

## RISK FACTORS

*An [REDACTED] in our H Shares involves various risks. You should carefully consider all of the information set forth in this document, including the risks and uncertainties described below, before making an [REDACTED] in our H Shares. The following is a description of what we consider to be our material risks. Any of the following risks could have a material and adverse effect on our business, financial condition and results of operations. In any such case, the [REDACTED] of our H Shares could decline, and you may lose all or part of your [REDACTED].*

*These factors are contingencies that may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring. The information given is as of the Latest Practicable Date unless otherwise stated, will not be updated after the date hereof, and is subject to the cautionary statements in “Forward-looking Statements” in this document.*

### RISKS RELATING TO OUR BUSINESS

#### **The traditional Chinese medicine industry is highly fragmented and competitive.**

The TCM industry in the PRC is highly fragmented and competitive. For TCM decoction-ready product market, most market players operate on a relatively small scale and limited production capacity. In 2023, the total number of TCM decoction-ready product companies with production licenses in China has reached 2,334. Our key competitors include national and regional manufacturers of same/similar type of decoction-ready products. We cannot assure that we will be able to remain competitive by continuously distinguishing our products, or maintain our supplier and customer relationships, nor can we assure that we will be able to increase or maintain our existing market share. Competition is likely to intensify if the number of competitors of same products increases due to the increase in market demand; or competitors drastically reduce prices due to the oversupply of products or in response to competition. We expect to face a highly competitive market environment in the foreseeable future. If we fail to react to the rapidly changing market condition, control procurement costs or manage our business operation, our business, financial condition and results of operations could be materially and adversely affected.

The competitiveness of our products depends on a number of factors, including product quality, brand positioning, price, effectiveness of our marketing activities, breadth and depth of our sales networks and other factors. Some of our existing and potential competitors may have greater business resources, financial resources or experience in manufacturing and marketing decoction-ready products than we do. In addition, such competitors may have greater brand recognition, more established or extensive sales networks, or more extensive knowledge of our target consumers and target markets. There is no assurance that our competitors will not adapt more quickly than us to changes in industry trends, market preferences and requirements or consumer behaviors and habits. It is also unpredictable whether our competitors will engage in irrational or predatory pricing behavior, or whether there will be consolidation or cooperative arrangements among our competitors that could negatively affect our competitive position. If we are unable to compete effectively or otherwise respond to competitive pressure promptly or adequately, our product prices and sales may be hampered, which could result in lower profitability and materially and adversely affect our financial condition and results of operations.

#### **Our business and profitability may be adversely affected by price fluctuations and supply shortages of TCM raw materials.**

The production of our TCM decoction-ready products and other products depends heavily on the availability and cost of various raw materials, including medicinal herbs, animal substances, minerals and other natural substances. These materials are subject to significant price volatility due to numerous factors beyond our control, including weather conditions, natural disasters, disease outbreaks, ecological degradation, increasing demand, harvest yields, regulatory changes, and geopolitical tensions affecting cultivation regions.

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We are also vulnerable to price fluctuations and supply shortages resulting from any speculative or price manipulation activities engaged by suppliers of these raw materials. Our efforts to secure a stable supply of raw materials may not be successful. We cannot assure that our suppliers will continue to supply materials to us on terms and conditions commercially acceptable to us. Significant increases in raw material prices would have a direct and negative impact on our gross profit margin. Ultimately, we may need to raise our product prices to recover the higher raw material costs and maintain our gross profit margin, which may lower the demand for our products. In addition, we cannot assure that we will be able to pass on any increase in raw material costs to our customers. For example, we agree to fixed pricing for a limited number of hospital customers at their request and may not be able to renegotiate contract prices during the contract term. If we are unable to pass the increase in the cost of raw materials to our customers, our profit margins and profitability would be adversely affected.

**If the tax exemptions and preferential tax treatments granted by PRC government become unavailable, our results of operation and financial condition may be adversely affected.**

During the Track Record Period, our business related to primary processing of agricultural products was entitled to income tax exemption pursuant to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), the Implementation Regulations of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》), and the Notice on Issuing the Scope of Agricultural Product Preliminary Processing Enjoying Preferential Policies for Enterprise Income Tax (Trial) (Cai Shui [2008] No. 149) (《關於發布享受企業所得稅優惠政策的農產品初加工範圍(試行)的通知》(財稅[2008]149號)), released by the Ministry of Commerce of the PRC and the State Administration of Taxation on November 20, 2008. We were also entitled to preferential tax treatment as encouraged industrial enterprise based in the western China and certain of our subsidiaries were entitled to preferential tax treatment as micro and small businesses. We have been qualified as an Encouraged Industrial Enterprise based in the western region of Chinese Mainland were entitled to a preferential EIT rate of 15% during the Track Record Period. Our decoction-ready product business related to the primary processing of medicinal plants was entitled income tax exemption. Our wholly-owned subsidiaries Chengdu Neautus and Neautus Pharmacy have been accredited as micro and small businesses were entitled an enterprise income tax preferential rate of 20% of its taxable profits during the Track Record Period. See “Financial Information — Description of Selected Components of the Consolidated Statements of Profit or Loss and Other Comprehensive Income — Income Tax Expense.” We cannot assure you that the PRC policies on preferential tax treatments will not change or that the current preferential tax treatments we enjoy or will be entitled to enjoy will not be canceled. Moreover, we cannot assure you that our PRC subsidiaries will be able to renew the same preferential tax treatments upon expiration. If any such change, cancelation or discontinuation of preferential tax treatment occurs, the relevant PRC subsidiaries will be subject to the PRC enterprise income tax, or EIT, at a rate of 25% on taxable income. As a result, the increase in our tax charge could materially and adversely affect our results of operations.

**We derived a considerable portion of our revenue from limited types of products.**

During the Track Record Period, we derived a considerable portion of our revenue from a limited number of products, primarily including *Fritillaria cirrhosa* (川貝母), *Dwarf lilyturf* (麥冬), *Rhizoma pinelliae preparatum* (法半夏), stir-fried *Ziziphi spinosae semen* (炒酸棗仁) and *Coptis root* (黃連). In 2023, 2024 and 2025, sales of our top five products represented approximately 31.3%, 26.5% and 18.5% of our total revenue for the corresponding years, respectively.

We expect that the sales of these major products will continue to contribute to a considerable portion of our revenue in the near future. Our business will therefore remain sensitive to the sales volume and pricing of these major products. Any negative publicity in relation to these major products, or any increase in the raw materials costs for these major products could have a significant influence on the sales volume and pricing of these major products. Sales volume and pricing of these major products could also be materially and adversely affected in the event that other market players launch similar products at prices comparable to, or lower than, our prices. If we are unable to maintain our current sales volume and/or pricing of these major products, our business, financial condition and results of operations may be materially and adversely affected.

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**We cannot guarantee that our new business initiatives, including retail business, will be successfully implemented or generate sustainable revenue or profit.**

We continue to execute a number of new business initiatives, strategies and operating plans designed to diversify our business. For example, we plan to launch a TCM wellness product platform, Golden Lotus (金色荷花), in April 2025, offering personalized TCM wellness products for retail consumption. In addition, to enhance our brand recognition and customer reach, we have been actively developing our online sales channels, including digital platforms like Jinfang Caotang (金方草堂) and Jinfang Cloud (金方雲). However, these business initiatives are new and evolving, some of which are still at the inception or trial stage and may prove unsuccessful. In addition, we may not have sufficient experience in executing these new business initiatives effectively. Our ability to predict the preferences and needs of industry participants and to customize our services to them may be limited. Further, we may incur increasing investments in research and development costs, sales and marketing expenditures, personnel expenses and compliance costs as more efforts are required for our businesses newly launched or to be launched, and no guarantee on the effectiveness of our efforts can be given.

In particular, the growing popularity of online retail and e-commerce have changed consumer shopping behavior, facilitated the growth of new business models and eased the way for entrepreneurs and direct sales by brand owners, which brought new competitive pressure on businesses founded on traditional transaction models. The e-commerce market in China is highly competitive with a large number of online stores selling TCM products. Some of our competitors may have been involved in the e-commerce channels longer than we have, may have more experienced personnel and may have substantially more financial, marketing and other resources than we do. If we fail to cater to or grow our business through the development of online retail and e-commerce and cannot compete effectively or cost-efficiently against current and future competitors, our new business initiatives may not be successful, and our results of operations may be adversely affected.

As a result, we cannot assure you that any of these new business initiatives will achieve wide market acceptance, increase the penetration of our addressable market or generate sustainable revenue or profit. If our efforts fail to enhance our monetization abilities, we may not be able to maintain or increase our revenue or recover any associated costs, and our business and results of operations may be materially and adversely impacted.

