

## RISK FACTORS

*You should carefully consider all of the information set out in this document, including the risks and uncertainties described below before making an investment in the [REDACTED]. You should pay particular attention to the fact that we are incorporated in the Cayman Islands and that a substantial part of our Group's operations are conducted in the PRC and are governed by a legal and regulatory environment that differs from that prevailing in other countries. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of the [REDACTED] could decline due to any of these risks, and you may lose all or part of your investment.*

### RISKS RELATING TO OUR BUSINESS AND OPERATIONS

**Our largest supplier accounted for over 70% of our total purchases throughout the Track Record Period. If our relationship with it deteriorates or terminates, our business and results of operations would be adversely affected.**

During the Track Record Period, we procured most of the medical imaging film products from Honghe Group. For each of the three years ended 31 December 2021 and the six months ended 30 June 2022, our purchase from Honghe Group amounted to approximately RMB91.8 million, RMB84.5 million, RMB94.5 million and RMB37.0 million, respectively, representing approximately 83.1%, 77.0%, 73.8% and 73.0% of our Group's total purchase for the relevant period, respectively. For information on the reasons for and other details of our relationship with Honghe Group, please refer to the section headed "Business — Our Suppliers — Relationship with Honghe Group" in this document.

We have entered into a framework distribution agreement with Honghe Group for the supply of medical imaging film products for a term of ten years. However, there is no assurance that we are able to maintain business relationship with Honghe Group or there may be unfavourable changes in our current arrangement, such as a substantial reduction of its volume of supply to us or an unexpected termination of its relationship with us for any reason. If Honghe Group terminates or does not renew the agreement with us, we cannot assure that we can continue to source the aforesaid medical imaging film products from it. If we are unable to do so, our performance and financial results would be materially and adversely affected.

The stability of operations and business strategy of Honghe Group which are beyond our control will also affect us. Any material disruption to its operations due to natural or other causes, such as weather, riots, natural disaster, fire or other technical and mechanical problems could adversely affect our inventory levels and results of operations could be adversely affected. If Honghe Group changes its business strategy substantially, for instance, with regards to its brand management, distribution channel and geographical coverage, it could reduce its volume of supply to or cease business relationship with us, which could in turn materially affect our volume of business and performance.

Also, if the distributorship relationship between the Medical Imaging Products Manufacturer and Honghe Group are terminated for any reasons which renders Honghe Group unable to provide any medical imaging film products manufactured by the Medical Imaging Products Manufacturer to us, our business relationship with Honghe Group may be adversely affected, in which case our performance and financial results would be materially and adversely affected.

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Any insufficient supply and fluctuations in inventory levels due to a substantial reduction of volume of supply by Honghe Group and our failure to obtain substitutes of products could impact our ability to provide products and services to our customers in a timely manner and harm our reputation, which could in turn result in lost sales opportunities or delayed revenue as potential customers could turn to competitors' services that are readily available.

There can be no assurance that we will be able to source the medical imaging film products on similar terms under which we sourced from Honghe Group during the Track Record Period or on commercially acceptable terms, particularly so when we source from a new supplier with whom we have yet to develop a strong and mutually dependent business relationship. If we fail to secure any new brand or if the new brand fails to generate sufficient sales due to ineffective marketing strategies or other reasons, our revenue will be materially and adversely affected.

### **Our business operation, financial results and our cashflow may be adversely affected if the “Two Invoice System” is fully implemented in medical imaging films industry in Shandong Province.**

As part of the measures for the PRC healthcare system reform, the State Council together with seven other central government departments (including the NHFPC and the State Administration of Food and Drug) jointly issued the Notice on Opinions on the Implementation of the Two Invoice System in Drug Procurement by Public Medical Institutions (for Trial Implementation) (《關於在公立醫療機構藥品採購中推行兩票制的實施意見(試行)》) on 26 December 2016. Pursuant to the above notice, public medical institutions are required to implement the “Two Invoice System” for drug procurements gradually and encourage other medical institutions to promote the same with an aim to promote the “Two Invoice System” across the nation by 2018. The aim of the “Two Invoice System” is to only allow a maximum of two invoices to be issued in the value chain with the first invoice to be issued by manufacturers to distributors and the second one to be issued by distributors to hospitals and healthcare institutions.

On 5 March 2018, six government departments including the National Health Commission and MOF jointly issued the Notice on Consolidating the Achievements of Cancelling Drug Markups and Deepening Comprehensive Reforms in Public Hospitals (《關於鞏固破除以藥補醫成果持續深化公立醫院綜合改革的通知》), which stipulates the implementation of the centralised purchase of high value medical consumables, and that the “Two Invoice System” in relation to high-value medical consumables shall be gradually implemented. According to the General Office of the State Council issued the Notice on Printing and Distributing the Reform Plan for the Management of High-value Medical Consumables (《關於印發〈治理高值醫用耗材改革方案〉的通知》) issued on 19 July 2019, high-value medical consumables refer to the medical consumables that are directly used for human bodies, and are strictly required for safety, and are in great clinical demand and priced relatively high, and can impose heavy burdens on patients for affording them. On 30 September 2019, ten local government departments of Shandong Province including Health Committee of Shandong Province (山東省衛生健康委員會) (the “**Health Committee**”) issued the Notice on “Two Invoice System” Implementation Plan in Medicines Procurement by Public Medical Institutions in Shandong Province (《關於印發〈山東省公立醫療機構藥品採購推行“兩票制”實施方案〉的通知》), which stipulates that all public medical institutions in Shandong Province shall implement the “Two Invoice System” on the procurement of drugs from 30 October 2019. As at the Latest Practicable Date, according to the Health Committee, Shandong Province was yet to implement the “Two Invoice System” on the procurement of high-value or low-value medical consumables and it has no concrete plan to implement the “Two Invoice System” on the procurement of

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medical consumables in Shandong Province. As advised by our PRC Legal Advisers, the Health Committee is the competent authority to consult with in respect of the implementation of the “Two Invoice System” in Shandong Province. Please refer to the section headed “Regulatory Overview — Two Invoice System” in this document for more details on the implementation of the “Two Invoice System” in the PRC and please refer to the section headed “Business — Two Invoice System — Potential impacts of the “Two Invoice System” on our business operation” in this document for more details on the PRC Legal Advisers’ views that the Health Committee is the competent authority to consult with the implementation of the “Two Invoice System”.

Given other provinces such as Anhui Province and Fujian Province have implemented “Two Invoice System” on high-value medical consumables as at the Latest Practicable Date, the implementation of such policy in Shandong Province may be faster than expected. For details of the regulatory development regarding the implementation of the “Two Invoice System” for each of the provinces in the PRC at the Latest Practicable Date, please refer to the section headed “Regulatory Overview — Laws and Regulations relating to Medical Devices — Two Invoice System” in this document.

Except for our self-branded products and our provision of maintenance services, we sourced medical dry laser films and self-service film output printers from Honghe Group, the Tier-1 distributor of the Medical Imaging Products Manufacturer in Shandong Province as at the Latest Practicable Date. Please refer to the paragraph headed “Business — Two Invoice System” in this document for a detailed analysis on the potential impact of the “Two Invoice System” on our current business operation. In the event that the “Two Invoice System” is fully implemented, our sale of medical imaging films and self-service film output printers of the Medical Imaging Products Manufacturer will possibly to be counted as the third invoice which is not permitted under the “Two Invoice System”, and we may have to discontinue such mode of business operation. During the Track Record Period, our revenue attributable to the sale of medical imaging film and self-service film output printers of the Medical Imaging Products Manufacturer were approximately RMB114.8 million, RMB131.0 million, RMB142.1 million and RMB63.4 million, respectively, representing approximately 89.1%, 75.8%, 72.1% and 68.4% of the total revenue of our sale of medical imaging film products business and approximately 81.5%, 71.1%, 67.3% and 64.3% of our total revenue for the same periods, respectively. In the event that the “Two Invoice System” is fully implemented, our Group’s business operation and financial performance going forward may be adversely affected.

For further details, please refer to the section headed “Business — Two Invoice System” in this document.

**Rapid changes in the medical imaging industry may render the traditional medical imaging films market be completely phased out and the products we distribute obsolete. If we fail to effectively respond or adapt to market changes for our products, our business, financial position and prospects could be materially and adversely affected.**

During the Track Record Period, we derived a significant proportion of our total revenue from our sale of medical imaging film products. Our sale of medical imaging film products accounted for approximately 91.5%, 93.7%, 93.3% and 94.1% of our total revenue for the three financial years ended 31 December 2021 and the six months ended 30 June 2022. We cannot assure that our future sales of our medical imaging film products will generate revenue and profit at a level comparable that of our

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historical sales. If the market demand for medical imaging film products decreases in the future or if we fail to develop or distribute new medical imaging film products which appeal to our customers, our business and financial position could be adversely affected.

The medical imaging industry is characterised by rapid changes in technology, constant enhancement of industrial know-how and frequent emergence of new products. Future technological improvements and continual product developments in the medical imaging industry may render existing products distributed by us obsolete or affect our viability and competitiveness. Therefore, our future success will largely depend on our ability to: (i) diversify the portfolio of products we distribute; and (ii) source and develop new and competitively priced products which meet the requirements of the constantly changing market. If we fail to respond to this environment by sourcing or developing new products in a timely fashion, or if the products we distribute do not achieve adequate market acceptance, our business and profitability may be materially and adversely affected.

