out as below:

	30 September 2024	31 December 2023
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
At beginning of period/year	506,108	263,486
Fair value losses on Preference Shares	98,926	236,943
Exchange realignment	<u>(6,798)</u>	<u>5,679</u>
At end of period/year	<u><u>598,236</u></u>	<u><u>506,108</u></u>

The Group applied the discounted cash flow method to determine the underlying share value of the Company and adopted equity allocation model to determine the fair value of the Preference Shares as at 30 September 2024 and 31 December 2023. Key valuation assumptions used to determine the fair value of the Preference Shares are set out below:

	30 September 2024	31 December 2023
Risk-free interest rate	3.90%	4.77%
Discounts for lack of marketability (“DLOM”)	9.60%–11.40%	17.84%–20.62%
Volatility	43.55%	51.73%
Possibilities under liquidation scenario	15.00%	17.50%
Possibilities under redemption scenario	15.00%	17.50%
Possibilities under [REDACTED] scenario	<u><u>70.00%</u></u>	<u><u>65.00%</u></u>

The Group estimated the risk-free interest rate based on the US Treasury Par Yield with maturity close to the expected exit timing as of the valuation date. The DLOM was estimated based on the Hybrid Method. Under the Hybrid Method, the cost of put option, which can hedge the price change before the privately held share can be sold, was considered as a basis to determine the lack of marketability discount. Volatility was estimated based on annualized standard deviation of daily stock price return of comparable companies for a period from the valuation date and with a similar time span to expiration.

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12. SHARE CAPITAL

The Group and the Company

The Company was incorporated on 19 June 2018 with authorised share capital of USD50,000 divided into 500,000,000 shares with a par value of USD0.0001 each, consisting of 449,338,656 ordinary shares of par value of USD0.0001 each, 4,220,000 convertible and redeemable Series A-1 Preference Shares of par value of USD0.0001 each, 18,503,091 convertible and redeemable Series A-2 Preference Shares of par value of US\$0.0001 each, 14,327,801 convertible and redeemable Series A-3 Preference Shares of par value of USD0.0001 each and 13,610,452 convertible and redeemable Series A-4 Preference Shares of par value of USD0.0001 each.

	30 September 2024	31 December 2023
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Shares		
Issued and paid:		
74,156,682 and 41,616,682 ordinary shares of USD0.0001 each	<u>50</u>	<u>27</u>

A summary of movements in the Company’s share capital is as follows:

	Number of ordinary shares in issue	Share capital <i>RMB'000</i>
At 1 January 2023 and 31 December 2023 (audited)	41,616,682	27
Exercise of share options (<i>note a</i>)	7,240,000	5
Issuance of ordinary shares (<i>note b</i>)	<u>25,300,000</u>	<u>18</u>
At 30 September 2024 (unaudited)	<u>74,156,682</u>	<u>50</u>

Notes

- (a) On 1 July 2024, the subscription rights attached to 7,240,000 share options were exercised at the subscription price of USD0.0001 per share, resulting in the issue of 7,240,000 ordinary shares for a total cash consideration, before expenses, of USD724 (equivalent to RMB5,000). An amount of USD369,000 (equivalent to RMB2,470,000) was transferred from the share option reserve to the share premium upon the exercise of the share options.
- (b) On 2 July 2024, 25,300,000 ordinary shares of the Company were issued by the Company to the original shareholders at the total consideration of USD3,000 (equivalent to RMB18,000).

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13. COMMITMENTS

As at 30 September 2024 and 31 December 2023, the Group did not have any significant contractual commitments.

14. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Transactions with related parties

During the Period and the nine months ended 30 September 2023, there were no significant transactions with related parties.

(b) Balances with a related party

	30 September 2024	31 December 2023
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Due from a director	<u>1,976</u>	<u>3,660</u>

The balance with a related party was unsecured, interest-free and settled on demand.

(c) Compensation of key management personnel and related parties of the Group

Details of the compensation of key management personnel of the Group are disclosed as follows:

	Nine months ended	
	30 September	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Short-term employee benefits	<u>3,059</u>	<u>2,746</u>

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15. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group’s financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amount		Fair value	
	30 September 2024 <i>RMB'000</i> <i>(Unaudited)</i>	31 December 2023 <i>RMB'000</i> <i>(Audited)</i>	30 September 2024 <i>RMB'000</i> <i>(Unaudited)</i>	31 December 2023 <i>RMB'000</i> <i>(Audited)</i>
Financial assets				
Financial assets at fair value through profit or loss	<u>36,202</u>	<u>80,352</u>	<u>36,202</u>	<u>80,352</u>
Financial liabilities				
Convertible redeemable preference shares	<u>598,236</u>	<u>506,108</u>	<u>598,236</u>	<u>506,108</u>

Management has assessed that the fair values of cash and cash equivalents, financial assets included in prepayments and other receivables, trade payables, financial liabilities included in other payables and accruals, approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group’s finance department headed by the finance director is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance director reports directly to the chief executive officer and the board of directors of the Company. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief executive officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of financial products issued by banks in Mainland China included in the financial assets at fair value through profit or loss were quoted from active markets.

The fair values of convertible redeemable Preference Shares are determined by using the Hybrid Method using significant unobservable market inputs. Details of the method were disclosed in note 12 to the interim condensed consolidated financial information.

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Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 September 2024 and 31 December 2023:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Convertible redeemable preference shares	Hybrid Method	Risk-free interest rate	30 September 2024: 3.90% (31 December 2023: 4.77%)	1% (31 December 2023: 1%) increase/decrease in risk-free interest rate would result in decrease/ increase in fair value by RMB72,000 (31 December 2023: RMB201,000).
		Volatility	30 September 2024: 43.55% (31 December 2023: 51.73%)	1% (31 December 2023: 1%) increase/decrease in volatility would result in decrease/ increase in fair value by RMB548,000 (31 December 2023: RMB869,000).
		DLOM	30 September 2024: 9.60%–11.40% (31 December 2023: 17.84%–20.62%)	1% (31 December 2023: 1%) increase/decrease in DLOM would result in decrease/ increase in fair value by RMB7,139,000 (31 December 2023: RMB6,975,000).

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Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group’s financial instruments:

Assets measured at fair value:

	Fair value measurement using			Total <i>RMB’000</i>
	Quoted prices in active markets (Level 1) <i>RMB’000</i>	Significant observable inputs (Level 2) <i>RMB’000</i>	Significant unobservable inputs (Level 3) <i>RMB’000</i>	
30 September 2024 (unaudited)				
Financial assets at fair value through profit or loss	—	36,202	—	36,202
31 December 2023 (audited)				
Financial assets at fair value through profit or loss	—	80,352	—	80,352

Liabilities measured at fair value:

	Fair value measurement using			Total <i>RMB’000</i>
	Quoted prices in active markets (Level 1) <i>RMB’000</i>	Significant observable inputs (Level 2) <i>RMB’000</i>	Significant unobservable inputs (Level 3) <i>RMB’000</i>	
30 September 2024 (unaudited)				
Convertible redeemable preference shares	—	—	598,236	598,236
31 December 2023 (audited)				
Convertible redeemable preference shares	—	—	506,108	506,108

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The movements in fair value measurements within Level 3 during the Period and the year ended 31 December 2023 are as follows:

	Nine months ended 30 September 2024 <i>RMB'000</i> (Unaudited)	Year ended 31 December 2023 <i>RMB'000</i> (Audited)
At the beginning of period/year	506,108	263,486
Total losses charged to profit or loss	98,926	236,943
Exchanges realignment	<u>(6,798)</u>	<u>5,679</u>
At the end of period/year	<u><u>598,236</u></u>	<u><u>506,108</u></u>

During the Period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

16. EVENTS AFTER THE PERIOD

There were no significant events subsequent to the end of the Period.

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APPENDIX II UNAUDITED [REDACTED] FINANCIAL INFORMATION

[REDACTED]

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[REDACTED]

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APPENDIX II UNAUDITED [REDACTED] FINANCIAL INFORMATION

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APPENDIX II UNAUDITED [REDACTED] FINANCIAL INFORMATION

[REDACTED]

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APPENDIX II UNAUDITED [REDACTED] FINANCIAL INFORMATION

[REDACTED]

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
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Set out below is a summary of certain provisions of the constitution of the Company and certain aspects of the company laws of the Cayman Islands.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 19 June 2018 under the Companies Act. The Company’s constitutional documents consist of the Memorandum of Association and the Articles of Association.

1. MEMORANDUM OF ASSOCIATION

The Memorandum provides, *inter alia*, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted (and therefore include acting as an investment holding company) and that the Company shall have full power and authority to carry out any object not prohibited by the Companies Act or any other law of the Cayman Islands.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on [•] and will become effective on the [REDACTED]. A summary of certain provisions of the Articles is set out below.

2.1 Shares

(a) Classes of Shares

The share capital of the Company consists of a single class of ordinary shares.

(b) Variation of Rights of Existing Shares or Classes of Shares

If at any time the share capital of the Company is divided into different classes of Shares, all or any of the rights attached to any class of Shares for the time being issued (unless otherwise provided by the terms of issue of the Shares of that class) may, whether or not the Company is being wound up, be varied with the consent in writing of the holders of at least three-fourths of the issued Shares of that class, or with the approval of a resolution passed by at least three-fourths of the votes cast by the holders of the Shares of that class present and voting in person or by proxy at a separate meeting of such holders. The provisions of the Articles relating to general meetings shall apply *mutatis mutandis* to every such separate meeting, except that the necessary quorum shall be two persons together holding (or, in the case of a member being a corporation, by its duly authorised representative), or representing by proxy, at least one-third of the issued Shares of that class. Every holder of Shares of the class shall be entitled on a poll to one vote for every such Share held by him, and any holder of Shares of the class present in person or by proxy may demand a poll.