**Failure to maintain the quality of our products could materially and adversely affect the level of market recognition of, and trust, in our products.**

The effectiveness of our quality control systems depends on a number of factors, including the design of our quality control systems and our ability to ensure that our employees comply with our quality control policies and procedures. We cannot assure you that the design of our quality control systems will be effective at all times, especially when we continue to expand our sales volume and manufacturing capacity. We also cannot assure you that our employees will always comply with the quality control policies and will not make any mistakes when executing quality control procedures. In addition to risks associated with the processing and labeling of our products, certain third parties, such as suppliers of raw materials and packaging materials, and logistics service providers, could also affect the quality of our products or lead to inventory obsolescence if these third parties fail to provide raw materials, packaging materials or services to us with satisfactory quality.

Failure to maintain an effective quality assurance and control system may result in quality issues in our products, which could result in a decrease in demand for our products or product return or cancellation or loss of purchase orders from our customers. We are also exposed to risks inherent in the production, packaging, sales and marketing of our products, such as defective or contaminated products, and insufficient or improper labeling of products. Any negative publicity or

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adverse associations with our products, including with respect to their efficacy or side effects, may negatively affect our reputation. Furthermore, the discovery of severe side effects of products manufactured or sold by other companies may also dampen the sales of our products that use the same raw materials.

In the event that any use or abuse of our products results in personal injury or death, product liability claims may be brought against us for damages. Any claims against us or product recalls, regardless of merit, could strain our financial resources as well as consume the time and attention of our management. If any claims against us were to prevail, we may incur monetary liabilities, and our reputation may be severely damaged. For details, see “— We may incur losses resulting from product liability claims or product recalls.” In such event, our business, financial condition and results of operations could be adversely affected.

### **Our business may be affected by the TCM centralized procurement scheme.**

During the Track Record Period, we derived a substantial portion of revenue from sales to hospitals and other medical institutions owned or controlled by government authorities in China, which may be required to procure decoction-ready products through a TCM centralized procurement scheme. In May 2023, a total of 15 provincial governments, including Shandong and Shanxi, formed an inter-provincial alliance to commence the centralized procurement of 21 varieties that comply with national drug standards for TCM decoction-ready products. In 2024, the centralized procurement scheme for TCM decoction-ready products were expanded to 45 varieties and all the provinces in China. Under the TCM centralized procurement scheme, public hospitals procure the TCM decoction-ready products they need through a provincial centralized drug procurement platform. In this round of procurement, we were awarded bids for 29 types comprising 55 varieties, representing 55 distinct product items.

It is possible that more provinces will join the inter-provincial alliance to initiate centralized procurement or that they will adopt a similar procurement scheme. If we participate in the centralized procurement scheme and our competitors win the bids while we fail to do so for our products, demand for our products may decrease, and our sales volume, revenue and market share could be adversely affected. Moreover, even if we win the bid for our products, there may be a significant price reduction or discrepancy between the estimated procurement quantities set out in the tender documents and the actual procurement quantities, and we cannot assure you that the market share of our products will increase. Consequently, there are uncertainties with respect to the impact of the implementation of centralized procurement scheme on the sales volume as well as the revenue of our products. If we cannot achieve targeted sales volumes or sales prices for our products, our business, financial condition and results of operations may be materially and adversely affected.

### **The TCM industry is highly regulated and the regulatory framework, requirements and enforcement may evolve in the future.**

The TCM industry in the PRC is subject to extensive government regulations and supervision. We are governed by various local, regional and national regulatory regimes in relation to different aspects of our operations. We cannot assure that the legal framework, licensing and certification requirements and enforcement trends in the TCM industry will not change in the future, or that we will be able to respond on time to such changes. We are obliged to comply with the extensive regulatory requirements stipulated by the relevant government authorities, including the quality standard stipulated by the Chinese Pharmacopoeia (2025 Edition) (《中國藥典》(2025年版)), and medicine labeling requirement stipulated by the Drug Administration Law of the PRC (《中華人民共和國藥品管理法》), and GMP standards for drug production stipulated by the NMPA. Please refer to the section headed “Regulatory Overview” in this document for details regarding the key requirements and standards relating to our business operations.

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Our compliance status with GMP standards and other regulatory requirements, however, are subject to periodic reassessment by the relevant government authorities which may result in substantial compliance burdens and additional costs on our business. The relevant government authorities may also conduct regular on-site inspections, reassessments and examinations to ensure our continuing compliance with such requirements and standards. The standards of the aforementioned reassessment may change in the future and there is no assurance that the government authorities will not tighten, or impose more stringent laws, rules, regulations, regulatory framework or industry standards in this regard.

We cannot assure that we will be able to continuously pass all the required inspections and reassessments, and any inability to comply with the regulatory requirements from the government authorities that are material to our operation could severely disrupt, as well as prevent us from conducting our business. Furthermore, if any interruption or implementation of the relevant regulations or tightened regulation requires us to comply with additional regulatory requirements from the government authorities, we cannot assure that we will be able to comply with them. Even if we comply with such regulatory requirements and/or standards, significant additional costs and expenses may be involved, which may adversely affect our financial condition and results of operations.

**We rely on a stable supply of quality raw materials to produce our products. Any decrease in the supply of these raw materials could materially and adversely affect our business, financial condition and results of operations. Our efforts to secure a stable supply of raw materials may not be successful.**

Our principal raw materials are TCM raw materials, excipients and packaging materials. In 2023, 2024 and 2025, our cost of raw materials amounted to RMB881.3 million, RMB974.2 million and RMB996.2 million, respectively, representing 76.9%, 78.0% and 74.6% of our total revenue, respectively.

We rely on suppliers to supply raw materials that meet our quality standards. We cannot guarantee that these efforts will eventually be successful. In such event, we may be subject to raw material shortages, which could have a material and adverse effect on our business and operations. In addition, we cannot assure you that our raw materials may not be contaminated, which will adversely impact the quality of our products. We may fail to ensure the comprehensiveness and effectiveness of their quality control systems. We cannot assure you that we will be able to detect all quality defects in a timely manner. If we experience any quality or safety problems in relation to our raw materials, our product quality may be adversely affected, our products may have to be recalled from the market and/or we may be subject to product liability claims. Even though we may bring claims against the relevant supplier for damages in such event, we cannot assure you that we will be able to obtain sufficient compensation that can recover our damages, which may in turn materially and adversely affect our competitive position, reputation and results of operations.

**Our product are processed from medicinal herbs, animal substances and minerals. We are subject to evolving laws and regulations governing the purchase or use of these components and our operations may be severely affected if there are any significant changes in the relevant laws and regulations.**

Our product are processed from medicinal herbs, animal substances and minerals. We are required to comply with laws and regulations that regulate the purchase or use of products of wild animals and plants under the state priority protections. As confirmed by our Directors, amongst all the raw material we purchased during the Track Record Period, we collected certain wild *Fritillaria cirrhosa* by ourselves with the required permits, all the other raw materials purchased by our Company were products of artificially bred wild animals and artificially cultivated plants in respect of which we have obtained all the permits necessary for the purchase of product of wild animals and plants under the state priority protection during the Track Record Period. In addition, as advised by our PRC Legal Advisors, we were not subject to any administrative penalties due to any violation

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of the applicable PRC laws and regulations regarding the purchase or use of products of wild animals and plants during the Track Record Period, based on the credit report issued by the competent authorities. However, certain of our products, such as little many-banded krait and black snake involved use of certain heavily regulated TCM raw materials. Amendments from time to time to existing laws, regulations and treaties or new laws regulations and treaties may potentially restrict our ability to purchase or use any substances of such kind. For example, on March 20, 2025, the NMPA issued the latest version of the Chinese Pharmacopoeia, which came into effect in October 2025. If we failed to comply with evolving regulations with respect to the use of such substances, we may be subject to claims, investigations, fines, penalties or prosecutions as a result. Furthermore, replacing or locating alternative raw materials would inevitably require us to divert attention and resources from our business. If we are unable to identify alternative materials or suppliers and secure approval for their use in a timely manner, our results of operations, profit margins and profitability could be adversely affected.

Animal protection activists and other third-party groups may boycott our products, protest against our operations, make claims before governmental authorities, and/or bring lawsuits against us. Such boycotts, protests, claims and lawsuits might be based on allegations that we have been using products of prohibited animal substances and/or committing acts of cruelty to animals. Currently, we purchase all the animal substances from qualified suppliers and are not involved in any claims and lawsuits of such kind. While we seek to comply with all laws and regulations, and defend ourselves when sued, there will be no assurances as to the outcome of future claims and lawsuits that could be brought against us. In addition, associated negative publicity could damage our reputation and negatively affect our results of operations.

**Our business could be materially and adversely affected if we encounter problems in manufacturing our products or fail to comply with regulatory requirements.**

TCM processing involves a series of techniques used to transform raw TCM materials into medicinal preparations. This process is guided by TCM theories and tailored to therapeutic needs, inherent properties of the medicinal materials, and specific requirements of formulation and preparation. As a result of the complexities, our manufacturing process will be susceptible to product loss or quality defects. We cannot assure you there will not be any error during the manufacturing processes in the future. In addition, the manufacturing process for any of our products may be subject to regulatory approvals from comparable regulatory authorities. We will need to satisfy all applicable regulatory requirements on an ongoing basis. Any failure to reliably manufacture products may hinder or prevent our sales, increase our costs of sales and have an adverse effect on our business, financial condition, results of operations and growth prospects.