Moreover, the healthcare systems in developed countries started the shift from traditional medical imaging films to digital films for over two decades, and digitisation in medical imaging has since gradually become a global trend. Presently, medical imaging results along with other patient information are usually stored in medical institutions database and could be accessed online by physicians and patients through patient portal, where the patients can still request hard copies of their medical imaging examination results for purposes such as transferring between medical institutions. The shift to digital films mainly is to facilitate digital storage, access, and transmission of medical imaging data for purposes such as remote consultation and diagnosis. As a result, traditional medical imaging films may be subject to a significant decrease in demand due to digitisation in these developed countries and the traditional medical imaging films market may be completely phased out.

According to “Opinions of the General Office of the State Council on Promoting the Development of “Internet + Medical Health” (國務院辦公廳關於促進「互聯網+醫療健康」發展的意見) promulgated by the General Office of the State Council in 2018 and “Notice on Accelerating the Mutual Recognition of the Examination Results” (國家衛生健康委辦公廳關於加快推進檢查檢驗結果互認工作的通知) published by the National Health Commission in 2021, the PRC government called for the construction of the national and regional health platform, through the establishment of medical institutions examination database including “medical imaging cloud films” serving as the source of database, in order to promote the sharing of examination data, to achieve the interconnection and mutual recognition of examination data between medical institutions in the same region. Such an encouragement of the use of medical imaging cloud films by the PRC government may demonstrate an inevitable trend for hospital and/or medical institutions to shift from traditional medical imaging film products to medical imaging cloud films at both state and provincial levels, including Shandong Province.

In the event of the full replacement of traditional medical imaging film products with medical imaging cloud films at both state and provincial level, the market demand of our medical imaging film products may be significantly reduced and accordingly, our business and financial position derived from the traditional medical imaging film products business segment may be adversely affected.

The medical imaging cloud services market in China is highly competitive. Leveraging on their established cloud storage platforms and their competent research and development technical staff, some large-scale cloud services providers may be strategically focused on growing their customer base of medical imaging of cloud services even they incurred significant losses during the provision of medical

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imaging cloud services. Hence, we cannot ensure our medical imaging cloud services can compete with other large-scale cloud services providers with abundant financial resources and significant cost advantage. Further, we cannot ensure our medical imaging cloud services can fulfil our customer's requirement and survive in the industry competitor if we fail to anticipate future changes in relation to the technological advancement or implement our plans in response to such changes (for example, compete with other medical imaging cloud services providers). In such case, our business and profitability may be materially and adversely affected.

Our customers may have stringent requirements on supplier selection, technical competence, product quality and timing of delivery. We cannot assure you that we will be successful in continuing to meet their selection criteria, fulfil the required technical standards, maintain our product quality to their satisfaction or deliver our products to them in accordance with the agreed delivery schedule. If any of these factors materialises, we may lose our customers and business opportunities, and our business, financial position and prospects could be materially and adversely affected.

### **Our business depends on the level of activity and growth in the medical imaging industry in Shandong Province.**

Our customers are generally hospitals and healthcare institutions in Shandong Province. During the Track Record Period, all of our revenue were derived from our sales in Shandong Province. As our medical imaging film products and medical imaging cloud services are principally sold in Shandong Province, the demand for our products and services is predominantly dependent on the level of activity and growth in the medical imaging industry in Shandong Province, which in turn depends on factors such as general economic conditions, government policy, GDP growth, fixed asset investment, consumer confidence, inflation and demographic trends in Shandong Province. Our lack of geographical diversity exposes us to risks associated with fluctuations in the political and economic conditions of Shandong Province.

We have historically benefited from the growth in the economy of Shandong Province. We cannot assure you that the GDP, fixed asset investment or the demand for medical imaging film products and medical imaging cloud services in Shandong Province will continue to grow at historical rates, or at all. Any slowdown in the growth of Shandong Province's economy or a downturn in the medical imaging industry in Shandong Province could affect the demand for our products, which in turn could have a material and adverse effect on our business, financial condition and results of operations.

### **Failure to obtain, maintain or renew required government permits, licences and approvals could materially and adversely affect our business, results of operations, financial position and growth prospects.**

In accordance with applicable PRC laws and regulations, we are required to obtain and maintain different licences and permits for the sale of our products in the ordinary course of our business. Major aspects of our operations are regulated by comprehensive local, regional and national regulatory regimes. For example, pursuant to the applicable PRC laws and regulations, in addition to the registration certificates, companies engaging in the operation and sale of medical devices are required to obtain and maintain the Medical Device Business Operation Certificate (醫療器械經營許可證). For further details, please refer to the section headed "Regulatory Overview — Laws and Regulations relating to Medical Devices" in this document. Such permits, licences and certificates are subject to periodic reviews and renewals by relevant government authorities, and the standards of such reviews and

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renewals may change from time to time. As at the Latest Practicable Date, as confirmed by PRC Legal Advisers, all licences, permits and other necessary approvals required for our business operation are current and valid. Please refer to the section headed "Business — Licence and Permits" in this document for further details. We have never encountered any refusals or delays in renewing certain licences, permits and/or approvals during the Track Record Period. However, there can be no assurance that the authorities will approve our application for such permits, licences and certificates or their renewals in the future. Failure to comply with the relevant regulations or any loss of or failure to renew, obtain or maintain the relevant licences, permits and certificates necessary for our operations in the future could lead to penalties, fines, governmental sanctions, proceedings and/or temporary or permanent suspension of our business operation. If we fail to obtain, maintain or renew required government permits, licences and approvals, our business, results of operations, financial position and growth prospects could be materially and adversely affected.

Further, we intend to expand our value chain by diversifying our product offerings through the offering of mobile X-ray system and high pressure injector. According to the PRC Legal Advisers, our Group has to apply for the registration of the syringe of the high pressure injector as a Class III medical device and the mobile digital radiography system and the equipment of the high pressure injector as a Class II medical device and obtain the relevant medical device registration certificates before the launch of the products. For further details, please refer to the paragraph headed "Our Business strategies — Horizontally expand our value chain by broadening our product offerings" in the "Business" section. If we cannot obtain the relevant certificates or permits under our business strategies as planned, we may not be able to implement our business strategies and our future plan and our business, financial condition and results of operation may be adversely affected.

**Unpredictable regulatory changes may result in increased compliance costs or prevent our successful development, manufacture or commercialisation of products in the PRC, which would adversely affect our business, financial condition and results of operations.**

The regulatory framework for the medical imaging industry in the PRC is constantly evolving, and we expect it will continue to evolve. We cannot predict the likelihood, nature or extent of regulatory changes that may arise from existing or future legislation in the PRC. Furthermore, if the interpretation or implementation of the existing laws and regulations changes or new regulations come into effect, we may be required to obtain additional permits, licences or certificates. There is no assurance that we will respond successfully to such changes in a timely manner. Such changes may also result in increased compliance costs or prevent our successful development or commercialisation of products in the PRC, which would adversely affect our business, financial condition and results of operations.

**Any disruption to the supply, increase in the prices, or quality or safety problems of our raw materials could adversely affect our operation, turnover and profitability.**

Our business requires a number of raw materials including medical imaging films, accessories, packaging materials and equipment components. We rely on our suppliers to supply us with such raw materials. We may experience shortage in the supply of certain raw materials, in particular such specified raw materials, in the future due to various unforeseen events, which could materially and adversely affect our operation and results of operations. If any supplier is unwilling or unable to provide us with high quality raw materials in the required quantities or specifications and at acceptable prices,

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we may be unable to find alternative sources at commercially acceptable prices, on satisfactory terms, in a timely manner, or at all. Our inability to find or develop alternative sources could result in delays or reductions in operation, product delivery or a reduction in our profit margins.

We also cannot assure you that our suppliers will not intentionally or inadvertently contaminate our raw materials or provide us with sub-standard raw materials that will adversely impact the quality of our products. If we experience any quality or safety problems in relation to our raw materials, our product quality may be adversely affected, and we may have to recall our products from the market and 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 a judgment in favour of us, which may in turn materially and adversely affect our competitive position, reputation and business results.

**We may fail to effectively manage our deliverers. Actions taken by our deliverers in violation of the framework sales agreements could materially and adversely affect our business, prospects and reputation.**

Since it is the hospitals who select their deliverers in general, we have limited control over the performance, operations and actions of our deliverers. We rely on the framework sales agreements and the policies and measures we have in place to manage our deliverers, including their compliance with laws, rules, regulations and our policies. For further details, please refer to the paragraph headed "Our sales channels — Sales through deliverers" under the section headed "Business" in this document. We cannot guarantee that we will be able to effectively manage our deliverers, or that our deliverers would not breach our agreements and policies. If our deliverers take one or more of the following actions, our business, results of operations, prospects and reputation may be adversely affected:

- breaching the framework sales agreements or our policies and measures, including by selling products to customers other than their designated hospitals;
- failing to maintain the requisite licences, permits or approvals, or failure to comply with applicable regulatory requirements when selling our products; or
- violating anti-corruption, anti-bribery, competition or other laws and regulations of China or other jurisdictions.

Any violation or alleged violation by our deliverers of the framework sales agreements, our policies or any applicable laws and regulations could result in the erosion of our goodwill, a decrease in the market value of our brand and an unfavourable public perception about the quality of our products, resulting in a material adverse effect on our business, financial condition, results of operations and prospects.

**Our prospects are dependent upon the successful commercialisation of new or improved products that meet our customers' needs.**

Our ability to continue to develop and launch new and improved medical imaging products and expand our product portfolio is crucial to our continued success, and the prospects of our business are dependent upon the design, development and successful commercialisation of new medical imaging products which meet the evolving customer demands and expectations in a timely manner. We cannot

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guarantee that we will be successful in developing new products or that we will be able to identify promising product development opportunities. Development of new products and technologies and improvements of existing products and technologies require substantial technical, financial and human resources. For further details, please refer to the section headed "Business — Research and Development" in this document. However, the research and development process could be costly and time-consuming and there is no assurance that such costs will be accepted by our customers or we can complete our research projects within the anticipated timeframe. Any failure of these new products could have a material adverse effect on our financial performance and our reputation.