For the purposes of a separate class meeting, the Board may treat two or more classes of Shares as forming one class of Shares if the Board considers that such classes of Shares would be affected in the same way by the proposals under consideration, but in any other case shall treat them as separate classes of Shares.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
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Any rights conferred upon the holders of Shares of any class shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of the Shares of that class, be deemed to be varied by the creation or issue of further Shares ranking *pari passu* therewith.

(c) Alteration of Capital

The Company may by ordinary resolution:

- (i) increase its share capital by the creation of new Shares of such amount and with such rights, priorities and privileges attached to such Shares as it may determine;
- (ii) consolidate and divide all or any of its share capital into Shares of a larger amount than its existing Shares. On any consolidation of fully paid Shares and division into Shares of a larger amount, the Board may settle any difficulty which may arise as it thinks expedient and, in particular (but without prejudice to the generality of the foregoing), may as between the holders of Shares to be consolidated determine which particular Shares are to be consolidated into a consolidated Share, and if it shall happen that any person shall become entitled to fractions of a consolidated Share or Shares, such fractions may be sold by some person appointed by the Board for that purpose and the person so appointed may transfer the Shares so sold to the purchaser(s) thereof and the validity of such transfer shall not be questioned, and the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated Share or Shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (iii) sub-divide its Shares or any of them into Shares of an amount smaller than that fixed by the Memorandum; and
- (iv) cancel any Shares which, as at the date of passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the Shares so cancelled.

The Company may by special resolution reduce its share capital or any undistributable reserve, subject to the provisions of the Companies Act.

(d) Transfer of Shares

Subject to the terms of the Articles, any member of the Company may transfer all or any of his Shares by an instrument of transfer. If the Shares in question were issued in conjunction with rights, options, warrants or units issued pursuant to the Articles on terms that one cannot be transferred without the other, the Board shall refuse to register the transfer of any such Share without evidence satisfactory to it of the like transfer of such right, option, warrant or unit.

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Subject to the Articles and the requirements of the Stock Exchange, all transfers of Shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a recognised clearing house or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a Share until the name of the transferee is entered in the register of members of the Company in respect of that Share.

Subject to the provisions of the Companies Act, if the Board considers it necessary or appropriate, the Company may establish and maintain a branch register or registers of members at such location or locations within or outside the Cayman Islands as the Board thinks fit. The Board may, in its absolute discretion, at any time transfer any Share on the principal register to any branch register or any Share on any branch register to the principal register or any other branch register.

The Board may, in its absolute discretion, decline to register a transfer of any Share (not being a fully paid Share) to a person of whom it does not approve or on which the Company has a lien, or a transfer of any Share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any Share to more than four joint holders. It may also decline to recognise any instrument of transfer if the proposed transfer does not comply with the Articles or any requirements of the Listing Rules.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of Share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules and the relevant section of the Companies Ordinance, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine (or such longer period as the members of the Company may by ordinary resolution determine, provided that such period shall not be extended beyond 60 days in any year).

Fully paid Shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

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(e) Redemption of Shares

Subject to the provisions of the Companies Act, the Listing Rules and any rights conferred on the holders of any Shares or attaching to any class of Shares, the Company may issue Shares that are to be redeemed or are liable to be redeemed at the option of the members or the Company. The redemption of such Shares shall be effected in such manner and upon such other terms as the Company may by special resolution determine before the issue of such Shares.

(f) Power of the Company to Purchase its own Shares

Subject to the Companies Act, or any other law or so far as not prohibited by any law and subject to any rights conferred on the holders of any class of Shares, the Company shall have the power to purchase or otherwise acquire all or any of its own Shares (which includes redeemable Shares), provided that the manner and terms of purchase have first been authorised by ordinary resolution and that any such purchase shall only be made in accordance with the relevant code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong from time to time in force.

(g) Power of any Subsidiary of the Company to own Shares in the Company

There are no provisions in the Articles relating to the ownership of Shares in the Company by a subsidiary.

(h) Calls on Shares and Forfeiture of Shares

Subject to the terms of allotment and issue of any Shares (if any), the Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the Shares held by them (whether in respect of par value or share premium). A member who is the subject of the call shall (subject to receiving at least 14 clear days’ notice specifying the time or times for payment) pay to the Company at the time or times so specified the amount called on his Shares. A call may be made payable either in one sum or by instalments, and shall be deemed to have been made at the time when the resolution of the Board authorising such call was passed. The joint holders of a Share shall be severally as well as jointly liable for the payment of all calls and instalments due in respect of such Share.

If a call remains unpaid after it has become due and payable, the member from whom the sum is due shall pay interest on the unpaid amount at such rate as the Board shall determine (together with any expenses incurred by the Company as a result of such non-payment) from the day it became due and payable until it is paid, but the Board may waive payment of such interest or expenses in whole or in part.

If a member fails to pay any call or instalment of a call after it has become due and payable, the Board may, for so long as any part of the call or instalment remains unpaid, give to such member not less than 14 clear days’ notice requiring payment of the unpaid amount together with any interest which may have accrued and which may still accrue up to the date of payment (together with any expenses incurred by the Company as a result of such non-payment). The notice shall specify a further day on or before which the payment

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required by the notice is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the Shares in respect of which the call was made will be liable to be forfeited.

If such notice is not complied with, any Share in respect of which the notice was given may, before the payment required by the notice has been made, be forfeited by a resolution of the Board. Such forfeiture shall include all dividends, other distributions and other monies payable in respect of the forfeited Share and not paid before the forfeiture.

A person whose Shares have been forfeited shall cease to be a member in respect of the forfeited Shares, shall surrender to the Company for cancellation the certificate(s) for the Shares forfeited and shall remain liable to pay to the Company all monies which, as at the date of forfeiture, were payable by him to the Company in respect of the Shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until the date of payment as the Board may determine and any expenses incurred by the Company as a result of such non-payment.

2.2 Directors

(a) Appointment, Retirement and Removal

The Company may by ordinary resolution of the members elect any person to be a Director. The Board may also appoint any person to be a Director at any time, either to fill a casual vacancy or as an additional Director subject to any maximum number fixed by the members in general meeting or the Articles. Any Director so appointed shall hold office only until the first annual general meeting of the Company after his appointment and shall then be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The members may by ordinary resolution remove any Director (including a managing or executive Director) before the expiration of his term of office, notwithstanding anything in the Articles or any agreement between the Company and such Director, and may by ordinary resolution elect another person in his stead. Nothing shall be taken as depriving a Director so removed of any compensation or damages payable to such Director in respect of the termination of his appointment as Director or of any other appointment or office as a result of the termination of his appointment as Director.

The office of a Director shall be vacated if:

- (i) the Director gives notice in writing to the Company that he resigns from his office as Director;

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- (ii) the Director is absent, without being represented by proxy or an alternate Director appointed by him, for a continuous period of 12 months without special leave of absence from the Board, and the Board passes a resolution that he has by reason of such absence vacated his office;
- (iii) the Director becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (iv) the Director dies or an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;
- (v) the Director is prohibited from being or ceases to be a Director by operation of law;
- (vi) the Director has been required by the Stock Exchange to cease to be a Director or no longer qualifies to be a Director pursuant to the Listing Rules; or
- (vii) the Director is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) then in office.

At each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation. If the number of Directors is not a multiple of three, then the number nearest to but not less than one-third shall be the number of retiring Directors, provided that every Director shall be subject to retirement by rotation at least once every three years. The Directors to retire at each annual general meeting shall be those who have been in office longest since their last re-election or appointment and, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

(b) Power to Allot and Issue Shares and other Securities

Subject to the provisions of the Companies Act, the Memorandum and Articles and, where applicable, the Listing Rules, and without prejudice to any rights or restrictions for the time being attached to any Shares, the Board may allot, issue, grant options over or otherwise dispose of Shares with or without preferred, deferred or other rights or restrictions, whether with regard to dividend, voting, return of capital or otherwise, to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, provided that no Shares shall be issued at a discount to their par value.

The Company may issue rights, options, warrants or convertible securities or securities of a similar nature conferring the right upon the holders thereof to subscribe for, purchase or receive any class of Shares or other securities in the Company on such terms as the Board may from time to time determine.

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Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of Shares, to make, or make available, any such allotment, offer, option or Shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(c) Power to Dispose of the Assets of the Company or any of its Subsidiaries

Subject to the provisions of the Companies Act, the Memorandum and Articles and any directions given by special resolution of the Company, the Board may exercise all powers and do all acts and things which may be exercised or done by the Company to dispose of the assets of the Company or any of its subsidiaries. No alteration to the Memorandum or Articles and no direction given by special resolution of the Company shall invalidate any prior act of the Board which would have been valid if such alteration or direction had not been made or given.

(d) Borrowing Powers

The Board may exercise all the powers of the Company to raise or borrow money, secure the payment of any sum or sums of money for the purposes of the Company, mortgage or charge all or any part of its undertaking, property and uncalled capital of the Company, and, subject to the Companies Act, issue debentures, debenture stock, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(e) Remuneration

A Director shall be entitled to receive such sums as shall from time to time be determined by the Board or the Company in general meetings. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in connection with attendance at meetings of the Board or committees of the Board, or general meetings of the Company or separate meetings of the holders of any class of Shares or debentures of the Company, or otherwise in connection with the business of the Company and the discharge of their duties as Directors, and/or to receive fixed allowances in respect thereof as may be determined by the Board.