**Failure to obtain and maintain regulatory approvals for our existing and future manufacturing facilities, or any disruption or suspension of our manufacturing activities, may affect our business and results of operations.**

We have been manufacturing our products at our own facilities in China. Our existing and future manufacturing facilities are required to obtain and maintain regulatory approvals. They are also subject to ongoing, periodic inspections by the NMPA or other comparable regulatory authorities to ensure compliance with Good Manufacturing Practice of Pharmaceutical Products (藥品生產質量管理規範) (“GMP”) regulations. We cannot guarantee that we will, at all times, be able to adequately follow and document our adherence to such GMP regulations or other regulatory requirements as required by the NMPA or other regulatory authorities. We may face difficulties in complying with GMP regulations and obtaining GMP certificate for our future manufacturing facilities. Failure to obtain and maintain such regulatory approvals of our manufacturing facilities may subject us to fines, injunctions, penalties, supply disruptions, seizures or recalls of our products, operating restrictions and criminal prosecutions, any of which may have an adverse effect on our business.

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We may also encounter problems with maintaining consistent and acceptable production costs, experiencing shortages of qualified personnel or raw materials, or experiencing unexpected damage to our facilities or the equipment. Any such incidents may cause us to delay or suspend our manufacturing activities. We may not be able to secure temporary, alternative manufacturers for our products with the terms, quality and costs acceptable to us, or at all. Moreover, we may need to devote significant resources to remedy these deficiencies before we can continue production at our manufacturing facilities, which would divert our limited resources and management attention from other critical operations and may adversely affect our business and results of operations.

**Our product development efforts may not result in the successful development of new products, formulation of product, production methods or techniques.**

Currently, the majority of our products are TCM decoction-ready products. In addition to decoction-ready products, we are actively exploring business opportunities of wellness products. Our future growth and prospects may be affected by our ability to successfully further develop our product portfolio. However, our research and development efforts may not lead to successful outcomes due to reasons beyond our control, including failure to meet safety, efficacy or other standards and requirements during manufacturing, or failure to obtain regulatory approvals in targeted geographical market on a timely basis or at all. Pursuit of some of our product development activities may require purchasing specialized equipment or other additional costs. If our product development activities do not result in the successful development of a new product extensions or varied or refined product formulations, or if any of our newly developed products fails to achieve expected market acceptance, our business, financial position and results of operations could be materially and adversely affected.

**Market receptiveness of the traditional Chinese medical concept and traditional Chinese medicine may change.**

Our continued success depends on the acceptance of the traditional Chinese medical concept, and the popularity of and demand for TCM, in particular, in the PRC. We believe that the TCM market is highly dependent on consumer perception regarding the safety, efficacy, level of side effects and quality of TCM. However, consumer preferences and demand may shift away from TCM for various reasons, including but not limited to changes in consumers' belief that TCM may be effective in achieving their claimed benefits, and general changes in consumer preferences for TCM as compared to other types of products that claim similar benefits, such as western medications.

Further, consumer perception of TCM products could be significantly influenced by scientific research or findings, medical coverage and other publicity regarding the traditional Chinese medical concept and TCM. Scientific research reports, findings or publicity, regardless of their merits, may associate illness or other adverse effects with the consumption of TCM products. Consumer may have reservation regarding the safety and effectiveness of TCM if such adverse publicity arises in the future. Such findings or reports could adversely affect the receptiveness of the traditional Chinese medical concept and the demand for TCM and our products, and in turn bring adverse impacts to our business, financial condition and results of operations.

**We may have difficulty managing our manufacturing operations or our production capacity, and our manufacturing facilities are exposed to risks of substantial disruption.**

Our manufacturing operations are an important part of our business. Any damage to or malfunction of our manufacturing equipment, or any failure to effectively manage our manufacturing operations, including as a result of the loss of experienced and qualified personnel, could materially and adversely affect our business, financial condition and results of operations. In particular, management of production capacity is critical to our manufacturing operations and results of operations. If our production capacity is insufficient for satisfying all sale orders, our customer relationships and reputation could be materially and adversely affected. If we do not have sufficient demand for our products, we may suffer under utilization of our capacity and accordingly

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higher average cost of production. We cannot guarantee that our forecasted or anticipated product demand will materialize. If our manufacturing facilities are underutilized, we may suffer a decrease in profitability and our results of operations could be materially and adversely affected.

Our manufacturing operations are also subject to a number of risks, such as fire, theft, machinery breakdowns, sub-standard performance of our manufacturing equipment, raw material contamination, natural disasters, power outages or water shortages. Repairs, upgrades, refurbishments, modifications, suspension or loss of licenses, certifications or permits, changes in governmental planning for the land underlying our facilities, and regulatory changes may also disrupt operations. If our manufacturing facilities are substantially disrupted, we may be unable to repair or replace affected equipment or facilities, or shift production to another facility in a timely and cost-effective manner, or at all. As a result, we may fail to fulfill contractual obligations or meet market demands for our products, and our business, financial condition and results of operations could be adversely affected.

**We may not be able to expand our production capacity and ramp up our operation as anticipated.**

We plan to expand the production capacity of our production facility by establishing new production lines. We may not be able to obtain all the required permits or licenses for the expansion in a timely manner, or at all. In addition, the expansion may not complete within the anticipated time frame or within budget. Moreover, we may not be able to obtain the necessary approvals and permits, including the approval for amendments to pharmaceutical manufacturing license, in a timely manner, or at all, from the relevant government authorities before we can commence production. Meanwhile, we may not be able to fully utilize the increased production capacity depending on the integration of our existing productions and market reactions of our products. The expansion plan will also affect our depreciation expenses. Any substantial increase in costs associated with optimizing and expanding our production capacity and ramping up our operations, and any material delays thereof, could materially and adversely affect our business, financial condition and results of operations.

**Our sales and marketing efforts may not be successful.**

To expand our business, particularly our retail business, we plan to incur substantial investment in sales and marketing activities. Successful sales and marketing are crucial for us to increase the market penetration of our existing products, expand our coverage of hospitals, medical institutions and penetrate into untapped retail customers, and promote new products in the future. If we are unable to increase or maintain the effectiveness and efficiency of our sales and marketing activities, our sales volumes and business prospects could be adversely affected. In particular, our sales and marketing efforts consist of raising awareness and knowledge of our products. If we are unable to effectively train our in-house sales representatives, our sales and marketing may be less successful than desired. Competition for experienced marketing, promotion and sales personnel is intense. If we are unable to attract, motivate and retain a sufficient number of marketing, promotion and sales professionals, sales volume of our products may be adversely affected and we may be unable to expand our sales coverage or increase our market penetration as contemplated.

**We are subject to risks associated with other parties with which we collaborate. If we cannot effectively cooperate with such other parties, or if such other parties fail to perform their obligations, provide reliable or satisfactory services, or operate their businesses, in each case in compliance with applicable laws and regulations, our business, financial condition and results of operations may be materially and adversely affected.**

We collaborate with certain other parties in providing services to our consumers. For example, we collaborate with third-party logistics service providers for the transportation of our decoction-ready products. Any failure by the third-party logistics service providers we engage during the transportation process may contaminate our products and adversely affect our business operations.

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These parties may not be able to properly perform their duties under their agreements with us. Any failure by these parties to continue with good business operations, comply with applicable laws and regulations or risks or any negative publicity on these parties could damage our reputation, expose us to significant penalties and decrease our total revenues and profitability. Also, if we fail to retain existing or attract new parties to collaborate with us, the normal operations of our business may be affected, and our customers and end-consumers may lose confidence in our products. If these other parties engage in activities that are negligent, illegal or otherwise harmful to the trustworthiness and security of our system, or if our customers are otherwise dissatisfied with their service quality, we could suffer reputational harm, even if these activities are not related to, attributable to or caused by us.

**We may not be able to protect our intellectual property rights, trade secrets and know-how, or prevent unfair competition by third parties.**

Our success depends upon obtaining and maintaining intellectual property rights and confidentiality of our trade secrets and know-how relevant to our products, technologies, inventions and improvements under the PRC laws for protecting these rights. As of the Latest Practicable Date, we had 52 trademarks, 19 patents, three copyrights, six domain names and one software copyrights in China. The expiration or loss of, or failure to register our intellectual property rights may materially and adversely affect our business and results of operation. However, the above measures may not be adequate to protect our intellectual property rights related to our business and products due to the following reasons: (i) we may not be able to identify any unauthorized use of our patents, trademarks and other intellectual property rights and take appropriate actions to enforce our rights on a timely basis; (ii) our registered patents, trademarks or copyrights or our application for registration of patents or trademarks may not adequately describe, enable or otherwise provide coverage for our techniques and products and thus, we may not be able to exclude others from developing or commercializing these techniques and products; and (iii) our competitors may independently develop proprietary techniques similar to ours, misappropriate our proprietary information or processes or infringe on our patents and trademarks, or produce similar products that do not infringe on our patents or successfully challenge our patents.