In addition, medical imaging technology is a fast-developing field with new breakthroughs being made and new treatments and technologies being developed frequently, and there is no assurance that we will always be able to respond to emerging market trends and introduce new products in a timely and effective manner. We cannot assure you that the results of our research and development projects will always lead to successful development of any new products and there may be a lack of market demand for such products. Such research and development projects, and other similar arrangements we may enter into in the future, could have the effect of limiting our ability to develop and commercialise new products. Moreover, our competitors may launch new and competing products ahead of us or market such products in a more effective manner, or our end customers may prefer their products. If we are unable to successfully and efficiently develop new products or expand our product line which meet market requirements and achieve market acceptance, we may not be able to retain or attract customers or generate revenue, and our business and financial condition may be materially and adversely affected.

### **Our medical imaging cloud service is still in a growing stage with relatively small revenue contribution.**

We tapped into the medical imaging cloud services market by providing hospitals and healthcare institutions with medical imaging cloud services in 2017. For the three years ended 31 December 2021 and the six months ended 30 June 2022, revenue generated from the provision of medical imaging cloud services amounted to approximately RMB11.9 million, RMB11.6 million, RMB14.2 million and RMB5.9 million, accounted for 8.5%, 6.3%, 6.7% and 5.9% of our total revenue for the same periods, respectively. As at 31 December 2019, 2020, 2021 and 30 June 2022, and the Latest Practicable Date, the number of customers subscribing for our cloud services was 42, 51, 53, 53 and 55, respectively.

The relatively small contribution of our medical imaging cloud services makes it difficult for us to assess our prospects or forecast our future results with respect to such business, which may be subject to many factors beyond our control. We cannot guarantee you that in the future, we will be able to secure popularity from our potential customers. If our medical imaging cloud services do not gain sufficient popularity or any future technology arise which is able to replace our medical imaging cloud services, our business and results of operation may be adversely affected.

### **Certain of our revenue is derived from contracts awarded through competitive tendering which are non-recurring in nature and there is no guarantee that we will succeed in the tender process or our customers will award new contracts to us in the future.**

For the three years ended 31 December 2021 and the six months ended 30 June 2022, approximately 0.8%, 7.5%, 20.2% and 22.8% of our revenue were generated from tendering, respectively, and our tender success rates were approximately 60.0%, 70.0%, 80.0% and 100% for the same period. There is no assurance that we will be invited to or are made aware of the tendering process



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or that we will succeed in the tender process in the future. There is also a risk that our Group may not be awarded with new contracts by customers upon the expiry of the contracts on hand and there is no assurance we will be able to maintain or increase our success rate in obtaining tender and quote in the future. In the event that we are unable to secure new contracts, our results of operations, financial condition as well as business prospects may be materially and adversely affected.

### **The track record of our self-branded medical imaging film products is relatively short.**

We started to supply our self-branded medical imaging film products in Shandong Province in 2018. The sale of medical imaging film products of our own brand constitute approximately 9%, 19%, 28% and 32% of our revenue under the medical imaging film products business segment during the Track Record Period.

The relatively short operating history in our self brand makes it difficult to evaluate the prospects and financial results of generated therefrom. We face certain risks related to our self brand, including, we may not able to successfully compete with other market players. If we are not able to meet the challenges of building, marketing and managing our self-branded business, our business and profitability may be adversely affected.

### **We currently do not own manufacturing facilities for our raw materials.**

As at the Latest Practicable Date, we do not own manufacturing facilities for producing raw materials. As a result, we rely on certain suppliers to supply us with raw materials and/or the finished goods. Any failure to secure a stable supply for raw materials and/or finished goods from our suppliers or on similar terms may adversely affect our business and results of operation.

### **We have limited control over the quality, availability and costs of our OEM manufacturers.**

During the Track Record Period, we engaged OEM manufacturers for the provision of OEM medical imaging film products. Our OEM manufacturers are specialised in the production of medical imaging film products. During the Track Record Period, our OEM expenses incurred were approximately RMB6.7 million, RMB14.1 million, RMB33.1 million and RMB13.3 million. We were responsible for the standard of work provided by our OEM manufacturers. In order to control and ensure the quality and progress of their products, OEM manufacturers were evaluated based on, among others, (i) its infrastructure and production capacity; (ii) licences held; (iii) financial condition; and (iv) its ability to meet the specific quality and quantity for medical imaging film products. To monitor our OEM manufacturers and to ensure their service quality is up to standard, we implement stringent quality requirements on the products. For details, please refer to the section headed "Business — Our Suppliers — OEM manufacturers" in this document.

Our Directors confirm that the Group did not receive any material claims or complaints by our customers in respect of the quality of our products produced by our OEM manufacturers nor experience any material delay in the provision of products by our OEM manufacturers which has caused disruption to our Group's operation during the Track Record Period. However, despite the regular monitoring and quality checks on the performance of our OEM manufacturers, we may not be able to monitor our OEM manufacturers as closely and as effectively as our own staff. We cannot assure you that each of our OEM manufacturers has the level of skill and competence required by us. If the products produced rendered by the OEM manufacturers are not timely delivered or where product defect arises, we may

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incur extra costs in carrying out replacement or subsequent maintenance and remedial work. Extra costs may also be incurred for engaging alternative OEM manufacturers or to compensate our customers, which in turn would affect our results of operations and profitability.

**If our customers fail to comply with the applicable laws and regulations governing public tenders in the PRC, our business, financial conditions and results of operations may be adversely affected.**

The Law of the PRC on Government Procurement (《中華人民共和國政府採購法》) (the “**Procurement Law**”) promulgated by the Standing Committee of the NPC on 29 June 2002 and last amended and implemented on 31 August 2014 sets forth a set of mandatory public procurement requirements that certain public institutions including public hospitals have to follow. Therefore, certain of our customers are required to participate in the procurement process pursuant to the Procurement Law. For details of the Procurement Law, please refer to the paragraph headed “Procurement of Medical Devices by public hospital and healthcare institutions” under the section headed “Regulatory overview” in this document. Our Directors confirm that, during the Track Record Period, our Group had not experienced incident that our customers did not comply with the mandatory public procurement requirement which had materially affected our Group. Nonetheless, we cannot assure you that our customers are presently or will always be in compliance with the applicable PRC laws and regulations regarding procurement process. As advised by our PRC Legal Advisers, if any of our customers fails to comply with the mandatory public procurement requirement, the relevant unperformed sales contract may be rendered invalid, which may lead to our failure to collect the payment under the relevant contract and would adversely affect our business, financial condition, results of operations and prospects.

**If the PRC government decides to impose price control on our products or services, our business, profitability, results of operations and prospects would be materially and adversely affected.**

There is currently no price control imposed by the PRC government in relation to our medical imaging film products and medical imaging cloud services distributed or sold in the PRC whereas the prices of certain pharmaceutical products sold in the PRC, primarily those included in the national and provincial medical insurance catalogue, are subject to price controls mainly in the form of fixed prices or price ceilings. Manufacturers and distributors cannot set the actual price for any given price-controlled product above the price ceiling or deviate from the fixed price imposed by the government.

In the recent years, the PRC government has been making continuous and increasing efforts in stepping up the healthcare system reform. We are unable to predict any future changes to the price control policy to be adopted by the PRC government in our industry. In the event of any changes in such policy resulting in all or some of our products and services being subject to price control, our business, profitability, results of operations and prospects would be materially and adversely affected.

**If we fail to maintain or obtain applicable regulatory clearances or approvals for our existing or new products, or if such clearances or approvals are delayed, we will be unable to commercially distribute and market our products at all or in a timely manner, which could significantly disrupt our business and materially and adversely affect our sales and profitability.**

The sales and marketing of our products are subject to regulation in the PRC. The processes for obtaining regulatory clearances or approvals can be lengthy and expensive, and the results are unpredictable. In addition, the relevant regulatory authorities may introduce additional requirements or

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procedures that have the effect of delaying or prolonging the regulatory clearance or approval for our existing or new products. If we are unable to obtain clearances or approvals needed to market existing or new products, or obtain such clearances or approvals in a timely fashion, our business would be significantly disrupted, and our sales and profitability could be materially and adversely affected.

**If we fail to maintain an effective quality assurance and control system, our business could be materially and adversely affected.**

We place great emphasis on product quality and adhere to stringent quality assurance and control measures. To meet our customers' requirements and expectations on the quality and safety of our products, we have adopted quality control procedures to implement stringent measures from procurement of raw materials and equipment to completion and inspection of our products to ensure that our operation is strictly monitored and managed. Please see the section headed "Business — Quality Control and Assurance" for further information.

Failure to maintain an effective quality control and assurance system or to obtain or renew our quality standards certifications may result in a decrease in demand for our products, or product return or loss of purchase orders from our customers. Moreover, our reputation could be impaired. As a result, our business and results of operations could be materially and adversely affected.