The Board or the Company in general meetings may also approve additional remuneration to any Director for any services which in the opinion of the Board or the Company in general meetings go beyond such Director's ordinary routine work as a Director.

(f) Compensation or Payments for Loss of Office

There are no provisions in the Articles relating to compensation or payment for loss of office.

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(g) Loans to Directors

There are no provisions in the Articles relating to making of loans to Directors.

(h) Disclosure of Interest in Contracts with the Company or any of its Subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company.

No person shall be disqualified from the office of Director or alternate Director or prevented by such office from contracting with the Company, nor shall any such contract or any other contract or transaction entered into by or on behalf of the Company in which any Director or alternate Director is in any way interested be or be liable to be avoided, nor shall any Director or alternate Director so contracting or being so interested be liable to account to the Company for any profit realised by or arising in connection with any such contract or transaction by reason of such Director or alternate Director holding such office or of the fiduciary relationship established by it, provided that the nature of interest of any Director or alternate Director in any such contract or transaction shall be disclosed by such Director or alternate Director at or prior to the consideration and vote thereon.

A Director shall not vote on (or be counted in the quorum in relation to) any resolution of the Board in respect of any contract or arrangement or other proposal in which he or any of his close associate(s) has a material interest, and if he shall do so his vote shall not be counted and he shall not be counted in the quorum for such resolution. This prohibition shall not apply to any of the following matters:

- (i) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of Shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

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- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of (A) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit or (B) any pension fund or retirement, death or disability benefits scheme which relates to the Director, his close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of Shares, debentures or other securities of the Company by virtue only of his/their interest in those Shares, debentures or other securities.

2.3 Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Unless otherwise determined, two Directors shall be a quorum. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.4 Alterations to the Constitutional Documents and the Company's Name

The Memorandum and Articles may only be altered or amended, and the name of the Company may only be changed, by special resolution of the Company.

2.5 Meetings of Members

(a) Special and Ordinary resolutions

A special resolution must be passed by a majority of not less than [three-fourths/two-thirds (other than in relation to any resolution approving changes to the Company's constitutional documents or a voluntary winding up of the Company, in which case a special resolution must be passed by a majority of not less than three-fourths)] of the voting rights held by such members as, being entitled so to do, vote in person or by proxy or, in the case of any members which is a corporation, by its duly authorised representative(s) or by proxy, at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. A special resolution may also be approved in writing by all the members entitled to vote at a general meeting in one or more instruments each signed by one or more of such members.

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An ordinary resolution, in contrast, is a resolution passed by a simple majority of the voting rights held by such members as, being entitled to do so, vote in person or by proxy or, in the case of any member which is a corporation, by its duly authorised representative(s) or by proxy, at a general meeting. An ordinary resolution may also be approved in writing by all the members entitled to vote at a general meeting in one or more instruments each signed by one or more of such members.

The provisions of special resolutions and ordinary resolutions shall apply *mutatis mutandis* to any resolutions passed by the holders of any class of shares.

(b) Voting Rights and Right to Demand a Poll

Subject to any rights, restrictions or privileges as to voting for the time being attached to any class or classes of Shares, at any general meeting: (a) on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for every Share and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote.

In the case of joint holders, the vote of the senior holder who tenders a vote, whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders, and seniority shall be determined by the order in which the names of the holders stand in the register of members of the Company.

No person shall be counted in a quorum or be entitled to vote at any general meeting unless he is registered as a member on the record date for such meeting, nor unless all calls or other monies then payable by him in respect of the relevant Shares have been paid.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

Any corporation or other non-natural person which is a member of the Company may in accordance with its constitutional documents, or in the absence of such provision by resolution of its directors or other governing body or by power of attorney, authorise such person as it thinks fit to act as its representative at any meeting of the Company or of any class of members, and the person so authorised shall be entitled to exercise the same powers as the corporation or other non-natural person could exercise as if it were a natural person member of the Company.

If a recognised clearing house or its nominee(s) is a member of the Company, it may appoint proxies or authorise such person or persons as it thinks fit to act as its representative(s), who enjoy rights equivalent to the rights of other members, at any meeting of the Company (including but not limited to general meetings and creditors meetings) or at any meeting of any class of members of the Company, provided that if more than one person is so authorised, the authorisation shall specify the number and class of Shares in respect of which each such person is so authorised. A person so authorised shall be entitled to exercise the same rights and powers

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on behalf of the recognised clearing house or its nominee(s) as if such person were a natural person member of the Company, including the right to speak and vote individually on a show of hands or on a poll.

All members of the Company (including a member which is a recognised clearing house (or its nominee(s))) shall have the right to (i) speak at a general meeting and (ii) and vote at a general meeting except where a member is required by the Listing Rules to abstain from voting to approve the matter under consideration. Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(c) Annual General Meetings and Extraordinary General Meetings

The Company must hold a general meeting as its annual general meeting in each financial year. Such meeting shall be specified as such in the notices calling it, and must be held within six months after the end of the Company's financial year. A meeting of the members or any class thereof may be held by telephone, tele-conferencing or other electronic means, provided that all participants are able to communicate contemporaneously with one another, and participation in a meeting in such manner shall constitute presence at such meetings.

The Board may convene an extraordinary general meeting whenever it thinks fit. In addition, one or more members holding, as at the date of deposit of the requisition, in aggregate not less than one-tenth of the voting rights (on a one vote per Share basis) in the share capital of the Company may make a requisition to convene an extraordinary general meeting and/or add resolutions to the agenda of a meeting. Such requisition, which must state the objects and the resolutions to be added to the agenda of the meeting and must be signed by the requisitionists, shall be deposited at the principal place of business of the Company in Hong Kong or, in the event the Company ceases to have such a principal place of business, the registered office of the Company. If the Board does not within 21 days from the date of deposit of such requisition duly proceed to convene a general meeting to be held within the following 21 days, the requisitionists or any of them representing more than one-half of the total voting rights of all the requisitionists may themselves convene a general meeting, but any such meeting so convened shall be held no later than the day falling three months after the expiration of the said 21-day period. A general meeting convened by requisitionists shall be convened in the same manner as nearly as possible as that in which general meetings are to be convened by the Board, and all reasonable expenses incurred by the requisitionists shall be reimbursed to the requisitionists by the Company.

(d) Notices of Meetings and Business to be Conducted

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the date, time, place and agenda of the meeting, the particulars of the resolution(s) to be considered at the meeting and the general nature of the business to be considered at the meeting.

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Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address, (to the extent permitted by the Listing Rules and all applicable laws and regulations) by electronic means or (in the case of a notice) by advertisement published in the manner prescribed under the Listing Rules.

Notwithstanding that a meeting of the Company is called by shorter notice than as specified above, if permitted by the Listing Rules, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of an extraordinary general meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights held by such members.

If, after the notice of a general meeting has been sent but before the meeting is held, or after the adjournment of a general meeting but before the adjourned meeting is held (whether or not notice of the adjourned meeting is required), the Board in its absolute discretion consider that it is impractical or unreasonable for any reason to hold a general meeting on the date or at the time and place specified in the notice calling such meeting, it may change or postpone the meeting to another date, time and place.

The Board also has the power to provide in every notice calling a general meeting that in the event of a gale warning, a black rainstorm warning or extreme conditions is/are in force at any time on the day of the general meeting (unless such warning is cancelled at least a minimum period of time prior to the general meeting as the Board may specify in the relevant notice), the meeting shall be postponed without further notice to be reconvened on a later date.

Where a general meeting is postponed:

- (A) the Company shall endeavour to cause a notice of such postponement, which shall set out the reason for the postponement in accordance with the Listing Rules, to be placed on the Company's website and published on the Stock Exchange's website as soon as practicable, provided that failure to place or publish such notice shall not affect the automatic postponement of a general meeting due to a gale warning, a black rainstorm warning or extreme conditions being in force on the day of the general meeting;
- (B) the Board shall fix the date, time and place for the reconvened meeting and at least seven clear days' notice shall be given for the reconvened meeting. Such notice shall specify the date, time and place at which the postponed meeting will be reconvened and the date and time by which proxies shall be submitted in order to be valid at such

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reconvened meeting (provided that any proxy submitted for the original meeting shall continue to be valid for the reconvened meeting unless revoked or replaced by a new proxy); and

- (C) only the business set out in the notice of the original meeting shall be considered at the reconvened meeting, and notice given for the reconvened meeting does not need to specify the business to be considered at the reconvened meeting, nor shall any accompanying documents be required to be recirculated. Where any new business is to be considered at such reconvened meeting, the Company shall give a fresh notice for such reconvened meeting in accordance with the Articles.

(e) Quorum for Meetings and Separate Class Meetings

No business shall be considered at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to approve the variation of class rights, the necessary quorum shall be two persons holding or representing by proxy not less than one-third of the issued Shares of that class.

(f) Proxies

Any member of the Company (including a member which is a recognised clearing house (or its nominee(s))) entitled to attend and vote at a meeting of the Company is entitled to appoint another person (being a natural person) as his proxy to attend and vote in his place. A member who is the holder of two or more Shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is a natural person and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were a natural person member present in person at any general meeting. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing and executed under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation or other non-natural person, either under its seal or under the hand of a duly authorised representative.