We may not be able to identify the infringement of our intellectual property rights at an early stage, which may result in our inadvertent forfeiture of such intellectual property rights. Even if we are able to enforce our intellectual property rights in a timely manner, the intellectual property rights protection may not be effective. If we fail in prosecuting or defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights.

In addition to our intellectual property rights, we rely on trade secrets including unpatented know-how, technology and other proprietary information, to maintain our competitive position and to protect our products, technologies, inventions and improvements. We consider the processing method for our TCM products to be important trade secrets and know-how. We seek to protect our trade secrets and confidential information, in part, by entering into non-disclosure and confidentiality agreements with parties that have access to trade secrets or confidential information. However, we may not be able to prevent the unauthorized disclosure or use of our trade secrets and confidential information by the parties to these agreements. Monitoring unauthorized uses and disclosures is difficult. Any of the parties with whom we enter into confidentiality agreements may breach or violate the terms of any such agreements and may disclose our proprietary information, and we may not be able to obtain adequate remedies for any such breach or violation. Further, the departure of key personnel who possess our trade secrets and proprietary information may adversely affect our business operations and competitive position. If competitors or other third parties independently develop technology or information similar to our trade secrets, our competitive position may be adversely affected.

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**Any changes to the products that are included in the Medical Insurance Drugs Catalogs could have a material and adverse effect on our business, financial condition, results of operations and business prospects.**

Under the medical insurance programs in the PRC, patients are entitled to reimburse all or certain portion of the cost of pharmaceutical products listed in the National Reimbursement Drug List (the “NRDL”). The inclusion or exclusion of a pharmaceutical product in or from the NRDL may significantly affect the choice and demand of a pharmaceutical product in the PRC. The inclusion of pharmaceutical products by the relevant authorities into the NRDL based on a variety of factors, including efficacy and price of the pharmaceutical products in the market, which may be outside of our control. As of the Latest Practicable Date, approximately 640 of our product types were included in the NRDL. Although the product types included in the NRDL remained relatively stable during the Track Record Period, there can be no assurance that any of our products currently listed in the NRDL will remain listed, or NRDL will include other product types. In such event, our revenue and profitability could be adversely affected.

**Reformation of the decoction-ready products mark-up policies or other pricing restrictions may adversely affect our business and our products may be subject to price restrictions in China.**

On October 20, 2019, the State Council issued the Opinion on Promoting the Inheritance, Innovation, and Development of Traditional Chinese Medicine (《關於促進中醫藥傳承創新發展的意見》), proposing to study the removal of price markup for TCM decoction-ready products. Subsequently, on December 14, 2021, the National Healthcare Security Administration and the National Administration of TCM jointly issued guidelines proposing that public medical institutions must limit their markup on Chinese medicine decoction-ready products to no more than 25% above procurement cost when sourced through authorized channels. Any future reformation, including other pricing restrictions as a result of any potential tightening regulations, may increase the costs for medical institutions when selling decoction-ready products to the patients, thus reducing the willingness of medical institutions to purchase our products, which in turn would adversely affect our business, financial condition and results of operations. Our customers may gain more bargaining power depending on the availability of alternative products, demands of consumers and the preferences of medical practitioners, and they may demand a lower price from us, which reduces our profitability.

**We may be involved in claims, disputes, litigation, arbitration or other legal proceedings in the ordinary course of business.**

From time to time, we may be involved in claims, disputes and legal proceedings in our ordinary course of business. These may concern issues relating to, among others, product liability, environmental matters, breach of contract, employment or labor disputes and intellectual property rights. Any claims, disputes or legal proceedings initiated by us or brought against us, with or without merit, may result in substantial costs and diversion of resources, and if we are unsuccessful, could materially harm our reputation. Furthermore, claims, disputes or legal proceedings against us may be due to actions taken by our counterparties. Even if we are able to seek indemnity from them, they may not be able to indemnify us in a timely manner, or at all, for any costs that we incur as a result of such claims, disputes and legal proceedings.

Our intellectual property rights could be challenged or invalidated. For example, although we believe that we have conducted our patent prosecution in accordance with a duty of candor and in good faith, the outcome following legal assertions of invalidity and unenforceability during patent litigation is unpredictable. On the other hand, competitors or other third parties may infringe or misappropriate our patents and other intellectual property rights. To counter infringement or unauthorized use, we may be required to file infringement claims, which can be expensive and time consuming. In any infringement proceeding, a court may decide that a patent of ours is not valid or is unenforceable, or may refuse to stop the other party from using the technology at issue on the grounds that our patents do not cover the technology in question. Even if we establish infringement, the court may decide not to grant an injunction against further infringing activity and instead award only monetary damages, which may not be an adequate remedy. Enforcing our intellectual property rights against third parties may also cause such third parties to file other counterclaims against us, which could be costly to defend and could require us to pay substantial damages. Any loss of intellectual property protection could have a material and adverse impact on one or more of our products candidates and our business.

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An adverse result in any litigation or defense proceedings could put one or more of our intellectual property rights at risk of being invalidated or interpreted narrowly. Even if successful, litigation may result in substantial costs and distraction of our management and other employees. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation.

**Our and/or others' failure to obtain or renew certain approvals, licenses, permits and certificates required for our business may materially and adversely affect our business, financial condition and results of operations.**

Pursuant to the relevant laws, regulations and relevant regulatory practice by governmental agencies, we and/or other parties related to our operations may be required to obtain and maintain various approvals, licenses, permits and certificates from relevant authorities to operate our business. Some of these approvals, permits, licenses and certificates are subject to periodic renewal and/or reassessment by the relevant authorities, and the standards of such renewal and/or reassessment may change from time to time. Any failure to continuously comply with the requirements of, obtain or renew approvals, licenses, permits and certificates necessary for our operations may result in enforcement actions thereunder, including orders issued by the relevant regulatory authorities causing operations to cease, and may include corrective measures requiring capital expenditure or remedial actions, which in the future could materially and adversely affect our business, financial condition and results of operations. Furthermore, if the interpretation or implementation of existing laws and regulations changes, or new regulations come into effect requiring us and/or other related parties to obtain any additional approvals, permits, licenses or certificates that were previously not required, we cannot assure you that we and/or other such related parties will successfully obtain such approvals, permits, licenses or certificates. Any such failure could restrict our business operations and materially reduce our profitability and prospects.

**Our international strategy and ability to conduct business in international markets may be adversely affected by legal, regulatory, political and economic risks.**

International expansion is a significant component of our growth strategy and may require significant capital investment, which could strain our resources and adversely impact our operations and financial performance. We are subject to PRC law in addition to the laws of the foreign countries and regions in which we operate. If any of our operations, or our associates or agents, violate such laws, we could become subject to sanctions or other penalties, which could negatively affect our reputation, business, financial condition and results of operations. In addition, we may face difficulties in managing our third-party service providers and other business partners on a global scale. In particular, any negative changes in the global geopolitical environment may materially and adversely affect our international expansion. Any political and economic instability in the countries and regions where we operate could also have an adverse impact on foreign exchange rates.

**We may incur losses resulting from product liability claims or product recalls.**

The nature of our business may expose us to product liability claims. Such claims may arise if any of our products are deemed or proven to be defective or contaminated or when we are alleged to have engaged in such practices as insufficient or improper labeling of products. In the event that the use or misuse of any product manufactured by us results in personal injury or death, product liability and/or indemnity claims may be brought against us and we may be subject to our product recalls, and the relevant regulatory authorities may close down some of our related operations and take administrative actions against us. We cannot guarantee that such claims will not be filed against us in the future. A substantial claim or a substantial number of claims against us, if successful, would have a material and adverse effect on our reputation, business, financial condition and results of operations. Any claims against us or any product recalls, regardless of merit, can strain our financial resources and consume the time and attention of our management.

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**We have limited insurance coverage, and any claims beyond our insurance coverage may result in our incurring substantial costs and a diversion of resources.**

We maintain insurance policies as required under applicable laws and regulations, as well as based on our assessment of our operational needs and industry practice. See “Business — Insurance.” In line with industry practice, we have elected not to maintain certain types of insurance, such as business interruption insurance or product liability insurance. We cannot guarantee you that our coverage will be adequate to compensate for all losses that may occur, particularly with respect to loss of business or operation. Any business disruption, litigation, regulatory action, outbreak of epidemic disease or natural disaster could also expose us to substantial costs and diversion of resources. There can be no assurance that our insurance coverage is sufficient to prevent us from any loss or that we will be able to successfully claim our losses under our current insurance policy on a timely basis, or at all. If we incur any loss that is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our business, financial condition and results of operations could be materially and adversely affected.