**We are subject to product liability exposure and have limited insurance coverage. Any product liability claims or safety-related regulatory actions could require us to pay substantial damages, harm our reputation and materially and adversely affect our business, financial condition and results of operations.**

Our products are used in the medical and healthcare field. Accordingly, our products expose us to potential product liability claims if their use causes or is alleged to have caused adverse effects. Product liability claims against our products may include allegations of defects in design and manufacturing, improper handling or transportation of products, negligence, strict liability and a breach of warranties. We may be subject to product liability claims if our products have latent quality issues that were undetected during our inspections and quality control. Even if our products do not have latent defects, other factors that are out of our control, such as the quality and skill of physicians using our products, may affect the safety and performance of our products. Patients may still initiate legal proceedings against us under such circumstances, and the hospitals and physicians may claim, with or without merit, that our products have latent defects. Regardless of the merits or eventual outcome, liability claims may result in:

- decreased demand for our products;
- damage to our reputation;
- losses of financial resources and consuming the time and attention of our management to defend the related litigation;
- diversion of management's time and our resources;
- substantial monetary compensation to trial participants or patients;

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- product recalls, withdrawals or marketing or promotion restrictions;
- loss of revenue;
- the inability to commercialise our pipeline products; and
- a decline in our [REDACTED] price.

Any product liability claim or regulatory action, with or without merit, could be costly and time-consuming to defend. If the product liability claims were successful, we may be required to pay substantial damages. Further, in any such event, our business, financial condition and results of operations would be adversely and materially affected.

**If we fail to accurately project demand for our medical imaging film products, we may encounter problems of inadequate supply or oversupply, which would materially and adversely affect our financial condition and results of operations, as well as damage our reputation.**

Our customers typically order our medical imaging film products by purchase order. We project demand for our medical imaging film products and formulate our operation and procurement plan primarily based on the existing inventory level, customer demand based on estimates and confirmed sales orders provided by the sales department and market conditions. Lack of significant order backlog and the fluctuating sales and purchasing cycles of our customers, however, make it difficult for us to project future demand accurately at all times.

It is difficult for us to accurately project the demand of our medical imaging film products as adequate information, on which we base our projections, may not be available. If we overestimate the demand for our products, we may purchase more raw materials or finished goods than required. But if we underestimate such demand, our suppliers may have inadequate raw materials or product inventories, which could interrupt our manufacturing and delay delivery and could result in lost sales. Our inability to accurately predict the demand for our medical imaging products and to meet such demand in a timely manner could materially and adversely affect our financial conditions and results of operations as well as damage our reputation and corporate brand.

**We recorded negative operating cash flows during the Track Record Period.**

We had negative cash flow from operating activities of approximately RMB2.3 million for the six months ended 30 June 2022, which was primarily the result of the increase of RMB29.8 million in trade and bills receivables because most of the trade receivables were not fall due for the sales we made in the previous year, while we continued to record sales during the six months ended 30 June 2022. For further information, please refer to “Financial Information — Discussion of certain items from the consolidated statements of financial position — Trade and bills receivables” and “Financial Information — Liquidity and Capital Resources”.

Although we believe that the negative cash flow from operating activities for the six months ended 30 June 2022 is temporary, and that we are able to improve our cash flow during the ordinary course of business in the subsequent period, given our liquidity management measures in place, we cannot assure you that we will be able to generate positive cash flows from operating activities in the future. Our liquidity and financial condition may be materially and adversely affected should our future operating

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cash flow remain negative, and we cannot assure you that we will have sufficient cash from other sources to fund our operations. If we resort to other financing activities to generate additional cash, we will incur additional financing costs and we cannot guarantee that we will be able to obtain the financing on terms acceptable to us or at all.

### **We may not be able to efficiently manage our inventory risks.**

For the three years ended 31 December 2021 and the six months ended 30 June 2022, our Group's inventories were approximately RMB34.2 million, RMB21.6 million, RMB12.6 million and RMB3.4 million respectively. We depend on our demand forecasts to make operation decisions and to manage our inventory.

During the Track Record Period, our Group was able to maintain a reasonable inventory level of finished goods of approximately one to three months to ensure sufficient products in stock to meet our sales projection and the demand of our customers. For the three years ended 31 December 2021 and the six months ended 30 June 2022, our Group's average inventory turnover days were 110 days, 85 days, 46 days and 25 days, respectively. However, we cannot guarantee that we will be able to maintain a proper level of inventory for our products and raw materials. In the event that the amount of sales orders from our customers differs significantly from what we purchase from our suppliers or in the quantities we expect, our inventory level might increase or decrease to an excessive level. Inventory levels in excess of product demand may result in inventory write-downs, expiration of products and increase in inventory holding costs. Conversely, we may experience inventory shortages if we underestimate the demand for our medical imaging products, which may result in unfilled orders and have a negative impact on our relationship with customers. Further, there is no assurance that our customers will not return the products placed with us due to the change of their technical specifications or requirements of the products including brands and sizes of medical imaging films and if it happens, we may not be able to resell those products or to sell them in time before their respective expiry dates. If any of these events happen in the future, our financial condition and cash flow could be materially and adversely affected.

### **Our sales may be materially and adversely affected by the delay in the delivery of our products to customers or poor handling by third-party transportation service providers.**

We have a logistic team and two self-owned vehicles specifically used for delivering and transporting the products from our warehouse to destinations designated by our customers. During the Track Record Period, we only engaged one logistics company to deliver our products to customers. For details, please refer to the section headed "Business — Logistical Arrangements" in this document. Our timely delivery depends on, among others, the service quality of our transportation teams and the third-party transportation service providers. Any failure to provide timely delivery may have a material adverse impact on our business operations and reputation, as well as exposing us to potential contractual claims with our customers. In such events, we may not be able to seek full indemnity from the third-party transportation service providers or enforce in full any favourable judgements obtained. Further, we may also be obligated under the respective service contracts with our customers to compensate them for any loss or damages incurred due to our failure to comply with the contract terms. Any contractual disputes for material breaches by our transportation team or third-party transportation service providers, which may arise in the future, may severely affect our business operations and divert our management attention and resources.

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**We may not be able to price our products at our desired margins or sustain the average selling prices of our products as a result of any decrease in our bargaining power or changes in market conditions.**

We set prices for our products primarily based on the estimated costs. For further details, please refer to the paragraph headed "Pricing and Settlement Terms" under "Business" section. Our ability to set favourable prices at our desired margins and to accurately estimate costs, among other factors, has a material impact on our profitability, particularly for our business. For the three years ended 31 December 2021 and the six months ended 30 June 2022, our gross profit margin was approximately 33.0%, 33.4%, 35.9% and 40.2%, respectively.

We cannot assure you that we will be able to maintain our pricing power or the average selling price of our products or that our gross profit margin will not be driven down by market conditions or other factors. In the event that we face higher pricing pressure due to intensified competition from other suppliers, continued decrease in prices to our customers in the end market or any other reasons, or if we otherwise lose bargaining power due to weaker demand for our products, we may need to lower the prices and margins of our products. Moreover, we may not be able to accurately estimate our costs or pass on all or part of any increase in our costs of sales, in particular the costs of raw materials to our customers. As a result, our results of operations could be materially and adversely affected.

Furthermore, we are vulnerable to increases in the prices of raw materials. The prices of our raw materials are determined principally by market forces and our bargaining power against our suppliers. For a discussion of changes in our raw material costs during the Track Record Period, please see the section headed "Financial Information — Key Factors Affecting our Results of Operations and Financial Condition — Fluctuation in cost of our raw materials and reliance on our largest supplier". Raw material prices may fluctuate as a result of inflation and other factors in the future. We may not be able to offset all the increase in their prices by raising the prices of our products. Moreover, we may lose our competitive advantage if the prices of our products increase significantly. If the prices of raw materials increase in the future and we cannot pass on such increases to our customers, we may not be able to maintain our current gross profit margins, and our business and results of operations may be materially and adversely affected.

**We may not be able to fulfil the minimum purchase commitment required by our suppliers.**

During the Track Record Period, we entered into certain distribution agreements with our suppliers. Under such agreements, we are required to meet minimum monthly and/or yearly purchase commitment. For details, please refer to "Business — Our Suppliers — Salient terms of the typical distributionship agreements with the distributors of medical imaging film products". Although we have fulfilled the minimum purchase commitment during the Track Record Period, we could not guarantee that we will be able to do so in the future. Should we fail to meet the minimum purchase commitments, our suppliers are entitled to terminate the distributorship in accordance with the terms of the distribution agreements. Any disruption in the supply of medical imaging films and equipment would limit our ability to meet our customers' demand, increase the cost of purchasing medical imaging films and printers and may adversely affect our financial condition and results of operations and have a negative impact on our reputation.

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**Failure to manage our growth could strain our managerial, operational and financial resources, which could materially and adversely affect our business, financial condition, results of operations and prospects.**

Our current business strategy includes, among others, expand our customer base and strategic acquisition. Executing these components of our strategy could place considerable strain on our managerial, operational and financial resources. In particular, the management of our growth will require, among other things:

- strengthening of financial and management controls in an efficient and effective manner;
- enhancement of information technology systems;
- increased marketing, sales and sales support activities;
- continued enhancement of our research and development capabilities;
- raising adequate capital to fund our operations; and
- hiring and training of new personnel.

If we are unable to effectively manage our growth and implement these components of our business strategy, our business, financial condition, results of operations and prospects would be materially and adversely affected.

**Our business and financial performance will be materially and adversely affected if we cannot maintain good relationships with, and provide high quality products and services to, our customers.**

Our growth and future success are reliant upon our ability to maintain good relationships with our customers by further diversifying our product and services portfolio and solidifying our market position. Our ability to maintain good relationships with existing customers and attract new customers depend significantly on, among others, our ability to (i) continuously anticipate and effectively respond to changing customers' demands and preferences; (ii) anticipate and respond to changes in the dynamic landscape of the medical imaging industry; (iii) identify and adopt evolving technologies to facilitate customers' purchasing or procurement experience with us; and (iv) develop and upgrade our products and services that cater to the needs of our existing and potential customers. In the event that we cannot (i) maintain good relationships with our customers; (ii) maintain or guarantee the high quality of the products we distribute; or (iii) meet the needs of our customers (particularly the hospitals and healthcare institutions), our business and financial performance will be adversely affected.