The Board shall, in the notice convening any meeting or adjourned meeting, or in an instrument of proxy sent out by the Company, specify the manner by which the instrument appointing a proxy shall be deposited and the place and time (being no later than the time appointed for the commencement of the meeting or adjourned meeting to which the instrument of proxy relates) at which such instrument shall be deposited.

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Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form that complies with the Listing Rules as the Board may from time to time approve. Any form issued to a member for appointing a proxy to attend and vote at a general meeting at which any business is to be considered shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise the discretion of the proxy in respect of) each resolution dealing with any such business.

2.6 Accounts and Audit

The Board shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company’s affairs and to explain its transactions in accordance with the Companies Act.

The books of accounts of the Company shall be kept at the principal place of business of the Company in Hong Kong or, subject to the provisions of the Companies Act, at such other place or places as the Board thinks fit and shall always be open to inspection by any Director. No member (not being a Director) or other person shall have any right to inspect any account, book or document of the Company except as conferred by the Companies Act or ordered by a court of competent jurisdiction or as authorised by the Board or the Company in general meeting.

The Board shall cause to be prepared and laid before the Company at every annual general meeting a profit and loss account for the period since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up, a Directors’ report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company’s affairs as at the end of such period, an auditors’ report on such accounts and such other reports and accounts as may be required by law and the Listing Rules.

The members shall at each annual general meeting appoint auditor(s) to hold office by ordinary resolution of the members until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors’ remuneration shall be fixed by the members at the annual general meeting at which they are appointed by ordinary resolution of the members or in any other manner as specified in such ordinary resolution. The members may, at any general meeting convened and held in accordance with the Articles, remove the auditors by ordinary resolution at any time before the expiration of the term of office and shall, by ordinary resolution, at that meeting appoint new auditors in their place for the remainder of the term.

The accounts of the Company shall be prepared and audited based on the generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

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2.7 Dividends and other Methods of Distribution

Subject to the Companies Act and the Articles, the Company may by ordinary resolution resolve to declare dividends and other distributions on Shares in issue in any currency and authorise payment of the dividends or distributions out of the funds of the Company lawfully available therefor, provided that (i) no dividends shall exceed the amount recommended by the Board, and (ii) no dividends or distributions shall be paid except out of the realised or unrealised profits of the Company, out of the share premium account or as otherwise permitted by law.

The Board may from time to time pay to the members of the Company such interim dividends as appear to the Board to be justified by the financial conditions and the profits of the Company. In addition, the Board may from time to time declare and pay special dividends on Shares of such amounts and on such dates as it thinks fit.

Except as otherwise provided by the rights attached to any Shares, all dividends and other distributions shall be paid according to the amounts paid up on the Shares that a member holds during the period in respect of which the dividends and distributions are paid. No amount paid up on a Share in advance of calls shall for this purpose be treated as paid up on the Share.

The Board may deduct from any dividends or other distributions payable to any member of the Company all sums of money (if any) then payable by him to the Company on account of calls or otherwise. The Board may retain any dividends or distributions payable on or in respect of a Share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists.

No dividends or other distributions payable by the Company on or in respect of any Share shall carry interest against the Company.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may further resolve:

- (a) that such dividend be satisfied in whole or in part in the form of an allotment of Shares credited as fully paid on the basis that the Shares so allotted shall be of the same class as the class already held by the allottee, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of Shares credited as fully paid in lieu of the whole or such part of the dividend as the Board may think fit on the basis that the Shares so allotted shall be of the same class as the class already held by the allottee.

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Upon the recommendation of the Board, the Company may by ordinary resolution resolve in respect of any one particular dividend of the Company determine that notwithstanding the foregoing, a dividend may be satisfied wholly in the form of an allotment of Shares credited as fully paid without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividends, distributions or other monies payable in cash in respect of Shares may be paid by wire transfer to the holder of such Shares or by cheque or warrant sent by post to the registered address of such holder, or in the case of joint holders, to the registered address of the holder who is first named on the register of members of the Company, or to such person and to such address as the holder or joint holders may in writing direct. Any one of two or more joint holders may give effectual receipts for any dividends, distributions or other monies payable in respect of the Shares held by them as joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied in whole or in part by the distribution of specific assets of any kind.

Any dividends or other distributions which remain unclaimed for six years from the date on which such dividends or distributions become payable shall be forfeited and shall revert to the Company.

2.8 Inspection of Corporate Records

For so long as any part of the share capital of the Company is [REDACTED] on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed in accordance with the Companies Ordinance) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Companies Ordinance.

2.9 Rights of Minorities in relation to Fraud or Oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under the Cayman Islands laws, as summarised in paragraph 3.6 below.

2.10 Procedures on Liquidation

Subject to the Companies Act, the members of the Company may by special resolution resolve to wind up the Company voluntarily or by the court.

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Subject to any rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of Shares:

- (a) if the assets available for distribution among the members of the Company are more than sufficient to repay the whole of the Company’s paid up capital at the commencement of the winding up, the surplus shall be distributed *pari passu* among such members in proportion to the amount paid up on the Shares held by them at the commencement of the winding up; and
- (b) if the assets available for distribution among the members of the Company are insufficient to repay the whole of the Company’s paid up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or ought to be paid up, on the Shares held by them at the commencement of the winding up.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the approval of a special resolution and any other approval required by the Companies Act, divide among the members in kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like approval, vest any part of the assets in trustees upon such trusts for the benefit of the members as the liquidator thinks fit, provided that no member shall be compelled to accept any shares or other property upon which there is a liability.

3. COMPANY LAWS OF THE CAYMAN ISLANDS

The Company was incorporated in the Cayman Islands as an exempted company on 19 June 2018 subject to the Companies Act. Certain provisions of the company laws of the Cayman Islands are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the company laws of the Cayman Islands, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

3.1 Company Operations

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

3.2 Share Capital

Under the Companies Act, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premium on

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those shares shall be transferred to an account, to be called the share premium account. At the option of a company, these provisions may not apply to premium on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) any manner provided in section 37 of the Companies Act;
- (d) writing-off the preliminary expenses of the company; and
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

3.3 Financial Assistance to Purchase Shares of a Company or its Holding Company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

3.4 Purchase of Shares and Warrants by a Company and its Subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary

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resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of section 37A(1) of the Companies Act. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Companies Act.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under the Cayman Islands laws that a company’s memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

3.5 Dividends and Distributions

Subject to a solvency test, as prescribed in the Companies Act, and the provisions, if any, of the company’s memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company’s assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

3.6 Protection of Minorities and Shareholders’ Suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss vs. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

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Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company’s memorandum and articles of association.

3.7 Disposal of Assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

3.8 Accounting and Auditing Requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it; and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company’s affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act (2021 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

3.9 Exchange Control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

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3.10 Taxation

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

3.11 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

3.12 Loans to Directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

3.13 Inspection of Corporate Records

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

3.14 Register of Members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act (2021 Revision) of the Cayman Islands.

3.15 Register of Directors and Officers

Pursuant to the Companies Act, the Company is required to maintain at its registered office a register of directors, alternate directors and officers. The Registrar of Companies shall make available the list of the names of the current directors of the Company (and, where applicable, the current alternate directors of the Company) for inspection by any person upon payment of a fee by such person. A copy of the register of directors and officers must be filed

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with the Registrar of Companies in the Cayman Islands, and any change must be notified to the Registrar of Companies within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

3.16 Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be

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given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

3.17 Mergers and Consolidations

The Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting members have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

3.18 Mergers and Consolidations involving a Foreign Company

Where the merger or consolidation involves a foreign company, the procedure is similar, save that with respect to the foreign company, the directors of the Cayman Islands exempted company are required to make a declaration to the effect that, having made due enquiry, they are of the opinion that the requirements set out below have been met: (i) that the merger or consolidation is permitted or not prohibited by the constitutional documents of the foreign company and by the laws of the jurisdiction in which the foreign company is incorporated, and that those laws and any requirements of those constitutional documents have been or will be complied with; (ii) that no petition or other similar proceeding has been filed and remains outstanding or order made or resolution adopted to wind up or liquidate the foreign company in any jurisdictions; (iii) that no receiver, trustee, administrator or other similar person has been appointed in any jurisdiction and is acting in respect of the foreign company, its affairs or its property or any part thereof; (iv) that no scheme, order, compromise or other similar arrangement has been entered into or made in any jurisdiction whereby the rights of creditors of the foreign company are and continue to be suspended or restricted.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

Where the surviving company is the Cayman Islands exempted company, the directors of the Cayman Islands exempted company are further required to make a declaration to the effect that, having made due enquiry, they are of the opinion that the requirements set out below have been met: (i) that the foreign company is able to pay its debts as they fall due and that the merger or consolidated is bona fide and not intended to defraud unsecured creditors of the foreign company; (ii) that in respect of the transfer of any security interest granted by the foreign company to the surviving or consolidated company (a) consent or approval to the transfer has been obtained, released or waived; (b) the transfer is permitted by and has been approved in accordance with the constitutional documents of the foreign company; and (c) the laws of the jurisdiction of the foreign company with respect to the transfer have been or will be complied with; (iii) that the foreign company will, upon the merger or consolidation becoming effective, cease to be incorporated, registered or exist under the laws of the relevant foreign jurisdiction; and (iv) that there is no other reason why it would be against the public interest to permit the merger or consolidation.