**If we fail to comply with environmental, health and safety laws and regulations, we could be subject to fines or penalties and other negative consequences that could have a material and adverse effect on the success of our business.**

We are subject to numerous environmental, health and safety laws and regulations, including but not limited to the treatment and discharge of pollutants into the environment and the use of toxic and hazardous chemicals in the process of our business operations. In addition, our facilities can only be put into operation after the relevant administrative authorities in charge of environmental protection and health and safety have examined and approved the relevant facilities in certain jurisdictions.

We cannot fully eliminate the risk of accidental contamination, biological or chemical hazards or personal injury at our facilities during the process of research, testing, development and manufacturing of our products. In particular, certain of our manufacturing process involve the use of raw materials with toxicity, which requires more stringent waste management and stricter compliance with environmental and health related laws and regulations. In the event of such accident, we could be held liable for damages and clean-up costs which, to the extent not covered by existing insurance or indemnification, could materially and adversely our business. Other adverse effects could result from such liability, including reputational damage. We may also be forced to close or suspend operations at certain of our affected facilities temporarily, or permanently. Furthermore, we may be required to incur substantial costs to comply with current or future environmental, health and safety laws and regulations. Failure to comply with these laws and regulations also may result in substantial fines, penalties or other sanctions which could have a material and adverse effect on our business, financial condition, results of operations and prospects.

**We are subject to complex laws, regulations and governmental policies regarding cybersecurity, privacy and data protection. Actual or alleged failure to comply with such laws, regulations and governmental policies could materially and adversely affect our business and reputation.**

Recently, the governments worldwide have placed increasing emphasis on privacy and data protection regulations. The PRC government, in particular, has implemented a series of laws, regulations, and policies to safeguard personal data. However, the interpretation and application of these laws, regulations, and standards related to cybersecurity, data protection, and privacy remain constantly evolving, which may affect our responsibilities in this area. For instance, the PRC government has promulgated a series of laws and regulations on data security, cybersecurity and personal information protection, including the Data Security Law of the People’s Republic of China (《中華人民共和國數據安全法》), the Cybersecurity Law of the People’s Republic of China (《中華人民共和國網絡安全法》), the Measures for Cybersecurity Review (《網絡安全審查辦法》) and

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the Personal Information Protection Law of the People’s Republic of China (《個人信息保護法》), which impose various obligations on entities engaged in data-related activities. For details, see “Regulatory Overview — Laws And Regulations Related to Information Security and Data Privacy.” Any failure or perceived failure of compliance could lead to potential legal proceedings or actions initiated by government entities or other parties. Should any of such occur, it could materially and adversely impact our reputation, thereby harming our business, financial condition and results of operations.

**We may be directly or indirectly subject to applicable anti-kickback, fraud and abuse laws or similar healthcare and security laws and regulations in China and other jurisdictions, which could expose us to administrative sanctions, criminal sanctions, civil penalties, contractual damages, reputational damage and diminished profits and future earnings.**

Healthcare providers, doctors and others play a primary role in the recommendation and prescription of any products for which we obtain regulatory approval. Our operations may become subject to various PRC fraud and abuse laws, including the PRC Anti-Unfair Competition Law (《中華人民共和國反不正當競爭法》), and PRC Criminal Law (《中華人民共和國刑法》). These laws may impact, among others, our proposed sales, marketing and education programs.

Neither the PRC government nor the PRC courts have provided definitive guidance on the applicability of fraud and abuse laws to our business. Law enforcement authorities are increasingly focusing on enforcing these laws, and some of our practices may be challenged under these laws. Efforts to ensure that our business arrangements with third parties are in compliance with applicable healthcare laws and regulations will involve substantial costs. If any enforcement actions are instituted against us, and if we are not successful in defending ourselves or asserting our rights, those actions could result in the imposition of civil, criminal and administrative penalties, damages, disgorgement, monetary fines, possible exclusion from participation in governmental healthcare programs, contractual damages, reputational damage, diminished profits and future earnings, and curtailment of our operations, which could have adverse effect on our business and results of operations. Furthermore, we are subject to anti-bribery laws in China that generally prohibit companies and their intermediaries from making payments to government officials for the purpose of obtaining or retaining business or securing other improper advantages. See also “— Risks Relating to Our Business — Our employees and business partners may engage in misconduct or other improper activities, including noncompliance with regulatory standards and requirements.”

As we expand our operations globally, we may also become subject to similar laws and regulations from other jurisdictions. If we fail to comply with such requirements, we could be subject to penalties and other negative consequences. If any of the physicians or other third parties with whom we do business are found to be not in compliance with the applicable laws and regulations, they may be subject to criminal, civil or administrative sanctions, including exclusions from government funded healthcare programs, which may also adversely affect our business.

**Our future success depends in part on our ability to retain our senior management, key employees and other qualified personnel.**

We are highly dependent on the expertise and insights of our senior management team. Recruiting and retaining qualified scientific, technical, manufacturing, and sales and marketing personnel in the future will also be critical to our success. The loss of the services of any of these persons could impede the achievement of our research, development, manufacturing and commercialization objectives. Moreover, losing our senior management may increase our competitive pressure, as they may join our competitors or start competing businesses. Competition to hire from this limited pool is intense, and we may be unable to hire, train, retain or motivate these key personnel or consultants on acceptable terms given the competition among numerous TCM industry players for similar personnel. To compete effectively, we may need to offer higher compensation and other benefits, which could materially and adversely affect our financial condition and results of operations. In addition, we may not be successful in training our

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professionals to keep pace with technological and regulatory standards. Any inability to attract, motivate, train or retain qualified scientists or other technical personnel may have a material and adverse effect on our business, financial condition, results of operations, cash flows and prospects.

**Our potential engagement in acquisitions or strategic partnerships in the future may increase our capital requirements, cause dilution for our Shareholders, cause us to incur debt or assume contingent liabilities, and subject us to other risks.**

To enhance our growth, we may acquire businesses, products, technologies or know-how or enter into strategic partnerships that we believe would benefit us in terms of product development, technology advancement or distribution network, among others.

Any completed, in-process or potential acquisition or strategic partnership may entail numerous risks, including but not limited to: (i) substantial time and expenses incurred during negotiation without guarantee of successful consummation; (ii) adverse impact on our financial results, such as goodwill impairment charges, amortization expenses for intangible assets and increased operating expenses; (iii) the assumption of additional indebtedness or contingencies, or the issuance of our equity securities resulting in dilution to our Shareholders; (iv) difficulties in assimilating operations, intellectual property, products and personnel of an acquired company, and the diversion of our management's attention from our existing product programs and initiatives; (v) loss of key personnel and uncertainties in our ability to maintain key business relationships; (vi) risks and uncertainties associated with the other party to such a transaction, including the prospects of that party and their existing products and regulatory approvals, and our inability to generate sufficient revenue from acquired technology and/or products to offset the associated acquisition and maintenance costs; and/or (vii) deficiencies in internal controls, data adequacy and integrity, product quality and regulatory compliance, and product liabilities in the acquired business we discover after such acquisition, which may subject us to penalties, lawsuits or other liabilities.

Further, any difficulties in the integration of acquired businesses, product or technologies or unexpected penalties, lawsuits or liabilities in connection with such businesses, product or technologies could have a material and adverse effect on our reputation, business, financial condition and results of operations. In addition, if we undertake acquisitions, we may issue dilutive securities, assume or incur debt obligations, incur large one-time expenses and acquire intangible assets that could result in significant future amortization expense.

**We may encounter difficulties in managing our growth and expanding our operations successfully.**

Pursuing our growth strategies has resulted in, and will continue to result in, substantial demands on capital and other resources. In addition, managing our growth and executing our growth strategies will require, among other things, our ability to continue to innovate and develop TCM processing technology in the highly competitive TCM industry, effective coordination and integration of our businesses and teams, successful hiring and training of personnel, effective cost control, sufficient liquidity, effective and efficient financial and management control, increased marketing and customer support activities, effective quality control, and management of our suppliers to leverage our purchasing power. Any failure to execute our growth strategies or realize our anticipated growth could adversely affect our business, financial condition, results of operations and prospects.

**Our employees and business partners may engage in misconduct or other improper activities, including noncompliance with regulatory standards and requirements.**

We are exposed to the risk of misconduct or other improper activities conducted by our employees and business partners. Such misconduct or improper activities may include failures to comply with regulations of the NMPA or other regulatory authorities, to provide accurate information to such regulators, to comply with manufacturing standards of our own or promulgated by applicable regulatory authorities, to comply with healthcare fraud and abuse laws, to report

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financial information or data accurately or to disclose unauthorized activities to us. In particular, sales, marketing and other business arrangements in the TCM industry are subject to extensive laws and regulations intended to prevent fraud, misconduct, kickbacks, self-dealing and other abusive practices. A wide range of our business activities may be subject to these laws and regulations, including, but not limited to, research, manufacturing, distribution, pricing, discounting, marketing and promotion, sales commission, customer incentive programs and other business arrangements.