**We may be exposed to payment delays and/or defaults by our customers which would adversely affect our cash flows or financial results.**

We grant a credit term of a maximum of 365 days to our customers while we are generally required to make payment to our suppliers before the delivery of products to our customers. As at 30 June 2022, our Group had an aggregate trade and bills receivables of approximately RMB166.9 million. Our Group's trade receivables turnover days for the three years ended 31 December 2021 and the six

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months ended 30 June 2022 were approximately 179 days, 149 days, 181 days and 251 days respectively. On the other hand, the trade payables turnover days for the three years ended 31 December 2021 and the six months ended 30 June 2022 were approximately 1 day, 4 days, 24 days and 41 days, respectively. Our trade receivables amounted to approximately RMB66.6 million, RMB84.7 million, RMB125.6 million and RMB149.6 million as at 31 December 2019, 2020 and 2021 and 30 June 2022, respectively, while our impairment losses on trade receivables amounted to approximately RMB104,000, RMB122,000 and RMB124,000 for each of the years ended 31 December 2019 and 2020 and the six months ended 30 June 2022, respectively. We recorded a reversal of impairment losses on trade receivables of approximately RMB73,000 for the year ended 31 December 2021. Any significant difference in the trade receivables turnover days and trade payables turnover days or in the event our customers defaults in their payment may lead to cash flow mismatch and have a negative impact on our Group's working capital sufficiency.

Our liquidity and operational cash flows may be materially and adversely affected if the trade receivables cycles or collection periods lengthened or if we encounter a material increase in the default of payment from customers. We cannot assure you that our customers will meet their payment obligations on time or in full, or that our trade receivables turnover days will not increase. Any inability on the part of our customers to settle or promptly settle the amount due to us may materially and adversely affect our business, financial conditions and results of operations.

**The data and information that we process in our software could be inaccurate, which could compromise the service quality of our medical imaging cloud services we delivered and could in turn harm our business, reputation, financial condition and results of operations.**

Our software involves the processing of medical data and information which include, among other, medical images and data and patient's information. If any mistakes, inaccuracy or technical failures associated with our software, including those caused by power loss, natural disasters, computer viruses or hackers, network failures or other unauthorised tampering arise during the processing of these data, interruptions in our ability to provide services to the hospitals or even medical accidents may occur. The service quality of our medical imaging cloud services we delivered could be compromised and could in turn harm our business, reputation, financial condition and results of operations.

**Future acquisitions could expose us to risks that may have a material adverse effect on our business, financial condition and results of operations.**

We plan to acquire a company which possesses the technical know-how in developing a PACS system and medical imaging cloud storage platform and a start-up company in AI healthcare industry, which possesses the technical know-how in building an AI system and is currently developing or has developed an AI system relating to forming a diagnosis as part of our business strategies. For further details, please refer to the paragraphed headed "Our Business strategies — Enhance the delivery of our medical imaging cloud services through strategic acquisition, obtaining the medical device registration certificate and upgrade of our hardware and software" under the "Business" section.

However, we cannot assure that we will be able to identify suitable opportunities. We may face fierce competition for high-quality medical imaging cloud storage software companies that could be our potential targets for acquisitions and investment, and we may not be able to acquire suitable targets and seek investment opportunities in a competitive market environment. Also, acquisitions involve inherent risks and uncertainties, including, without limitation, potential ongoing financial obligations and



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unforeseen or hidden liabilities in connection with the acquisition targets, inability to apply our business model or standardised business processes on the acquisition targets, failure to achieve the intended acquisition objectives or benefits, diversion of resources and management attention from managing our existing business operations, and increase in depreciation and amortisation costs arising from the acquired property, plant and equipment and intangible assets as a result of the acquisition.

In addition, we may not be able to complete the acquisitions on terms favourable to us, in a timely matter, or at all. As a result, our competitiveness and growth prospects could be materially and adversely affected. Furthermore, we may face difficulties in integrating acquired operations as we continue to expand our operations through acquisition. Such post-acquisition difficulties could disrupt our business operations, distract our management or increase our operating expenses, any of which could materially and adversely affect our business, financial condition and results of operations.

We intend to finance the acquisition by the [REDACTED] from the [REDACTED], depending on the amount of purchase price and commercial terms of the potential acquisition. For further details, please refer to the section headed "Future plans and use of [REDACTED]". If we fail to identify suitable acquisition opportunities or fail to compete effectively for such acquisition opportunities with other medical imaging companies, or our future acquisition transactions fail to consummate for other reasons beyond our control, our [REDACTED] from this [REDACTED] may not be effectively used.

Acquisition of other companies may result in goodwill recorded in our future consolidated financial statements. However, if we fail to achieve our desired objectives with respect to our acquisition, we may need to record impairment losses on our goodwill, which may materially and adversely reduce our assets and impact our profitability that would, in turn, have an adverse effect on our financial position and results of operations. Also, there is no assurance that such acquisitions would yield the expected level of return.

### **We may be subject to fines as a result of unregistered lease.**

As at the Latest Practicable Date, we leased two properties in Shanghai. Under PRC law, all lease agreements are required to be registered with the relevant real estate administration bureaus. However, as of the Latest Practicable Date, they had not been registered and filed with the relevant land and real estate administration bureaus in the PRC. For further details, please refer to the paragraph headed "Properties — Leased properties and property occupied by us for free — Failure to register leased properties" under the "Business" section in this document.

As advised by our PRC Legal Advisers, failure to complete the registration and filing of lease agreements will not affect the validity of such leases or result in our being required to vacate the leased properties. However, the relevant government authorities may impose a fine ranging from RMB1,000 to RMB10,000. The aggregate amount of maximum fine will be approximately RMB20,000.

We cannot assure you that the other parties to our lease agreements will be cooperative and that we can complete the registration of these lease agreements and any other lease agreements that we may enter into in the future.

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**Certain of our leased properties are not used for the permitted usage under the relevant building ownership certificate and we may be subject to challenge, lawsuit or other actions taken against us with respect to these properties.**

As at the Latest Practicable Date, we leased two properties in Shanghai. The current usage of one of our leased properties is inconsistent with its permitted usage. We currently use this premises as warehouse while its permitted usage under the relevant title certificate is industrial. For further details, please refer to the paragraph headed “Properties — Leased properties and property occupied by us for free — Inconsistency with permitted use” under the “Business” section in this document.

We may be subject to challenge, lawsuit or other actions taken against us with respect to these properties. We may be forced to relocate our operations on the affected properties. If we fail to find suitable replacement properties on terms acceptable to us for the affected operations, or if we are subject to any material liability resulting from third-party challenges for our lease of properties, our business, financial condition and results of operations may be materially and adversely affected.

**Cyber-security and privacy breaches may hurt our business.**

Our software are rooted in the vast volume of healthcare data integrated for hospitals and the different departments thereof. As of the Latest Practicable Date, we have not experienced incidents of security breach. We cannot guarantee, however, that we and the hospitals will not experience cyber-attacks of varying degrees, including attempts to attack the loopholes or bugs of our software and/or the information technology systems of our customers, which may lead to a leakage of sensitive personal medical information. The security measures we had may also be breached due to error, malfeasance or otherwise of our employees or the hospitals’ employees. Additionally, outside parties may attempt to fraudulently induce employees or doctors to disclose sensitive or account information in order to gain access to the system, or may otherwise obtain access. Any such breach or unauthorised access could result in significant legal and financial exposure, damage to our reputation and a loss of confidence in the security of our solutions and services that could have an adverse effect on our business and results of operations. Because the techniques used to obtain unauthorised access, disable or degrade service or sabotage systems change frequently, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of security occurs, the market perception of the effectiveness of our security measures could be harmed, we could lose customers and we may be exposed to significant legal and financial risks, including legal claims and regulatory fines and penalties. Any of these actions could have a material and adverse effect on our business and results of operations.

**We may not be able to attract and retain our core management team and other key personnel for our operation.**

Our business growth largely depends on the continued contribution from, and our ability to retain, our Directors, senior management and key personnel. In particular, we rely on the expertise and experience of our founder, Mr. Meng, and our senior management in the industry, which is crucial to our success. Our success also depends on our key personnel with extensive managerial, technical, research and development or sales experience. We cannot assure you that the contribution of our founder and the service of our senior management and key personnel will continue in the future. Should any of our founder, current Directors, senior management or key personnel become unable or unwilling to work for us, we may incur additional expenses to recruit and retain suitable replacements. In the event that we are

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unable to recruit new talents who have similar knowledge or experience, or if any of our founder, Directors, senior management or key personnel joins our competitors or establishes a new company that becomes a competitor, our business may be adversely affected.

**The shortage of experienced and skilled labour may materially and adversely affect our business, financial condition and results of operations.**

We consider experienced sales personnel with strong product knowhow and product developers with sophisticated research and developing capabilities, who are instrumental to our business development, are not readily available in the market. There is no assurance that we are able to attract or retain experienced sales personnel, product developers or skilled labour in a timely manner for our existing and future operations at reasonable wages, or at all. If we fail to retain our existing staff, or recruit sufficient sales personnel or skilled labour or locate suitable product developers with competitive product developing experiences in a timely manner, our business and results of operations may be adversely affected.