3.19 Reconstructions and Amalgamations

Reconstructions and amalgamations may be approved by (i) 75% in value of the members or class of members or (ii) a majority in number representing 75% in value of the creditors or class of creditors, in each case depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, it can be expected that the court would approve the transaction if it is satisfied that (i) the company is not proposing to act illegally or beyond the scope of our corporate authority and the statutory provisions as to majority vote have been complied with, (ii) the members have been fairly represented at the meeting in question, (iii) the transaction is such as a businessman would reasonable approve and (iv) the transaction is not one that would more properly be sanctioned under some other provisions of the Companies Act or that would amount to a “fraud on the minority”.

If the transaction is approved, no dissenting member would have any rights comparable to the appraisal rights (namely the right to receive payment in cash for the judicially determined value of his shares), which may be available to dissenting members of corporations in other jurisdictions.

3.20 Takeovers

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show

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that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

3.21 Indemnification

The Cayman Islands laws do not limit the extent to which a company’s articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

3.22 Economic Substance

The Cayman Islands enacted the International Tax Co-operation (Economic Substance) Act (2024 Revision) together with the Guidance Notes published by the Cayman Islands Tax Information Authority from time to time. If a company is considered to be a “relevant entity” and is conducting one or more of the nine “relevant activities”, then such company will be required to comply with the economic substance requirements in relation to the relevant activity from 1 July 2019. All companies whether a relevant entity or not is required to file an annual report with the Registrar of Companies of the Cayman Islands confirming whether or not it is carrying on any relevant activities and if it is, it must satisfy an economic substance test.

4. GENERAL

Harney Westwood & Riegels, the Company’s legal advisor on Cayman Islands laws, has sent to the Company a letter of advice summarising the aspects of the Companies Act set out in section 3 above. This letter, together with copies of the Companies Act, the Memorandum and the Articles, is on display on the websites of the Stock Exchange and the Company as referred to in the paragraph headed “Documents available on display” in Appendix V. Any person wishing to have a detailed summary of the Companies Act or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

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A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of Our Company

We were incorporated in the Cayman Islands under the Cayman Companies Act as an exempted company with limited liability on June 19, 2018. Our registered office address is Harneys Fiduciary (Cayman) Limited, 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands. As we were incorporated in the Cayman Islands, our corporate structure and Memorandum and Articles of Association are subject to the relevant laws and regulations of the Cayman Islands. A summary of the relevant laws and regulations of the Cayman Islands and of the Memorandum and Articles of Association is set out in “Summary of the Constitution of Our Company and Cayman Islands Company Law” in Appendix III.

We have established a principal place of business in Hong Kong at Room 1928, 19/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong and have been registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on December 24, 2024. Ms. Ho Sin Tung has been appointed as the authorized representative of our Company for the acceptance of service of process and notices in Hong Kong. The address for service of process is the same as our Company’s principal place of business in Hong Kong.

As at the date of this document, our Company’s head office was located at 2601, 2608, 2609, Qiancheng Commercial Center, No. 5 Haicheng Road, Mabu Community, Xixiang Street, Bao’an District, Shenzhen, PRC.

2. Changes in the Share Capital of Our Company

As of the date of incorporation of our Company, our Company had an authorized share capital of US\$50,000.00, divided into 500,000,000 shares of a par value of US\$0.0001 per share.

On May 21, 2024, upon the full exercise of Mr. Cui and Dr. Lin’s Founder Rights, our Company allotted and issued 15,000,000 Ordinary Shares and 10,300,000 Ordinary Shares to TCMTech Holdings and TCMAI, respectively.

On July 1, 2024, our Company allotted and issued 7,240,000 Ordinary Shares to TCMally, a platform to hold the Ordinary Shares issued by our Company upon the exercise of ESOP Options for the benefit of the ESOP Grantees under the 2018 ESOP.

On November 22, 2024, our Company allotted and issued 3,067,633 and 3,067,633 Series [REDACTED] Preference Shares of a par value of US\$0.0001 per share to Juli Fund and LCV Pioneer Fund, respectively.

Save as disclosed above, there has been no alteration in the share capital of our Company within the two years immediately preceding the date of this document.

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3. Changes in the Share Capital of Our Subsidiaries

A summary of the corporate information and the particulars of our subsidiaries are set out in the Accountants’ Report, the text of which is set out in Appendix IA.

The following subsidiaries have been incorporated within two years immediately preceding the date of this document:

- Wenzhi Baizhi was established in the PRC as a limited liability company on July 11, 2023 with a registered capital of RMB1,000,000;
- Zhengzhou Wenzhi was established in the PRC as a limited liability company on July 13, 2023 with a registered capital of RMB1,000,000;
- Changsha Wenzhi was established in the PRC as a limited liability company on November 8, 2023 with a registered capital of RMB1,000,000;
- Xianyang Wenzhi was established in the PRC as a limited liability company on December 5, 2023 with a registered capital of RMB1,000,000;
- Dayi Xiaoke was established in the PRC as a limited liability company on January 23, 2024 with a registered capital of RMB50,000;
- Wenzhi Qiuwei was established in the PRC as a limited liability company on March 12, 2024 with a registered capital of RMB1,000,000;
- Jinan Wenzhi was established in the PRC as a limited liability company on April 8, 2024 with a registered capital of RMB1,000,000;
- Wenzhi Xinglin was established in the PRC as a limited liability company on May 16, 2024 with a registered capital of RMB50,000;
- Bozhou Wenzhi was established in the PRC as a limited liability company on September 3, 2024 with a registered capital of RMB1,000,000; and
- Wenzhi Chuhui was established in the PRC as a limited liability company on October 14, 2024 with a registered capital of RMB1,000,000.

The following changes in the share capital of our subsidiaries have taken place within the two years immediately preceding the date of this document:

- On November 4, 2024, Xiaocheng Suwen subscribed for registered capital of RMB10,000 in Wenzhi TCM Health for a consideration of RMB47,560,062.07.

Save as disclosed above, there has been no alteration in the share capital of our subsidiaries within the two years immediately preceding the date of this document.

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4. Resolutions in Writing of the Shareholders of Our Company Passed on [•]

Pursuant to the written resolutions passed by our Shareholders on [•]:

- (a) conditional on (1) the [REDACTED] granting the [REDACTED] of, and permission to [REDACTED], the Shares in issue and to be issued as mentioned in this document and such grant and permission not having been subsequently revoked prior to the commencement of [REDACTED] in the Shares on the Stock Exchange, (2) the [REDACTED] being fixed on the [REDACTED], and (3) the obligations of the [REDACTED] under the [REDACTED] becoming unconditional and not being terminated in accordance with the terms therein (unless and to the extent such conditions are validly waived on or before such dates and times as specified in the [REDACTED]) or otherwise:
 - (i) the [REDACTED] and the grant of the [REDACTED] was approved, and the proposed allotment and issue of the [REDACTED] under the [REDACTED] were approved, and our Directors were authorized to determine the [REDACTED] for, and to allot and issue the [REDACTED];
 - (ii) the proposed [REDACTED] was approved and our Directors were authorized to implement the [REDACTED];
 - (iii) a general unconditional mandate was granted to our Directors to exercise all powers of our Company to allot, issue and deal with Shares (including resale of any treasury shares of our Company) or securities convertible into Shares or options, warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive Shares and to make or grant offers, agreements or options which might require the exercise of such powers by the Directors subject to the requirement that the aggregate number of Shares so allotted, issued or dealt with or agreed to be so allotted, issued or dealt with, otherwise than pursuant to, or in consequence of, (i) the [REDACTED], (ii) a rights issue, (iii) any scrip dividend schemes or similar arrangements providing for allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association, or (iv) a specific authority granted by our Shareholders in general meeting, shall not exceed 20% of the aggregate number of Shares in issue (excluding treasury shares) immediately following the completion of the [REDACTED], such mandate to remain in effect during the period from the passing of the resolution until the earliest of the conclusion of our next annual general meeting, the end of the period within which we are required by any applicable law or the Articles of Association to hold our next annual general meeting or the date on which the resolution is varied or revoked by an ordinary resolution of the Shareholders in general meeting (the “**Applicable Period**”);
 - (iv) a general unconditional mandate was given to our Directors to, during the Applicable Period, exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock

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Exchange for this purpose, such number of Shares as will represent up to 10% of the aggregate number of Shares in issue (excluding treasury shares) immediately following the completion of the [REDACTED];

- (v) the general unconditional mandate mentioned in paragraph (iii) above was extended by the addition to the aggregate number of Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate number of the Shares repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (iv) above (up to 10% of the aggregate number of the Shares in issue (excluding treasury shares) immediately following the completion of the [REDACTED]); and
- (vi) the Memorandum and Articles of Association was approved and adopted with effect upon [REDACTED].

5. Our Corporate Reorganization

The companies comprising our Group underwent the Reorganization in preparation for the [REDACTED]. Please see “History, Reorganization and Corporate Structure — Reorganization” for further details.

6. Repurchases of Our Own Securities

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the more important of which are summarized below:

(i) Shareholders’ Approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our then Shareholders on [•], a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors authorizing any repurchase by our Company of Shares on the Stock Exchange or on any other stock exchange on which the securities may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, of not more than 10% of the aggregate number of our Company’s share capital in issue (excluding treasury shares) immediately following the completion of the [REDACTED] excluding any Shares to be sold, or issued and allotted pursuant to the exercise of the [REDACTED], such mandate to expire at the conclusion of our next annual general meeting, the date by which our next annual general meeting is required by the Cayman Companies Act or by our Articles of Association or any

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other applicable laws of the Cayman Islands to be held or when revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever first occurs.