It is not always possible to identify and deter misconduct of our employees and business partners, and any precautions we take to detect and prevent improper activities may not be effective at all times in, for example, protecting us from governmental investigations or lawsuits. Any such actions instituted against us could have a significant impact on our business due to the potential outcomes resulted from the governmental investigation or lawsuit, such as the imposition of significant civil, criminal and administrative penalties, damages, monetary fines, disgorgement of profits, imprisonment, possible exclusion from participation in government healthcare programs, contractual damages, reputational harm, diminished profits and future earnings, additional reporting or oversight obligations.

**Our reputation is important to our success. Negative publicity with respect to us, our management, employees, business partners, affiliates, or our industry, may materially and adversely affect our reputation, business, results of operations and prospect.**

We believe that market awareness and recognition of our brand image, and the maintenance of a positive brand image, is crucial to the success of our business. However, our reputation is vulnerable to potential threats that can be difficult or impossible to control, and costly or impossible to remediate. Instances or reports, whether true or not, of safety issues, such as illnesses, tampering, adulteration, contamination or mislabeling, either during manufacturing, packaging, transportation, storing or preparation, employee hygiene and cleanliness failures or improper employee conduct, have in the past severely injured the reputations of companies in the TCM industry. Other enterprises in the TCM industry may experience problems related to product quality and safety due to the quality standards they implement, quality defect, and inadequate compliance with and enforcement of inspection procedures under relevant regulations. While we may not be involved in any of these events, any report linking us to such instances could cause consumers to be doubtful or fearful and could possibly hurt our sales. While we will continue to promote our brands to remain competitive, we may not be successful in doing so. In addition, we may engage various third parties to advance our business, which can make it increasingly difficult to effectively manage our brand reputation, as we have relatively limited control over these third parties.

Any disputes, legal proceedings, regulatory inquiries, investigations or other actions involving us, our management, employees, business partners and affiliates, or any perceived unethical, fraudulent, or inappropriate conduct by any of the above, regardless of the merits or final outcome, could harm our reputation, impede our ability to attract and retain talent and business partners, and materially and adversely affect our business.

**We may experience failures in our information technology system, which could materially and adversely affect our business, financial condition and results of operations.**

We depend on our information technology system to manage our business processes, and to record and process our operational and financial data. In particular, we rely on our information technology system to, among other things: (i) establish the database of suppliers and document the procurement of raw materials; (ii) facilitate the shipping and sale of decoction-ready products; (iii) monitor and control the processing of orders, inventory levels and product flows; (iv) support our management of and oversight over business processes such as production, inventory management, quality control and order management; (v) manage billing and collections from customers; (vi) process payments to suppliers and third-party service providers; and (vii) manage and monitor quality control of our products.

We have established security mechanisms regarding data access control, physical equipment security, network security, security management procedures and data backup. However, our information technology system may fail due to natural disasters or failures of public infrastructure, our information technology infrastructure or our applications software systems that are wholly or partially beyond our control. Any material disruption to the operation of our information technology

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system could have a material and adverse effect on our business. Our failure to address these problems could result in our inability to perform, or delays in our performance of, critical business operational functions, loss of key business data, or our failure to comply with regulatory functions, which could materially and adversely affect our business operations.

**We may not be able to renew our current leases or locate desirable alternatives for our business operations.**

We lease properties for our offices, storages and manufacturing facilities in China. See “Business — Properties.” We may not be able to extend or renew such leases on commercially reasonable terms, or if at all, as we will have to compete with other businesses for premises at desired locations. Rental payments may significantly increase as a result of high demand for the leased properties. Moreover, we may not be able to extend or renew such leases upon expiration of the current term and may therefore be forced to relocate the affected operations. This could disrupt our operations and result in significant relocation expenses. We may not be able to locate desirable alternative sites for our offices and laboratories. The occurrence of such events could materially and adversely affect our business, financial condition, results of operations and prospects.

**Our leased properties may be subject to non-compliances or challenges that could potentially affect our future use of them.**

Pursuant to the Measures for Administration of Lease of Commodity Properties (《商品房屋租賃管理辦法》), which was promulgated by the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部) on December 1, 2010 and became effective on February 1, 2011, both lessors and lessees are required to file the lease agreements for registration and obtain property leasing filing certificates for their leases. As of the Latest Practicable Date, we failed to register six of the lease agreements as tenant, which were primarily used as our storage spaces and future manufacturing facilities. Although failure to register does not in itself invalidate the leases, we may be subject to fines if we fail to rectify such non-compliance within the prescribed time frame after receiving notice from the relevant PRC government authorities. The penalty ranges from RMB1,000 to RMB10,000 for each unregistered lease, at the discretion of the relevant authority. As of the Latest Practicable Date, we were not subject to any penalties arising from the non-registration of lease agreements. However, we cannot assure you that we would not be subject to any penalties and/or requests from local authorities to fulfill the registration requirements, which may increase our costs in the future. In addition, as our leases expire, we may face difficulties renewing them, either on commercially acceptable terms or at all. Our inability to enter into new leases or renew existing leases on terms acceptable to us could materially and adversely affect our business, results of operations or financial condition. In addition, our leases could be challenged by the government authorities, which may cause interruptions to our business operations. If the lessors of these leased properties failed to obtain necessary permits, approvals, or certificates from the relevant government authorities, we may not be able to continue our use of the relevant leased properties, which may in turn affect our business operations.

**We may be subject to additional social insurance fund and housing provident fund contributions and late fees or fines imposed by relevant regulatory authorities.**

Pursuant to the Chinese laws and regulations, we are required to participate in the employee social welfare plan administered by local governments. Such plan consists of pension insurance, medical insurance, work-related injury insurance, maternity insurance, unemployment insurance and housing provident fund. The amount we are required to contribute for each of our employees under such plan should be calculated based on the actual income of our employees, together with the minimum and maximum level as from time to time prescribed by national laws and regulations and local authorities. The unpaid amount for social insurance contributions amounted to approximately RMB6.4 million, RMB5.3 million and RMB5.4 million in 2023, 2024 and 2025, respectively. Any failure to make timely and adequate social welfare contribution for its employees

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may trigger an order of correction from competent authority requiring the employer to make up the full amount of such overdue social welfare contribution within a specified period of time, and the competent authority may further impose fines or penalties.

During the Track Record Period, we did not pay social insurance and housing provident fund in full for our employees. The unpaid amount for housing provident fund contributions amounted to approximately RMB1.8 million, RMB1.6 million and RMB1.6 million in 2023, 2024 and 2025, respectively. In addition, prior to July 2022, certain contributions were made through third-party agencies. As a result, if an employee makes a complaint, report or other claim to the competent authority, we may be required by competent authorities to pay the outstanding amount, and may be subject to late payment penalties or enforcement application made to the court. We have taken steps to enhance our internal procedures with a view to improving compliance with applicable laws and regulations relating to social insurance and housing provident fund contributions, including but not limited to conducting internal compliance audits to identify historical deficiencies, updating payroll systems to better track contribution bases and payment status, providing regular training to human resources personnel on local regulatory requirements, and establishing an internal review mechanism to monitor contribution practices on an ongoing basis and we undertake to make timely payments for the deficient amount and overdue charges, as soon as requested by the competent government authorities. As of the Latest Practicable Date, no competent government authorities imposed administrative action, fine or penalty to us with respect to this non-compliance incident or required us to settle the outstanding amount of social insurance payments and housing provident fund contributions. We cannot guarantee you that the employees will not make complaints, reports or other claims and the competent government authorities will not require us to settle the outstanding amount within the specified time limit or impose late payment penalties on us based on such complaints, reports or other claims. Although our Directors believe that the probability of such complaints, reports or other claims and subsequent administrative action, fine or penalty imposed by government authorities in this regard is remote, we cannot guarantee that such actions may not occur, which may have a material and adverse impact on our financial position and results of operation.

**We may be subject to natural disasters, health epidemics, acts of war or terrorism or other factors beyond our control.**

Natural disasters, health epidemics, acts of war or terrorism or other factors beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the regions where we conduct our business. Our operations may be under the threat of natural disasters, such as floods, earthquakes, sandstorms, snowstorms, fire or drought, the outbreak of a widespread health epidemic, such as swine flu, avian influenza, severe acute respiratory syndrome, or SARS, Ebola, Zika, COVID-19, other factors beyond our control, such as power, water or fuel shortages, failures, malfunction and breakdown of information management systems, unexpected maintenance or technical problems, or are susceptible to potential wars or terrorist attacks.

The occurrence of a disaster or a prolonged outbreak of an epidemic illness, including the COVID-19 pandemic, or other adverse public health developments could materially disrupt our business and operations. Acts of war or terrorism may also injure our employees, cause loss of lives, disrupt our business network and destroy our markets. Any of the foregoing events and other events beyond our control could have an adverse effect on the overall business sentiment and environment, cause uncertainties in the regions where we conduct business, cause our business to suffer in ways that we cannot predict and materially and adversely impact our business, financial condition and results of operations.