**We are subject to PRC laws, rules and regulations on occupational health and safety and may be exposed to liabilities and costs for occupational health and safety issues.**

Our business is also subject to PRC laws, rules and regulations relating to occupational health and safety for the medical imaging industry. For additional information regarding the Company's compliance with respect to health and work safety laws, rules and regulations, please refer to the section headed "Business — Environmental, social and corporate governance" and "Health and Work Safety" in this document. Companies in the medical imaging industry that fail to comply with applicable safety laws, rules and regulations may be subject to fines, penalties or even suspension of operations. At the same time, relevant governmental authorities may conduct safety inspections of the facilities regularly. The timing and outcome of such safety inspections, nevertheless, is hard to predict since their standards are somewhat obscure. Failure to pass the safety inspections may harm our corporate image, reputation and the credibility of our management, and thus have a material adverse effect on our financial conditions and results of operations.

**We may not have sufficient insurance coverage to cover the risks relating to our operations.**

Although we have not encountered any major accidents in the course of our operations during the Track Record Period, there is no assurance that we will be able to prevent any unforeseeable accidents in the future. We have procured the necessary insurance coverage. Please refer to the section headed "Business — Insurance" in this document for more details. Although there had been no material insurance claims during the Track Record Period, we are exposed to such claims in the event that any of our products are alleged to have caused property damage, accidental disclosure of patient information or other adverse effects. Losses incurred or payments that we may be required to make as a result of the above claims could have a material adverse effect on our results of operations if such losses or payments are not adequately insured.

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### **Our business operations, reputation and financial performance may be adversely affected by our employees' wrongdoings.**

As at the Latest Practicable Date, we had a total of 43 employees. Employee wrongdoings at different operational levels may reduce the operational efficiency and disrupt our business performance and may even result in violations of laws, third-party claims and regulatory actions against us causing reputational or financial damage to us. There is no assurance that all of our employees will conduct their duties at all times in good faith and in a manner which is in full compliance with the laws and our internal policies.

We have designed and implemented policies and procedures to ensure that we, our employees and customers comply with applicable anti-corruption laws. We cannot assure you that our employees and customers will observe our policies and procedures at all times. If we are not in compliance with the applicable anti-corruption laws, we may be subject to criminal and civil penalties and other remedial measures, which could cause reputation damage and have a material and adverse impact on our business, financial conditions or results of operations.

The PRC laws and regulations relating to incentive payments are not always clear. Hence, the relevant governmental authorities may have considerable discretion in determining the misconduct with respect to corruption under certain circumstances. If our employees and customers either knowingly or unknowingly engage in corrupt or improper conduct in connection with the marketing, promotion or sales of our services and products, our reputation and sales activities could be materially and adversely affected.

### **We may be subject to intellectual property infringement claims and successful claims of infringement could materially and adversely harm our business and reputation.**

We operate in an industry in which we and our competitors or customers may utilise or own similar technology and product designs. Consequently, both we, our competitors or customers may claim intellectual property rights over the technology and product design used in our products. While we do not believe our products infringe on the intellectual property rights of our competitors or any third parties, we cannot assure you that any third parties may not raise a claim of intellectual property infringement. Consequently, we may become subject to legal proceedings and claims relating to the intellectual property rights of third parties. Legal proceedings involving intellectual property rights can be expensive and time-consuming, and their outcomes are uncertain. Successful infringement claims by third parties against us could subject us to substantial monetary liability, require us to obtain licences (which we may not be able to obtain on commercially reasonable terms or at all), pay on-going royalties, modify aspects of our technology and product design or subject us to injunctions prohibiting the sale of products or the use of our technologies, which could materially and adversely harm our business and reputation.

### **Unauthorised use of our brand name by third parties may adversely affect the value of our brand name, reputation and business; legal actions to enforce our rights to our brand name may involve significant costs and may divert our resources.**

We regard our "Guanze Huiyi" ("冠澤慧醫") brand name as critical to the success of our business. Unauthorised use of our brand name by third parties may adversely affect the value of our brand name, business and reputation, including the perceived quality and reliability of our products. We

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rely on trademark law to protect the value of our brand names. As at the Latest Practicable Date, we had registered 15 trademarks and 43 registered software copyrights. Despite our precautions, we may be unable to prevent unauthorised use of our brand names by third parties. In certain circumstances, litigation may be necessary to protect our brand names. However, because the validity, enforceability and scope of protection of trademarks in the PRC and overseas are uncertain and still evolving, we may not be successful in prosecuting these cases. Further, litigation could also result in substantial costs and diversion of our resources, and could disrupt our business.

### **We may not be successful in implementing our business strategy.**

Our business objectives and strategies as set out in this document are based on our existing plans and intentions. However, our objectives and strategies are based on prevailing circumstances and the development trends of our industry currently known to our Directors, the bases and assumptions that certain circumstances will or will not occur, as well as the risks and uncertainties inherent in various stages of development. There are significant challenges and uncertainties involved in our strategic plans, including whether (i) we will be able to complete these plans on schedule and within the anticipated budget, or at all; (ii) we will be able to generate anticipated revenues and profits from these plans to cover our indebtedness, costs or contingent liabilities associated with such plans; and (iii) these plans will be in line with the market demand and the national and local policies in the future. Our future prospects should be considered in light of the risks, expenses and difficulties which may be encountered by us in various stages of our development of business. We cannot assure you that we will be successful in implementing our strategies or that our strategies, even if implemented, will lead to successful achievement of our objectives. If we are not able to implement our strategies effectively, our business, financial condition and results of operations may be adversely affected.

### **Natural disasters, epidemics, acts of war or terrorism or other factors beyond our control in the future may have a material adverse effect on our business, financial condition and results of operations.**

Our business is primarily subject to the general economic and social conditions in the PRC. Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the PRC. Our business could also be under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought, or epidemics such as the Severe Acute Respiratory Syndrome, or SARS, the H5N1 avian flu, the human swine flu, also known as Influenza A (H1N1), or the novel COVID-19 outbreak. In response to the COVID-19 outbreak, the PRC government has introduced a series of disease containment and treatment measures, as a result of which business activities and hospital services in the PRC have been temporarily disrupted. Moreover, the COVID-19 outbreak may have a negative impact on the local, national and global economy and financial and market conditions. We cannot predict when the COVID-19 outbreak will become completely under control and we cannot guarantee that the COVID-19 outbreak will not worsen. Having considered that the past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in the PRC, the COVID-19 outbreak and any other public health crisis in the PRC may result in disruptions to our operations, which in turn may adversely affect our financial condition and results of operations.

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**The positive impacts on our financial results due to the outbreak of COVID-19 may not be sustainable.**

During the Track Record Period, COVID-19 has no adverse impact on our financial results due to the nature of our business. Our revenue increased from approximately RMB140.8 million for the year ended 31 December 2019 to approximately RMB184.4 million for the year ended 31 December 2020 and further increased to approximately RMB211.1 million for the year ended 31 December 2021, partly due to an increase in clinical CT diagnosis brought by the outbreak of COVID-19, which created more demand on our thermal films and medical dry laser films.

However, we cannot ensure such an increase in demand for our thermal films and medical dry laser films resulting from the outbreak of COVID-19 and its recurrence is sustainable. In such a case, our business and profitability may be materially and adversely affected.

**We could be exposed to liability by litigation or legal proceedings which may divert our resources and adversely impact our reputation.**

Our operational and financial stability are subject to any litigation or legal proceedings we may face in the future. During the ordinary course of our business operations, we are exposed to liabilities arising from product quality claims, labour disputes, contractual claims under sales agreements, supply agreements, and other potential third-party disputes. These actions could also expose us to adverse publicity, which might adversely affect our brands, reputation and customer preference for the products we distribute. Our operational and financial resources, as well as the attention of our management may be diverted in handling such proceedings from our business and operations. Our financial performance may be materially and adversely affected as substantial legal costs may be incurred during the often-prolonged process of litigation while the outcome remains uncertain. Furthermore, any settlements or judgments against us may tarnish our reputation or strain our financial resources and adversely affect our profitability.

**Our profit margin will be reduced if there are reductions or withdrawal of any of the subsidies granted to us by the PRC government.**

Our Group has recognised income in the form of government grants including, but not limited to, those in relation to subsidies received from the local government. Such income recognised amounted to approximately RMB713,000, RMB1.0 million and RMB1.5 million for the years ended 31 December 2020 and 31 December 2021 and the six months ended 30 June 2022, respectively.

Since these government grants awarded to us are subject to the discretion of relevant governmental authorities, they are not derived from the ordinary and usual course of our business and are not recurring in nature. There is no assurance that these government grants will also be awarded to us in the future. Moreover, since there can be unexpected changes in the laws, regulations and governmental policies of the PRC, the availability of government grants is uncertain. Any reductions or withdrawal of the subsidies granted to our Group by the authorities would have an adverse effect on our Group's financial performance and results of operations.

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### **We may be subjected to certain risks relating to contractual arrangements during the course of implementation of our business strategies.**

One of our business strategies is to develop a AI aided diagnosis software through strategic acquisition and staff recruitment. Please refer to the paragraph headed “Our Business Strategies — Enhance the delivery of our medical imaging cloud services through strategic acquisition, obtaining the medical device registration certificate and upgrade of our hardware and software” under the “Business” section for further details.

As advised by our PRC Legal Advisers, the services provided in the course of such business strategies may fall within the classification under “Special Management Measures (Negative List) for the Access of Foreign Investment” and hence foreign investors are restricted from holding more than 50% equity interest in companies (the “**Acquisition Target(s)**”) providing such services.

After consultation with our PRC Legal Advisers, we may determine that it will be not viable for our Company to hold the Acquisition Target(s) in carrying out such business directly through equity ownership. Instead, we may decide that, in line with common practise in the PRC for industries subject to foreign investment restrictions, we would gain effective control over, and receive all the economic benefits generated by the intended business to be operated by our PRC company through the contractual arrangements.