(ii) Source of Funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles of Association and the applicable laws and regulations of Hong Kong and the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. As a matter of Cayman Islands law, any repurchases by our Company may be made out of profits or out of the proceeds of a new issue of shares made for the purpose of the repurchase or out of our share premium account or out of capital, if so authorized by the Articles of Association and subject to the Cayman Companies Act. Any premium payable on the repurchase over the par value of the shares to be purchased must have been provided for out of profits or out of our share premium account or out of capital, if so authorized by the Articles of Association and subject to the Cayman Companies Act.

(iii) Trading Restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue (excluding treasury shares). A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iv) Status of Repurchased Shares

The shares repurchased by a listed company shall be held as treasury shares or cancelled. The listing of all shares which are held as treasury shares shall be retained. The listed company shall ensure that treasury shares are appropriately identified and segregated.

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The listing of all shares which are purchased by a listed company (whether on the Stock Exchange or otherwise) but not held as treasury shares shall be automatically cancelled upon purchase and the listed company must apply for listing of any further issues of that type of shares in the normal way. The listed company shall ensure that the documents of title of these purchased shares are cancelled and destroyed as soon as reasonably practicable following settlement of any such purchase.

Under the Cayman Companies Act, unless, prior to the purchase our Directors resolve to hold the shares purchased by our Company as treasury shares, our Company's repurchased Shares shall be treated as cancelled on repurchase and the amount of our Company's issued share capital shall be diminished by the aggregate nominal value of the repurchased Shares (although the authorized share capital of our Company will not be reduced as a result of the repurchase under the laws of the Cayman Islands).

(v) Suspension of Repurchase

A listed company may not make any repurchase of securities at any time after inside information has come to its knowledge until the information has been made publicly available. In particular, during the period of 30 days immediately preceding the earlier of (A) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (B) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

Furthermore, a listed issuer may not purchase any of its own shares on the Stock Exchange for a period of 30 days after any sale or transfer of any treasury shares on the Stock Exchange, without the prior approval of the Stock Exchange.

(vi) Reporting Requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

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(vii) Core Connected Persons

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a “**core connected person**”, that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or a close associate of any of them (as defined in the Listing Rules) and a core connected person is prohibited from knowingly selling his securities to the company.

(b) Reasons for Repurchases

Our Directors believe that the ability to repurchase Shares is in the interests of our Company and the Shareholders. Repurchases may, depending on the market conditions, funding arrangement and other circumstances, result in an increase in the net assets and/or earnings per Share. Our Directors sought the grant of a general mandate to repurchase Shares to give our Company the flexibility to do so if and when appropriate. The number of Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by our Directors at the relevant time having regard to the circumstances then pertaining. Repurchase of Shares will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) Funding of Repurchases

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and the Articles of Association and the Listing Rules and the applicable laws of the Cayman Islands.

A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, any repurchases by our Company may be made out of the profits of our Company, out of the share premium account or out of a fresh issue of Shares made for the purpose of the repurchase or, subject to the Cayman Companies Act, out of capital and, in the case of any premium payable on the purchase, out of the profits of our Company or out of the share premium account of our Company or, subject to the Cayman Companies Act, out of capital.

There could be a material adverse impact on the working capital and/or gearing position of our Company (as compared with the position disclosed in this document) in the event that the Repurchase Mandate were to be carried out in full at any time during the share repurchase period. However, our Directors do not propose to exercise the general mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

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(d) General

The exercise in full of the Repurchase Mandate, on the basis of [REDACTED] Shares in issue immediately following the completion of the [REDACTED] and assuming that the [REDACTED] is not exercised, could accordingly result in up to approximately [REDACTED] Shares being repurchased by our Company during the period prior to:

- (i) the conclusion of our next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or
- (ii) the expiration of the period within which our Company's next annual general meeting is required by the Memorandum and Articles of Association or any other applicable laws to be held; or
- (iii) the date on which it is varied or revoked by an ordinary resolution of our Shareholders passed in a general meeting,

whichever is the earliest.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective close associates currently intends to sell any Shares to our Company or to our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

No core connected person of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

If, as a result of any repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert (as defined in the Takeovers Code) could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Any repurchase of Shares that results in the number of Shares held by the public being reduced to less than 25% of the Shares then in issue could only be implemented if the Stock Exchange agreed to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

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B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

The following material contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or its subsidiaries within the two years preceding the date of this document:

- (a) the exclusive operation service agreement dated October 30, 2023, entered into among Beijing TECHTCM, Mr. Cui and Wenzhi Internet Hospital, pursuant to which Wenzhi Internet Hospital appointed Beijing TECHTCM as its exclusive operation service consultant and service provider in exchange for service fees;
- (b) the exclusive option agreement dated October 30, 2023, entered into among Beijing TECHTCM, Mr. Cui and Wenzhi Internet Hospital, pursuant to which (i) Mr. Cui irrevocably granted Beijing TECHTCM a binding and exclusive right to purchase, or designate one or more persons to purchase the equity interests in Wenzhi Internet Hospital then held by Mr. Cui at once or at multiple times at any time in part or in whole at Beijing TECHTCM’s sole and absolute discretion to the extent permitted by PRC laws, and (ii) Wenzhi Internet Hospital irrevocably granted Beijing TECHTCM a binding and exclusive right to purchase, or designate one or more persons to purchase its assets at once or at multiple times at any time in part or in whole at Beijing TECHTCM’s sole and absolute discretion to the extent permitted by PRC laws;
- (c) the equity pledge agreement dated October 30, 2023, entered into among Beijing TECHTCM, Mr. Cui and Wenzhi Internet Hospital, pursuant to which Mr. Cui agreed to pledge all his equity interests in the Wenzhi Internet Hospital, including any interest or dividend paid for such equity interests, to Beijing TECHTCM as security to guarantee the performance of the contractual obligations and payment of outstanding debts under the Contractual Arrangements;
- (d) the shareholder’s rights entrustment agreement dated October 30, 2023, entered into among Beijing TECHTCM, Mr. Cui and Wenzhi Internet Hospital, pursuant to which Mr. Cui irrevocably undertook to enter into a power of attorney to authorize Beijing TECHTCM and its designated person(s) to act on his behalf as his exclusive agent and attorney with respect to all matters concerning all equity interests held by him in Wenzhi Internet Hospital;
- (e) the power of attorney dated October 30, 2023, executed by Mr. Cui, pursuant to which Mr. Cui irrevocably authorized Beijing TECHTCM and its designated person(s) to act on his behalf as his exclusive agent and attorney with respect to all matters concerning all equity interests held by him in Wenzhi TCM Health;
- (f) the exclusive operation service agreement dated September 4, 2024, entered into among Beijing TECHTCM, Mr. Cui and Wenzhi TCM Health, pursuant to which Wenzhi TCM Health appointed Beijing TECHTCM as its exclusive operation service consultant and service provider in exchange for service fees;

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- (g) the exclusive option agreement dated September 4, 2024, entered into among Beijing TECHTCM, Mr. Cui and Wenzhi TCM Health, pursuant to which (i) Mr. Cui irrevocably granted Beijing TECHTCM a binding and exclusive right to purchase, or designate one or more persons to purchase the equity interests in Wenzhi TCM Health then held by Mr. Cui at once or at multiple times at any time in part or in whole at Beijing TECHTCM’s sole and absolute discretion to the extent permitted by PRC laws, and (ii) Wenzhi TCM Health irrevocably granted Beijing TECHTCM a binding and exclusive right to purchase, or designate one or more persons to purchase its assets at once or at multiple times at any time in part or in whole at Beijing TECHTCM’s sole and absolute discretion to the extent permitted by PRC laws;
- (h) the equity pledge agreement dated September 4, 2024, entered into among Beijing TECHTCM, Mr. Cui and Wenzhi TCM Health, pursuant to which Mr. Cui agreed to pledge all his equity interests in the Wenzhi TCM Health, including any interest or dividend paid for such equity interests, to Beijing TECHTCM as security to guarantee the performance of the contractual obligations and payment of outstanding debts under the Contractual Arrangements;
- (i) the shareholder’s rights entrustment agreement dated September 4, 2024, entered into among Beijing TECHTCM, Mr. Cui and Wenzhi TCM Health, pursuant to which Mr. Cui irrevocably undertook to enter into a power of attorney to authorize Beijing TECHTCM and its designated person(s) to act on his behalf as his exclusive agent and attorney with respect to all matters concerning all equity interests held by him in Wenzhi TCM Health;
- (j) the power of attorney dated September 4, 2024 executed by Mr. Cui, pursuant to which Mr. Cui irrevocably authorized Beijing TECHTCM and its designated person(s) to act on his behalf as his exclusive agent and attorney with respect to all matters concerning all equity interests held by him in Wenzhi TCM Health;
- (k) the share subscription agreement dated November 22, 2024 entered among our Company, TCMTech HK, Beijing TECHTCM, Wenzhi Internet Hospital, Wenzhi TCM Health, Mr. Cui, TCMTech Holdings, Wenzhi Qiuwei, Wenzhi Baizhi, Zhengzhou Wenzhi, Changsha Wenzhi, Guangzhou Wenzhi, Jinan Wenzhi, Dayi Xiaoke, Xianyang Wenzhi, Wenzhi Xinglin, Xiaocheng Suwen, Bozhou Wenzhi, Wenzhi Technology, Juli Fund and LCV Pioneer Fund, pursuant to which Juli Fund and LCV Pioneer Fund subscribed for 3,067,633 and 3,067,633 Series [REDACTED] Preference Shares at a consideration of US\$6,000,000 and US\$6,000,000, respectively; and
- (l) the [REDACTED].