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**Our business and financial condition could be materially and adversely affected by a severe or prolonged downturn in the global economy.**

General economic factors and conditions worldwide, including inflation and unemployment rate, may affect consumers’ willingness to spend. The global macroeconomic environment has faced numerous challenges, including the economic slowdown or periods of recession in the United States, Europe and other economies. Sustained tension between certain major countries in the world over trade policies could significantly undermine the stability of the global economy. The conflict in Ukraine and the imposition of broad economic sanctions on Russia could raise energy prices and disrupt global markets. There have been concerns over unrest and terrorist threats in the Middle East, Europe and Africa, which have resulted in market volatility in oil and other markets, and over the expansion of terrorist activities into Europe and other regions.

China’s economy conditions are closely connected with the global economy and prone to changes in domestic economic and political policies. Currently, our business and operations are based in Chinese Mainland and a majority of our revenue is derived from our operations in Chinese Mainland. Accordingly, our financial results have been, and are expected to continue to be, affected by the economy and the development of the TCM industry in Chinese Mainland. Any severe or prolonged slowdown in the global economy may materially and adversely affect our business, results of operations and financial condition.

**Fluctuations in exchange rates could result in foreign currency exchange losses and could materially reduce the value of your [REDACTED].**

The [REDACTED] from the [REDACTED] will be received in Hong Kong dollars. As a result, any appreciation of the Renminbi against the Hong Kong dollar, the U.S. dollar or any other foreign currencies may result in the decrease in the value of our [REDACTED] from the [REDACTED]. Conversely, any depreciation of the Renminbi may adversely affect the value of, and any dividends payable on, our H Shares in foreign currency. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. Any of these factors could adversely affect our business, financial condition, results of operations and prospects, and could reduce the value of, and dividends payable on, our H Shares in foreign currency terms.

**We are a PRC tax resident and we are subject to PRC tax on our global income, and the dividends payable to [REDACTED] and gains on the [REDACTED] of our H Shares by our [REDACTED] are subject to PRC tax.**

As a PRC-incorporated company, under applicable PRC tax laws, we are subject to a tax of up to 25% on our global income. Under applicable PRC tax laws, regulations and statutory documents, non-PRC resident individuals and enterprises are subject to different tax obligations with respect to dividends received from us or gains realized upon the sale or other disposition of our H Shares.

Non-PRC individuals are generally subject to PRC individual income tax under the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) with respect to PRC source income or gains at a rate of 20%. While we generally withhold 10% from dividends paid to H Share holders, this rate may vary based on applicable tax treaties or increase to 20% if no treaty applies where the holder’s identity is known. There is uncertainty as to whether gains realized upon disposition of H shares by non-PRC individuals are subject to PRC individual income tax.

Non-PRC resident enterprises without establishments or premises in the PRC, or those whose income is unrelated to their establishments or premises are subject to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (“the EIT”) at the rate of 10% on dividends and gains, unless be reduced or eliminated under special arrangements or applicable treaties. We intend to withhold tax at a rate of 10% from dividends. Enterprises entitled to lower treaty rates will

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be required to apply for a refund subject to regulatory verification. As of the Latest Practicable Date, there were no specific rules on how to levy tax on gains realized by non-resident enterprise holders of H Shares through the sale or transfer by other means of H Shares.

The interpretation and application of the relevant PRC tax laws by the PRC tax authorities shall be determined in accordance with the relevant laws and regulations in effect at that time, including whether and how individual income tax or EIT Law on gains derived by holders of our H Shares from their disposition of our H Shares may be collected. If any such tax is collected, the value of our H Shares may be materially and adversely affected.

**You may experience difficulties in effecting service of process upon or enforcing foreign judgments against us or our Directors or officers.**

Most of our assets are situated in the PRC and most of our directors and officers reside and most of their respective assets are located in the PRC. Therefore, there remains the possibility that it may be difficult to effect service of process outside the PRC upon most of our directors and officers, including with respect to matters arising under applicable securities laws. Additionally, as the PRC lacks reciprocal treaties with many countries, you may face difficulties enforcing foreign judgments against us or our management in the PRC. On January 29, 2024, 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》), came into effect, which stipulates that a judgment rendered by a Hong Kong court can generally be recognized and enforced in the PRC even if the parties in the dispute do not enter into a choice of court agreement in writing. However, we cannot guarantee that all judgments made by Hong Kong courts will be recognized and enforced in the PRC, as they remain subject to case-by-case examination by relevant courts.

**The approval, filing or other requirements of the CSRC or other PRC government authorities may be required under PRC laws.**

On February 17, 2023, the CSRC promulgated the Trial Administrative Measures of the Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市管理試行辦法》) (the “**Overseas Listing Trial Measures**”) and five supporting guidelines, which has come into effect on March 31, 2023, pursuant to which the PRC domestic companies that seek to offer and list securities in overseas markets, either in direct or indirect means, are required to fulfill the filing procedure with the CSRC and report relevant information. Where an issuer submits an application for initial public offering to competent overseas regulators, filing application with the CSRC shall be submitted within three business days thereafter. Subsequent securities offering of an issuer in the same overseas market where it has previously offered and listed securities shall be filed with the CSRC within three business days after the offering is completed. Subsequent securities offering and listing of an issuer in other overseas markets shall be filed as initial public offering.

Moreover, upon the occurrence of any of the material events specified below after an issuer has offered and listed securities in an overseas market, the issuer shall submit a report thereof to CSRC within three business days after the occurrence and public disclosure of the event: (i) change of control; (ii) investigations or sanctions imposed by overseas securities regulatory agencies or other relevant competent authorities; (iii) change of listing status or transfer of listing segment; (iv) voluntary or mandatory delisting. Where an issuer’s main business undergoes material changes after overseas offering and listing, and is therefore beyond the scope of business stated in the filing documents, such issuer shall submit to the CSRC an ad hoc report and a relevant legal opinion issued by a domestic law firm within three business days after occurrence of the changes. See “Regulatory Overview — Regulations Related to Overseas Securities Offering and Listing.”

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Based on the foregoing, we will be required to complete the filing procedures with the CSRC in connection with the [REDACTED] in accordance with the Overseas Listing Trial Measures. We may fail to complete such filing or meet the requirements in a timely manner or at all, which may subject us to rectification order, warning, or fines, and thus materially and adversely affect our reputation, business, financial condition, results of operations and prospects, as well as the [REDACTED] of our H Shares.

### RISKS RELATING TO OUR FINANCIAL PERFORMANCE

**Our success depends, in part, on our ability to successfully manage our inventories.**

We consider a number of factors when we manage the inventory levels for our production and sales operation, including the lead time to procure principal raw materials, our production schedule and price trends of principal raw materials. As of December 31, 2023, 2024 and 2025, we had inventories of RMB218.5 million, RMB243.0 million and RMB246.2 million, respectively. In 2023, 2024 and 2025, our inventory turnover days were 74 days, 81 days and 83 days, respectively. We face difficulty in accurately projecting optimal inventory levels to stock in our warehouse. Inventory levels in excess of the demand may result in inventory obsolescence, inventory write-downs or expiration of products. High inventory levels may also require us to commit substantial capital resources, preventing us from deploying our capital resources for other important business opportunities. Conversely, if we underestimate the demand for our products or if our suppliers fail to provide us with raw materials in a timely manner, we may experience inventory shortages. Such inventory shortages might result in unfilled customer orders and have a negative impact on our relationship with distributors. We cannot assure you that we will be able to maintain proper inventory levels for our operations and such failure may have an adverse effect on our business, financial condition and results of operations.

**We are subject to credit risk and counterparty risk of our customers. Any delays in collecting or failure to collect payments from our customers could adversely affect our financial condition or results of operations.**

As of December 31, 2023, 2024 and 2025, our trade receivables were RMB508.1 million, RMB566.4 million and RMB616.3 million, respectively. Our trade receivables primarily consist of outstanding settlements from TCM hospital customers. The increased amount of our trade receivables exposes us to increased credit risk. We cannot assure you that in the future, we will be able to recover all the trade receivables. Should we fail to recover all the trade receivable, it will adversely affect our business, financial condition and results of operations. As a result, any default by such counterparty and a prolonged delay in the payment of trade receivable could adversely affect our cash flow, liquidity, business, financial condition and results of operations.

**We incurred net operating cash outflows in 2024, which may continue into the foreseeable future and expose us to liquidity risk.**

We had net cash generated from operating activities of RMB154.1 million for the year ended December 31, 2025 primarily due to an decrease in pledged deposit and increase in sales collection. We had net cash generated from operating activities of RMB74.9 million and net cash used in operation activities of RMB0.5 million for the years ended December 31, 2023 and 2024, respectively. We may experience net cash outflows from our operating activities from time to time. See also “Financial Information — Liquidity and Capital Resources.” Our forecast of the period of time through which our capital resources will be adequate to support our operations is a forward-looking statement and involves risks and uncertainties. We have based this estimate on assumptions that may prove to be wrong, and we could exhaust our available capital resources sooner than we currently expect.