As a result, we may be subjected to the following risks relating to our possible contractual arrangements:

- if the PRC government finds that the agreements that establish the structure for operating the businesses of the Acquisition Target(s) in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subjected to severe consequences, including, without limitation, the nullification of the contractual arrangements, the relinquishment of our interest in our targeted company, revoking our business and operating licences, discontinuation or restricting our operations, imposing fines or confiscating any of our income that they deem to have been obtained through illegal operations, imposing conditions or requirements with which we or our PRC subsidiaries and target company may not be able to comply or requiring us or our PRC subsidiaries and target company to restructure the relevant ownership structure or operations, etc.;
- our contractual arrangements with the Acquisition Target(s) may not be as effective in providing operational control as direct ownership. If the Acquisition Target(s) or their shareholders fail to perform their respective obligations under the contractual arrangements, we may incur substantial costs and expend substantial resources to enforce our rights;
- there are very few precedents and little official guidance as to how contractual arrangements in the context of a variable interest entity should be interpreted or enforced under PRC law. There remain significant uncertainties regarding the outcome of arbitration. In the event we are unable to enforce these contractual arrangements or we experience significant delays or other obstacles in the process of enforcing these contractual arrangements, we may not be able to exert effective control over our affiliated entities and may lose control over the assets owned by the Acquisition Target(s);

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- the shareholders of the Acquisition Target(s) may have conflicts of interest with us, which may materially and adversely affect our business. These shareholder may breach or cause the target company to breach the existing contractual arrangements. If we cannot resolve any conflicts of interest or disputes between us and these shareholders, we would have to rely on legal proceedings, which may be expensive, time-consuming and disruptive to our operations. There is also substantial uncertainty as to the outcome of any such legal proceedings;
- if we exercise the option to acquire equity ownership and assets of our target company, the ownership or asset transfer may subject us to certain limitations and substantial costs. After entering into contractual arrangements, we will have the exclusive right to purchase all or any part of the equity interests in the Acquisition Target(s) held by the relevant shareholders at a nominal price, unless relevant government authorities or PRC laws require that another amount should be used as the purchase price, in which case the purchase price shall be the lowest amount under such requirement. The equity transfer may also be subject to the approvals from and filings with the MIIT, the SAIC and/or their local competent branches;
- we do not have priority pledges and liens against the assets of the Acquisition Target(s). If the Acquisition Target(s) undergoes an involuntary liquidation proceeding, third-party creditors may claim rights to some or all of its assets and we may not have priority against such third-party creditors on the assets of the Acquisition Target(s). In the event that the shareholders of the Acquisition Target(s) initiate a voluntary liquidation proceeding without our authorisation or attempts to distribute the retained earnings or assets of the Acquisition Target(s) without our prior consent, we may need to resort to legal proceedings to enforce the terms of the contractual arrangements. Any such legal proceeding may be costly and may divert our management's time and attention away from the operation of our business, and the outcome of such legal proceeding will be uncertain;
- there are possibilities that future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, at which time it will be uncertain whether the contractual arrangements will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned contractual arrangements will be handled; and
- our contractual arrangements may be subject to scrutiny by the PRC tax authorities, and a finding that we owe additional taxes could substantially reduce our combined profit and the value of your investment.

### RISKS RELATING TO OUR INDUSTRY

**The medical imaging industry is highly regulated in the PRC. Any change in the applicable laws, regulations or standards may prevent or restrict us from conducting certain business or subject us to increased costs of compliance.**

The medical imaging industry is highly regulated in the PRC. We are subject to various regulations which govern different aspects of our operations, including licencing and certification requirements and procedures for manufacturers of medical imaging products, operating and safety standards, as well as environmental protection regulations. Any change in the applicable laws, regulations or standards may prevent or restrict us from conducting certain aspects of our current business.



## RISK FACTORS

We cannot assure you that the sales or distribution of any of our medical imaging products will not be subject to any prohibitions or restrictions imposed by competent authorities in the future. Such changes may also result in increased costs of compliance. Any changes in, and any promulgation of, laws, regulations or standards which we are subject to may materially and adversely affect our business, financial condition and results of operations.

**Our cloud services are subject to evolving regulatory requirements, non-compliance with which, or changes in which, may materially and adversely affect our business and prospects.**

Due to the nature of our business, we are subject to legal and regulatory requirements of multiple aspects in the PRC which include laws relating to, among others, medical devices and data privacy. Various regulatory authorities of the PRC government are empowered to promulgate and implement regulations governing broad aspects of the medical imaging industries.

Meanwhile, the regulations of the medical imaging sector are still evolving, and their interpretation and enforcement may involve significant uncertainty. As a result, under certain circumstances, it may be difficult to determine what actions or omissions would be deemed in violation of applicable laws and regulations. These uncertainties entail risks that may materially and adversely affect our business prospects.

Our operations may be subject to direct and indirect adoption, expansion or reinterpretation of various laws and regulations. Compliance with these future laws and regulations may require us to change our business models and practises at an undeterminable and possibly significant financial cost. These additional monetary expenditures may increase future overhead, which may, in turn, have a material adverse effect on our business, financial condition and results of operations.

Due to the uncertainty and complexity of the regulatory environment, we cannot assure you that subsequent laws and regulations would not render our operations non-compliant or that we would always be in full compliance with applicable laws and regulations. In the event that we must remedy any violations, we may be required to modify our business models as well as product and service offerings in a manner that undermines our solution's attractiveness to our users. We may also be subject to fines or other penalties or, if we determine that the requirements to operate in compliance are overly burdensome, we may elect to terminate the non-compliant operations. In each case, our business, financial condition and results of operations may be materially and adversely affected.

Furthermore, the introduction of new services and products, particularly in relation to our cloud services, may require us to comply with additional, yet undetermined, laws and regulations. Compliance may require obtaining appropriate permits, licences or certificates as well as expending additional resources to monitor developments in the relevant regulatory environment. The failure to adequately comply with these future laws and regulations may delay, or possibly prevent, some of our products or services from being offered to users, which may have a material adverse effect on our business, financial condition and results of operations.

## RISK FACTORS

**If the PRC government decides to impose price control on our products, our business, profitability, results of operations and prospects would be materially and adversely affected.**

In the recent years, the PRC government has been making continuous and increasing efforts in stepping up the healthcare system reform. We are unable to predict any future changes to the price control policy to be adopted by the PRC government in the healthcare sector and the medical imaging industry. In the event of any changes in such policy or adoption of any new policies being resulting in all or some of our products being subject to price control, our business, profitability, results of operations and prospects would be materially and adversely affected.

**We have a limited operating history and are in an emerging industry, and our historical results of operations and financial performance are not indicative of future performance.**

We operate in an emerging market in the PRC. According to CIC, medical imaging informatisation is still in its infancy, and it is uncertain whether it would achieve and sustain high levels of demand, consumer acceptance and market adoption. Risks and challenges we may face in this emerging industry include our ability to, among other things:

- develop and maintain relationships with our existing business partners and attract new business partners;
- enhance and maintain the value of our brand;
- navigate in an evolving regulatory environment;
- develop and launch diversified and distinguishable products to effectively address the needs of our customers;
- grow our customer base in a cost-efficient manner;
- maintain our innovative corporate culture and continue to attract, retain and motivate talented employees; and
- defend ourselves against litigation, regulatory interference, claims concerning intellectual property, privacy or other aspects of our business.

If we fail to address any of the foregoing risks and challenges, our business, financial condition and results of operations may be materially and adversely affected.

Meanwhile, we have a limited operating history. Our historical results and growth may not be indicative of our future performance. There can be no assurance that we would be able to remain profitable in the future. Our ability to achieve profitability is affected by a variety of factors, many of which are beyond our control, and our results of operations may vary from period to period in response.

Our relatively short operating history, together with the emerging characteristics of the medical imaging informatisation industry, makes it difficult to assess our future prospects or forecast our future results. In addition, as our business develops and in response to competition and changes in the industry and regulatory environment, we may have to continue to introduce new products, improve our existing

## **RISK FACTORS**

products or adjust and optimise our business model. There can be no assurance that we may be able to achieve the expected results for any such changes, and our financial condition and results of operations may be materially and adversely affected as a result.

### **RISKS RELATING TO THE PRC**

#### **Political and economic policies of the PRC government could adversely affect our Group's business.**

Before its adoption of the economic reforms and open policy in late 1970s, the PRC had been primarily a planned economy. With the PRC government's effort to reform the Chinese economy since 1978, the PRC government introduced changes to its economic system, as well as its government structure. These reforms have led to significant economic growth and progress in social development. Although the PRC government still owns a significant portion of the productive assets in the PRC, economic reform policies have placed much emphasis on creating autonomous enterprises and the utilisation of market mechanisms. Factors that may cause the PRC government to modify, delay or even discontinue the implementation of certain reform measures include political changes and political instability and such economic factors as changes in the pace of national and regional economic growth, amount of unemployment and inflation.

Our Directors anticipate that the PRC government will continue to further implement these reforms, reduce government interference on enterprises, and rely more on free market mechanisms for the allocation of resources, bringing positive effect to our overall and long-term development. Any changes in the political climate, economic and social situation, the laws, regulations and policies of the PRC arising therefrom, may have an adverse effect on the present or future operations of our Group. With our business and operations substantially based in the PRC, our operations and financial results could be adversely affected by the restrictive or austere policies introduced by the PRC government. We may not be able to capitalise on economic reform measures adopted by the PRC government. We cannot assure you that the PRC government will not impose economic and regulatory controls that may adversely affect our Group's business, financial position and results of operations.