2. Our Material Intellectual Property Rights

As of the Latest Practicable Date, we have registered or have applied for the registration of the following intellectual property rights which are material in relation to our business.

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(a) Trademarks

As of the Latest Practicable Date, we have registered the following trademarks which are material to our business:

No.	Trademark	Class	Registered owner	Place of registration	Registration number	Registration date	Expiry date
1.	问止	10	Wenzhi TCM Health	PRC	32522554	April 7, 2019	April 6, 2029
2.	问止	42	Wenzhi TCM Health	PRC	32525755	April 7, 2019	April 6, 2029
3.	问止中医大脑	42	Wenzhi TCM Health	PRC	44131121	October 21, 2020	October 20, 2030
4.	问止	5	Wenzhi TCM Health	PRC	70159254	November 14, 2023	November 13, 2033
5.	问止	9	Wenzhi TCM Health	PRC	32525735	April 7, 2019	April 6, 2029
6.	问止轻养	31	Wenzhi TCM Health	PRC	59195980	March 7, 2022	March 6, 2032
7.	问止	35	Wenzhi TCM Health	PRC	32545475	April 7, 2019	April 6, 2029
8.	问止轻养	35	Wenzhi TCM Health	PRC	63798442	December 14, 2022	December 13, 2032
9.	问止中医大脑	41	Wenzhi TCM Health	PRC	64334265	October 28, 2022	October 27, 2032
10.	问止	44	Wenzhi TCM Health	PRC	32536767	April 7, 2019	April 6, 2029
11.	Ⓜ中医大脑	42	Wenzhi TCM Health	PRC	38478279	January 28, 2021	January 27, 2031
12.	问止轻养	30	Wenzhi TCM Health	PRC	59189684	March 7, 2022	March 6, 2032
13.	问止轻养	32	Wenzhi TCM Health	PRC	59164655	March 7, 2022	March 6, 2032
14.	问止轻养	3	Wenzhi TCM Health	PRC	65376748	February 28, 2023	February 27, 2033
15.	Ⓜ中医大脑	9	Wenzhi TCM Health	PRC	38476537	April 7, 2021	April 6, 2031
16.	问止中医大脑	9	Wenzhi TCM Health	PRC	44131113	October 21, 2020	October 20, 2030

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No.	Trademark	Class	Registered owner	Place of registration	Registration number	Registration date	Expiry date
17.	问止中医大脑	16	Wenzhi TCM Health	PRC	64365833	October 21, 2020	October 20, 2030
18.	问止轻养	29	Wenzhi TCM Health	PRC	59189325	March 7, 2022	March 6, 2032
19.	问止	16	Wenzhi TCM Health	PRC	64335284	October 28, 2022	October 27, 2032
20.	问止中医大脑	35	Wenzhi TCM Health	PRC	64334244	December 28, 2022	December 27, 2032
21.	问止	41	Wenzhi TCM Health	PRC	32536789	April 7, 2019	April 6, 2029
22.	问止	32	Wenzhi TCM Health	PRC	76276973	July 6, 2024	July 5, 2034
23.	问止	31	Wenzhi TCM Health	PRC	76280267	July 6, 2024	July 5, 2034
24.	问止	29	Wenzhi TCM Health	PRC	76281673	July 13, 2024	July 12, 2034
25.	问止	30	Wenzhi TCM Health	PRC	76274345	July 21, 2024	July 20, 2034
26.	问止	43	Wenzhi TCM Health	PRC	76283938	September 13, 2024	September 12, 2034
27.	^A 问止中医 ^B 問止中醫	5	Wenzhi TCM Health	Hong Kong	306592717	June 26, 2024	June 25, 2034
28.	^A 问止中医 ^B 問止中醫	9	Wenzhi TCM Health	Hong Kong	306592726	June 26, 2024	June 25, 2034

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No.	Trademark	Class	Registered owner	Place of registration	Registration number	Registration date	Expiry date
29.	A 问止中医	32	Wenzhi TCM Health	Hong Kong	306592735	June 26, 2024	June 25, 2034
	B 問止中醫						
30.	A 问止中医	29	Wenzhi TCM Health	Hong Kong	306592744	June 26, 2024	June 25, 2034
	B 問止中醫						
31.	A 问止中医	10	Wenzhi TCM Health	Hong Kong	306592753	June 26, 2024	June 25, 2034
	B 問止中醫						
32.	A 问止中医	16	Wenzhi TCM Health	Hong Kong	306592762	June 26, 2024	June 25, 2034
	B 問止中醫						
33.	A 问止中医	30	Wenzhi TCM Health	Hong Kong	306592771	June 26, 2024	June 25, 2034
	B 問止中醫						
34.	A 问止中医	31	Wenzhi TCM Health	Hong Kong	306592780	June 26, 2024	June 25, 2034
	B 問止中醫						

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No.	Trademark	Class	Registered owner	Place of registration	Registration number	Registration date	Expiry date
35.	A 问止中医	35	Wenzhi TCM Health	Hong Kong	306592799	June 26, 2024	June 25, 2034
	B 問止中醫						
36.	A 问止中医	41	Wenzhi TCM Health	Hong Kong	306592807	June 26, 2024	June 25, 2034
	B 問止中醫						
37.	A 问止中医	42	Wenzhi TCM Health	Hong Kong	306592816	June 26, 2024	June 25, 2034
	B 問止中醫						
38.	A 问止中医	43	Wenzhi TCM Health	Hong Kong	306592825	June 26, 2024	June 25, 2034
	B 問止中醫						
39.	A 问止	10	Wenzhi TCM Health	Hong Kong	306592852	June 26, 2024	June 25, 2034
	B 問止						
40.	A 问止	35	Wenzhi TCM Health	Hong Kong	306592861	June 26, 2024	June 25, 2034
	B 問止						

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No.	Trademark	Class	Registered owner	Place of registration	Registration number	Registration date	Expiry date
41.	A 問止	42	Wenzhi TCM Health	Hong Kong	306592870	June 26, 2024	June 25, 2034
	B 問止						
42.	A 問止	5	Wenzhi TCM Health	Hong Kong	306592889	June 26, 2024	June 25, 2034
	B 問止						
43.	A 問止	29	Wenzhi TCM Health	Hong Kong	306592898	June 26, 2024	June 25, 2034
	B 問止						
44.	A 問止	31	Wenzhi TCM Health	Hong Kong	306592906	June 26, 2024	June 25, 2034
	B 問止						
45.	A 問止	41	Wenzhi TCM Health	Hong Kong	306592915	June 26, 2024	June 25, 2034
	B 問止						
46.	A 問止	43	Wenzhi TCM Health	Hong Kong	306592924	June 26, 2024	June 25, 2034
	B 問止						

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No.	Trademark	Class	Registered owner	Place of registration	Registration number	Registration date	Expiry date
47.	A 问止	30	Wenzhi TCM Health	Hong Kong	306592933	June 26, 2024	June 25, 2034
	B 問止						
48.	A 问止	32	Wenzhi TCM Health	Hong Kong	306592942	June 26, 2024	June 25, 2034
	B 問止						
49.	A 问止	9	Wenzhi TCM Health	Hong Kong	306592951	June 26, 2024	June 25, 2034
	B 問止						
50.	A 问止	16	Wenzhi TCM Health	Hong Kong	306592960	June 26, 2024	June 25, 2034
	B 問止						
51.	A 问止	44	Wenzhi TCM Health	Hong Kong	306594788	July 2, 2024	July 1, 2034
	B 問止						
52.	A 问止中医	44	Wenzhi TCM Health	Hong Kong	306594797	July 2, 2024	July 1, 2034
	B 問止中醫						

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(e) Domain Names

As of the Latest Practicable Date, we have registered the following domain names which are material in relation to our business:

No.	Domain name	Registered owner	Expiry date
1.	techtcm.com	Wenzhi TCM Health	June 10, 2025
2.	techtcmedu.com	Wenzhi TCM Health	August 10, 2027
3.	techtcmclass.com	Wenzhi TCM Health	December 26, 2027

Save as disclosed above, as at the Latest Practicable Date, there were no other trade or service marks, patents, designs, intellectual or industrial property rights which were material in relation to our Group’s business.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

(a) Interests of our Directors and the Chief Executive of Our Company

Immediately following the completion of the [REDACTED] and without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED], the interests or short positions of our Directors and chief executive of our Company in the shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities

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Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules, to be notified to our Company and the Stock Exchange, once the Shares are [REDACTED], will be as follows:

(i) *Interest in our Company*

Name of Director	Nature of interest	Number of Shares held or interested	Approximate percentage of shareholding in the total issued share capital⁽¹⁾
Mr. Cui	Interest in controlled corporation ⁽²⁾ ; interest of a party to an agreement regarding interest in the Company ⁽³⁾	[REDACTED]	[REDACTED]
Dr. Chang Nan-Hsig	Interest in controlled corporation ⁽⁴⁾	[REDACTED]	[REDACTED]

Notes:

- (1) The calculation is based on the total number of [REDACTED] Shares in issue immediately following the completion of the [REDACTED] (assuming that the [REDACTED] is not exercised).
- (2) TCMTech Holdings is wholly-owned by Mr. Cui. By virtue of the SFO, Mr. Cui is deemed to be interested in the Shares held by TCMTech Holdings upon the [REDACTED].
- (3) By an agreement dated September 7, 2018 and a supplemental clarification agreement dated November 19, 2024 (the “**Agreements**”), Mr. Cui and Dr. Chang Nan-Hsig have confirmed and agreed that since September 7, 2018 and during the terms of the Agreements, Mr. Cui and TCMTech Holdings were entitled to control the exercise of the voting rights of the Shares held by TCMInnov. See “History, Reorganization and Corporate Structure — History and Development of Our Company and our Major Subsidiaries — Voting Proxy Arrangement” for details.
- (4) TCMInnov is wholly-owned by Dr. Chang Nan-Hsig. By virtue of the SFO, Dr. Chang is deemed to be interested in the Shares held by TCMInnov upon the [REDACTED].
- (5) All interests stated are long positions.