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### **We are subject to various risks relating to third-party payment arrangements.**

During the Track Record Period, some of our customers settled their payments with our Group through accounts of third-party payors designated by these customers, primarily their legal representatives, employees, spouses and other family members, friends, and business partners, at their requests (the “**Third-Party Payment Arrangement(s)**”). As confirmed by Frost & Sullivan, it is not uncommon for customers to use third-party payors to settle corporate transactions with their suppliers due to convenience and flexibility. In 2023, 2024 and 2025, the aggregate amount of payments under the Third-Party Payment Arrangement(s) was RMB3.7 million, RMB5.0 million and RMB0.9 million, respectively, representing approximately 0.3%, 0.4% and 0.1% of our total revenue for the respective years. For additional information, see “Business — Sales and Marketing — Third-Party Payment Arrangements.”

We face various risks associated with the Third-Party Payment Arrangements during the Track Record Period, including (i) possible claims from third-party payors seeking the return of funds as they were not contractually indebted to us, (ii) potential claims from liquidators of such third-party payors, and (iii) potential money laundering risks due to our limited knowledge about the source and purpose of funds used by third-party payors. In case of claims or legal proceedings, whether civil or criminal, demanding payment return or alleging violation of laws, we would need to allocate significant financial and managerial resources for defense. Compliance with court rulings may result in returning payment for products and services sold to customers, which may materially and adversely affect our business, results of operations and financial conditions

### **We may not be able to obtain additional capital when desired, on favorable terms or at all.**

We may require additional cash resources for future growth and development of our business, including any investments or acquisitions we may decide to pursue to expand our new business initiatives. If our cash resources are insufficient to satisfy our cash requirements, we may seek to issue additional equity or debt securities or obtain new or expanded credit facilities. Our ability to obtain external financing in the future is subject to a variety of uncertainties, including our future financial condition, results of operations, cash flows, share price performance, liquidity of international capital and lending markets and the PRC governmental regulations over foreign investment and the PRC pharmaceutical and healthcare industry. In addition, incurring indebtedness would subject us to increased debt service obligations and could result in operating and financing covenants that would restrict our operations. There can be no assurance that financing would be available in a timely manner or in amounts or on terms favorable to us, or at all. Any failure to raise needed funds on terms favorable to us, or at all, could severely restrict our liquidity as well as have a material and adverse effect on our business, financial condition and results of operations.

### **RISKS RELATING TO THE [REDACTED]**

**No [REDACTED] currently exists for our H Shares. An active [REDACTED] market for our H Shares may not develop and the [REDACTED] and [REDACTED] of our H Shares maybe volatile.**

No [REDACTED] currently exists for our H Shares. The initial [REDACTED] for our H Shares to the public will be the result of negotiations between our Company and the [REDACTED], and the [REDACTED] may differ significantly from the [REDACTED] of the H Shares following the [REDACTED]. We have applied to the Stock Exchange for the [REDACTED] of, and permission to [REDACTED], the H Shares. A [REDACTED] on the Stock Exchange, however, does not guarantee that an active and liquid [REDACTED] for our H Shares will develop, or if it does develop, that it will be sustained following the [REDACTED], or that the [REDACTED] of the H Shares will not decline following the [REDACTED].

The [REDACTED] and [REDACTED] of our H Shares may be subject to significant volatility in response to various factors beyond our control, including the general market conditions of the securities in Hong Kong and elsewhere in the world. In particular, the business, results of operations and the [REDACTED] of the shares of other companies engaging in similar business

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may affect the [REDACTED] and [REDACTED] of our H Shares. In addition to market and industry factors, the [REDACTED] and [REDACTED] of our H Shares may be highly volatile for reasons specific to our business, such as regulatory developments and healthcare policies directly affecting us, fluctuations in our cash flows, investments and expenditures, relationships with our suppliers, movements or activities of key personnel or actions taken by competitors, among others. Moreover, shares of other companies listed on the Stock Exchange have experienced price volatility in the past, and it is possible that our H Shares may be subject to changes in [REDACTED] not directly related to our performance.

**The [REDACTED] of our H Shares when [REDACTED] begins could be lower than the [REDACTED].**

The [REDACTED] to the public of our H Shares [REDACTED] in the [REDACTED] is expected to be determined on the [REDACTED]. However, the H Shares will not commence [REDACTED] on the Stock Exchange until they are delivered, which is expected to be several business days after the [REDACTED]. As a result, [REDACTED] may not be able to [REDACTED] or otherwise [REDACTED] the Shares during that period. Accordingly, [REDACTED] of our H Shares are subject to the risk that the [REDACTED] of the H Shares when [REDACTED] begins could be lower than the [REDACTED] as a result of adverse market conditions or other adverse developments that may occur between the time of [REDACTED] and the time [REDACTED] begins.

**Our Controlling Shareholders have substantial influence over our Company and its interests may not be aligned with the interests of our other Shareholders.**

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

**Future [REDACTED] or perceived [REDACTED] or conversion of significant amounts of our H Shares in the [REDACTED] following the [REDACTED] could materially and adversely affect the [REDACTED] of our H Shares.**

Prior to the [REDACTED], there has not been a [REDACTED] for our H Shares. Future [REDACTED] or perceived [REDACTED] of significant amounts of our H Shares or conversion of the Unlisted Shares, if any, by specific Shareholders subject to certain regulatory requirements, after the [REDACTED] could result in a significant decrease in the prevailing [REDACTED] of our H Shares. Nevertheless, after these restrictions lapse or if they are waived, future [REDACTED] of significant amounts of our H Shares in the [REDACTED] or the perception that these [REDACTED], or conversion of existing Unlisted Shares, if any, may occur could significantly decrease the prevailing [REDACTED] of our H Shares and our ability to raise equity capital in the future.

**You will incur immediate and significant dilution and may experience further dilution if we [REDACTED] additional Shares or equity securities in the future.**

The [REDACTED] of the H Shares is higher than the net tangible asset value per H Share immediately prior to the [REDACTED]. Therefore, [REDACTED] of the H Shares in the [REDACTED] will experience an immediate dilution. In order to expand our business, we may consider [REDACTED] and [REDACTED] additional Shares in the future. [REDACTED] of the H Shares may experience dilution if we [REDACTED] additional Shares in the future at a

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[REDACTED] which is lower than the net tangible asset value per Share at that time. Furthermore, we may [REDACTED] Shares through the employee incentive platforms, which would further dilute Shareholders’ interests in our Company.

**Payment of dividends is subject to restrictions under the PRC law and there is no assurance whether and when we will pay dividends.**

Under the applicable PRC laws, the payment of dividends may be subject to certain limitations. The calculation of our profit under applicable accounting standards differs in certain respects from the calculation under IFRS Accounting Standards. As a result, we may not be able to pay a dividend in a given year even if we were profitable as determined under IFRS Accounting Standards. Our Board may declare dividends in the future after taking into account our results of operations, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the PRC laws and regulations and requires approval at our shareholders’ meeting. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution.

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

Our management may spend the [REDACTED] from the [REDACTED] in ways you may not agree with or that do not yield a favorable return to our Shareholders. We plan to use a significant portion of the [REDACTED] from the [REDACTED] for the purposes as stated in the section headed “Future Plans and [REDACTED].” However, our management will have discretion as to the actual application of our [REDACTED]. You are entrusting your funds to our management, whose judgment you must depend on, for the specific uses we will make of the [REDACTED] from the [REDACTED].

**Certain facts, forecasts and statistics in this document are derived from a third-party report or publicly available sources and may not be fully reliable.**

Certain statistics, information and data contained in this document relating to China and elsewhere in the world, and the industry in which we operate have been derived from various official government publications or other third-party reports. In particular, we have extracted and disclosed in this document certain statistics, information and data from publications and other publicly available sources relating to the products of third parties and scientific research, theories and mechanisms. We have taken reasonable care in the reproduction or extraction of the official government publications and other third-party reports for the purpose of disclosure in this document. However, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by us, the [REDACTED] or any of their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such statistics, information and data, which may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods and analysis or discrepancies between published information and market practice, such statistics, information and data in this document may be inaccurate or may not be comparable to statistics, information and data produced with respect to other economies. Further, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as the case may be in other jurisdictions. In all cases, [REDACTED] should give consideration as to how much weight or importance they should attach to or place on such facts.

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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].**

Prior to the publication of this document, there has been coverage in the media regarding us and the [REDACTED], which contained among other things, certain financial information, projections, valuations and other forward-looking information about us and the [REDACTED]. We have not authorized the disclosure of any such information in the press or media and do not accept any responsibility for the accuracy or completeness of such media coverage or forward-looking statements. We make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the media. We disclaim any information in the media to the extent that such information is inconsistent or conflicts with the information contained in this document. Accordingly, prospective [REDACTED] are cautioned to make their [REDACTED] decisions on the basis of the information contained in this document only and should not rely on any other information.