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(ii) Interest in the Associated Corporations of our Company

Name of Director	Name of associated corporation	Nature of interest	Registered capital	Approximate percentage of shareholding in associated corporation
Mr. Cui	Wenzhi TCM Health	Beneficial owner	RMB3,000,000	30.00%
	Wenzhi Internet Hospital	Beneficial owner	RMB5,000,000	10.00%

(b) Interests of the Substantial Shareholders

Save as disclosed in the section headed “Substantial Shareholders” in this document, immediately following the completion of the [REDACTED] and without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED], our Directors or chief executive are not aware of any other person (other than a Director or chief executive of our Company) who will have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of our subsidiaries.

2. Directors’ Service Contracts and Letters of Appointment

Each of our executive Directors has entered into a service contract with our Company on [•], and we have issued letters of appointment to each of our non-executive Directors and each of our independent non-executive Directors. The service contracts with each of our executive Directors and the letters of appointment with each of our non-executive Directors are for an initial fixed term of three years commencing from [•]. The letters of appointment with each of our independent non-executive Directors are for an initial fixed term of three years. The service contracts and the letters of appointment are subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with our Articles of Association and the applicable Listing Rules.

Save as disclosed above, none of our Directors has entered, or has proposed to enter, a service contract with any member of our Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

3. Directors’ Remuneration

The aggregate amount of remuneration our Directors have received (including fees, salaries, allowances and benefits in kind, pension scheme contributions and discretionary bonuses) for the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2024 were RMB0.6 million, RMB0.6 million and RMB0.6 million, respectively.

APPENDIX IV**STATUTORY AND GENERAL INFORMATION**

Save as disclosed above, no other payments have been made or are payable, in respect of the years ended December 31, 2022 and 2023 and the nine months ended September 30, 2024, by any of member of our Group to any of our Directors.

Under the arrangements currently in force as of the date of this document, we estimate the aggregate remuneration, excluding discretionary bonus, of our Directors for the year ending December 31, 2025 to be approximately RMB1.8 million.

4. Directors’ Competing Interests

None of our Directors are interested in any business apart from our Group’s business which competes or is likely to compete, directly or indirectly, with the business of our Group.

5. Disclaimers

Save as disclosed in this document:

- (a) none of our Directors or chief executive of our Company has any interests or short positions in the shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to our Company and the Stock Exchange, once the Shares are [REDACTED] on the Stock Exchange;
- (b) so far as is known to any Director or chief executive of our Company, no person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;
- (c) none of our Directors nor any of the persons listed in “— E. Other Information — 5. Qualification of Experts” below is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (d) none of our Directors nor any of the persons listed in “— E. Other Information — 5. Qualification of Experts” below is materially interested in any contract or arrangement with our Group subsisting at the date of this document which is significant in relation to the business of our Group as a whole;

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- (e) save in connection with [REDACTED], none of the persons listed in “— E. Other Information — 5. Qualification of Experts” below has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
- (f) none of our Directors has entered or has proposed to enter into any service agreements with our Company or any member of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation); and
- (g) save as contemplated under the [REDACTED], none of our Directors, their respective close associates (as defined under the Listing Rules) or Shareholders who are interested in more than 5% of the issued share capital of our Company (excluding treasury shares) has any interest in our Company’s five largest customers and five largest suppliers.

E. OTHER INFORMATION

1. Estate duty and Tax Indemnity

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

2. Litigation

As of the Latest Practicable Date, save as disclosed in “Business — Legal Proceedings and Compliance”, no member of our Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to our Directors to be pending or threatened by or against our Group, that would have a material adverse effect on its business, financial condition or results of operations.

3. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the [REDACTED] for the [REDACTED] of, and permission to [REDACTED], the Shares in issue and to be issued pursuant to (i) the [REDACTED]; and (ii) the exercise of the [REDACTED].

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. Please refer to “[REDACTED] — Sole Sponsor’s Independence” for details regarding the independence of the Sole Sponsor.

The fee payable to the Sole Sponsor is HK\$4.5 million and are payable by our Company.

4. No Material Adverse Change

Our Directors confirm that, save as disclosed in this document, there has been no material adverse change in the financial or trading position or prospects of our Group since September 30, 2024 (being the date to which the latest audited consolidated financial statements of our Group were prepared).

APPENDIX IV**STATUTORY AND GENERAL INFORMATION**

5. Qualification of Experts

The following are the qualifications of the experts (as defined under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance) who have given opinions or advice which are contained in this document:

Name	Qualification
Haitong International Capital Limited	Licensed corporation under the SFO permitted to carry out type 6 (Advising on Corporate Finance) regulated activities (as defined under the SFO)
Ernst & Young	Certified Public Accountants and Registered Public Interest Entity Auditor
Han Kun Law Offices	Legal advisors as to PRC Laws
Harney Westwood & Riegels	Legal advisors as to Cayman Islands laws
China Insights Industry Consultancy Limited	Industry consultant

6. Consents of Experts

Each of the experts as referred to in “E. Other Information — 5. Qualification of Experts” in this Appendix has given and has not withdrawn their respective written consents to the issue of this document with the inclusion of their reports and/or letters and/or opinion (as the case may be) and references to their names included in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of the experts named above has any shareholding interests in our Company or any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any member of our Group.

7. Promoter

Our Company has no promoter for the purpose of the Listing Rules. Save as disclosed in this document, within the two years immediately preceding the date of this document, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the [REDACTED] and the related transactions described in this document.

8. Preliminary Expenses

The preliminary expenses incurred by our Company were approximately US\$50,000 and were payable by us.

APPENDIX IV**STATUTORY AND GENERAL INFORMATION**

9. Binding Effect

This document shall have the effect, if an application is made in pursuance of this document, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

10. Bilingual document

The English language and Chinese language versions of this document are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

11. Miscellaneous

(a) Save as disclosed in this document:

- (i) within the two years immediately preceding the date of this document, neither we nor any of our subsidiaries has issued or agreed to issue any share or loan capital fully or partly paid up either for cash or for a consideration other than cash;
- (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (iii) within the two years immediately preceding the date of this document, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;
- (iv) within the two years immediately preceding the date of this document, no commission has been paid or payable (except commission to [REDACTED]) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares of our Company or any of our subsidiaries;
- (v) no founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued; and
- (vi) there is no arrangement under which future dividends are waived or agreed to be waived.

(b) Our Directors confirm that:

- (i) since September 30, 2024 (being the date on which the latest audited consolidated financial statements of our Group were made up), there has been no material adverse change in our financial or trading position or prospects;

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- (ii) there has not been any interruption in the business of our Company which may have or have had a material adverse effect on the financial position of our Company in the 12 months immediately preceding the date of this document;
- (iii) our Group has no outstanding convertible debt securities or debentures; and
- (iv) there are no treasury shares held by our Company or our subsidiaries or through our agents or nominees.

APPENDIX V**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE ON DISPLAY**

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a copy of this document and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) copies of each of the material contracts referred to in “Statutory and General Information — B. Further Information About Our Business — 1. Summary of Material Contracts” in Appendix IV; and
- (b) the written consents referred to in “Statutory and General Information — E. Other Information — 6. Consents of Experts” in Appendix IV.

2. DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be available on display online on the websites of the Stock Exchange (www.hkexnews.hk) and our Company (www.techcm.com) up to and including the date which is 14 days from the date of this document:

- (a) the Memorandum and Articles of Association;
- (b) the Accountants’ Report for each of the years ended December 31, [2022 and 2023] from Ernst & Young, the text of which are set out in Appendix [IA];
- (c) the audited consolidated financial statements of our Company for the years ended 31 December [2022 and 2023];
- (d) the report on the unaudited [REDACTED] financial information from Ernst & Young, the text of which is set out Appendix II;
- (e) the legal opinions issued by Han Kun Law Offices, our PRC Legal Advisor in respect of certain aspects of our Group and the property interests of our Group in the PRC;
- (f) the letter of advice prepared by Harney Westwood & Riegels, our Cayman legal advisors, summarizing certain aspects of the Cayman Companies Act referred to in Appendix III;
- (g) the industry report issued by China Insights Industry Consultancy Limited a summary of which is set forth in “Industry Overview”;
- (h) the material contracts referred to in “Statutory and General Information — B. Further Information About Our Business — 1. Summary of Material Contracts” in Appendix IV;
- (i) the written consents referred to in “Statutory and General Information — E. Other Information — 6. Consents of Experts” in Appendix IV;

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APPENDIX V

**DOCUMENTS DELIVERED TO THE REGISTRAR OF
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- (j) service contracts and letters of appointment referred to in “Statutory and General Information — C. Further Information about Our Directors and Substantial Shareholders — 2. Directors’ Service Contracts and Letters of Appointment” in Appendix IV; and
- (k) the Cayman Companies Act.