#### **Uncertainties in the PRC legal system could have an adverse effect on our business.**

Our operations are subject to the uncertainties of the PRC legal system which is essentially a civil law system based on written statutes where, unlike common law systems, decisions of past legal cases have limited precedential value. The PRC government has, since 1979, begun promulgating a comprehensive system of laws and regulations governing economic matters in general. These laws and regulations are, however, relatively new and are often changing while published cases concerning these laws and regulations are limited. Their interpretation and enforcement therefore, involve a fair amount of uncertainty. We may be required in the future to procure additional permits, authorisations and approvals for our existing and future projects and we cannot assure you that we will obtain these in a timely manner or at all.

Furthermore, the legal protections available to us under these laws, rules and regulations may be limited. For example, the intellectual property rights and confidentiality protections in the PRC may not be as effective as in other countries. Any litigation or regulatory enforcement action in the PRC may be protracted and could result in significant costs to us and a diversion of our resources and management

## RISK FACTORS

attention. We cannot predict future developments in the PRC legal system, particularly those with respect to the PRC pharmaceutical industry, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof.

**Government control on currency conversion and changes in the exchange rate between RMB and other currencies could negatively affect our ability to pay dividends and hence the value of your investment.**

RMB is not currently a freely convertible currency and our Group needs to convert RMB into foreign currency for payment of dividends, if any, to the Shareholders. Our PRC subsidiaries are subject to the PRC rules and regulations on currency conversion. In the PRC, SAFE regulates the conversion of RMB into foreign currencies. Foreign invested enterprises (“**FIEs**”) are required to apply to SAFE or its local branches for Foreign Exchange Registration Certificates.

Under the relevant PRC foreign exchange laws and regulations, payment of current account items, including profit distributions and interest payment are permitted to be made in foreign currencies without prior government approval but are subject to certain procedural requirements. Strict foreign exchange control continues to apply to capital account transactions, which must be approved by and/or registered with SAFE. We cannot assure you that the PRC regulatory authorities will not impose further restrictions on foreign exchange transactions for current-account items, including payment of dividends.

**Distribution and transfer of funds may be subject to restrictions under the PRC law.**

Our Company is a holding company incorporated in the Cayman Islands and does not have any business operations other than the investments in the subsidiaries. Our Company relies entirely on the dividend payments from our subsidiaries.

Under the PRC laws, dividends from our subsidiaries in the PRC may only be paid out of distributable after-tax profit, less any recovery of accumulated losses and allocations to statutory funds which are not available for distribution as cash dividends. Any distributable profit that are not distributed in a given year will be retained and made available for distribution in subsequent years. The calculation of distributable profit under PRC accounting principles is different in many respects from Hong Kong accounting principles.

Distributions by our subsidiaries in the PRC to our Company may be subject to governmental approval and taxation. These requirements and restrictions may affect our ability to pay dividends to our Shareholders. Any transfer of funds from our Company to our subsidiaries in the PRC, either as a shareholder loan or as an increase in registered capital, is subject to registration and/or approval granted by PRC governmental authorities. These limitations on the free flow of funds between our Company to subsidiaries in the PRC could restrict our ability to act in response to changing market conditions in a timely manner. Furthermore, members of our Group may obtain credit facilities from banks in the future which restrict them from paying dividends to their Shareholders, which may have an adverse impact on their ability to pay dividends to their Shareholders.

## RISK FACTORS

### **PRC tax law may affect tax exemptions on dividends received by our Company and the Shareholders and increase the enterprise income tax rate applicable to us.**

Our Company is incorporated under the laws of the Cayman Islands and holds interests in our PRC subsidiaries through a number of subsidiaries incorporated in the BVI and Hong Kong. According to the EIT Law and the Implementation Regulations on the EIT Law (《中華人民共和國企業所得稅法實施條例》), if our Company is deemed to be a non-PRC tax resident enterprise without an office or premises in the PRC, a withholding tax at the rate of 10% will be applicable to any dividends paid to our Company, unless our Company is entitled to reduction or elimination of such tax, including by tax treaties. Under the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), such dividend withholding tax rate is reduced to 5% if a Hong Kong tax resident enterprise owns over 25% of equity interests in the PRC company distributing the dividends. Pursuant to the Measures for Administration of Non-Resident Taxpayers' Enjoyment of the Treatment under Tax Treaties (《非居民納稅人享受協定待遇管理辦法》) which was promulgated by the SAT on 14 October 2019, and came into effect on 1 January 2020, non-resident taxpayers who need to enjoy the treatment of the agreement shall submit the report forms and materials by themselves or by the withholding agent at the time of tax declaration. Any new enactment of PRC tax law affecting tax exemptions on dividends may reduce the amount of dividends that could be distributed to our Company and Shareholders.

In addition, the EIT Law provides that, if an enterprise incorporated outside the PRC has its "de facto management organisation" located within the PRC, such enterprise may be recognised as a PRC tax resident enterprise and thus may be subject to statutory enterprise income tax at the rate of 25% on its worldwide income. Substantially all members of our management are located in the PRC, we may be deemed as a PRC tax resident enterprise and therefore subject to a statutory enterprise income tax rate of 25% on our worldwide income, excluding the dividends received directly from another PRC tax resident. As a result of these changes described above, our historical operating results will not be indicative of our operating results for future periods and the value of the Shares will be adversely affected.

### **There is no assurance that our status as a High and New Technology Enterprise will be renewed or our enjoyment of the preferential tax rate of EIT attached to such status will be continued.**

The status as a High and New Technology Enterprise of our principal operating subsidiary, Jinan Guanze is valid for 3 years from 15 December 2021 to 14 December 2024. Pursuant to the EIT Law which became effective on 1 January 2008, Jinan Guanze is subject to enterprise income tax at a statutory rate of 25% on the assessable income derived during the Track Record Period. However, with the status as a High and New Technology Enterprise, Jinan Guanze enjoyed preferential income tax rate of 15% from 2021.

We cannot assure that our status as a High and New Technology Enterprise can always be retained or renewed in the future, and we cannot guarantee that we will always be able to enjoy the preferential tax rate of EIT attached to such status. Loss of our status and/or our enjoyment of the preferential EIT tax rate may materially and adversely affect our operations and financial results.

## RISK FACTORS

### RISKS RELATING TO THE [REDACTED]

**There has been no prior [REDACTED] for our Shares and an active [REDACTED] for our Shares may not develop or be sustained.**

Prior to the [REDACTED], no [REDACTED] for our Shares existed. Following the completion of the [REDACTED], the Stock Exchange will be the only market on which the Shares are [REDACTED]. We cannot assure you that an active trading market for our Shares will develop or be sustained after the [REDACTED]. The pricing and trading volume of the Shares may be volatile. The market price of the Shares may fluctuate significantly and rapidly as a result of the following factors, among other things, some of which are beyond our control:

- our financial results;
- changes in securities analysts', if any, analysis of our financial performance;
- the history of, and the prospects for us and the industries which we compete;
- an assessment of our management, our past and present operations, and the prospects for and;
- timing of our future revenue and cost structures such as the views of independent research analysts, if any;
- addition or departure of our key personnel;
- the present state of our developments;
- the valuation of publicly traded company that are engaged in business activities similar to ours;
- general market sentiment;
- our inability to compete effectively in the market;
- changes in laws and regulations in Hong Kong and China; and
- political economic, financial and social developments in Hong Kong and China.

In addition, we cannot assure you that our Shares will be [REDACTED] in the [REDACTED] subsequent to the [REDACTED] at or above the [REDACTED]. The [REDACTED] for the Shares is expected to be fixed by agreement among the [REDACTED], the [REDACTED] (on behalf of the [REDACTED]) and us, and may not be indicative of the market price of the Shares following the completion of the [REDACTED]. If an active [REDACTED] for our Shares does not develop or is not sustained after the [REDACTED], the market price and liquidity of the Shares could be materially and adversely affected.

## RISK FACTORS

**The [REDACTED] prices and volume of our Shares may be volatile, which could result in substantial losses to you.**

The [REDACTED] prices of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, the PRC, the United States and elsewhere in the world. Various broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance. In addition to market and industry factors, the price and [REDACTED] volume of our Shares may be highly volatile for specific business reasons. In particular, factors such as variations in our revenue, net income and cash flow could cause the market price of our Shares to change substantially. Any of these factors may result in large and sudden changes in the volume and [REDACTED] price of our Shares.

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

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

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

Immediately after the [REDACTED], our Controlling Shareholders will directly and indirectly own an aggregate of [REDACTED]% of our Shares, if the [REDACTED] is not exercised, or [REDACTED]% of our Shares, if the [REDACTED] is exercised in full. The interests of our Controlling Shareholders may differ from the interests of our other Shareholders. Our Controlling Shareholders could have significant influence in determining the outcome of any corporate transaction or other matter submitted to our Shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of Directors and other significant corporate actions. This concentration of ownership, as a result, may discourage, delay or prevent a change in control of the Company, which could deprive our Shareholders of an opportunity to receive a premium for their Shares in a sale of the Company or may reduce the market price of our Shares. In addition, to the extent the interests of our Controlling Shareholders conflict with the interests of other Shareholders, the interests of other Shareholders may be disadvantaged or harmed.

**The sale or availability for sale of substantial amounts of our Shares could adversely affect our trading price.**

Sales of substantial amounts of our Shares in the public market after the completion of the [REDACTED], or the perception that these sales could occur, could adversely affect the market price of our Shares and materially impair our future ability to raise capital through [REDACTED] of our Shares.

## RISK FACTORS

The Shares owned by our Controlling Shareholders are subject to certain lock-up periods. There can be no assurance that they will not dispose of these Shares following the expiration of the lock-up periods, or any Shares they may come to own in the future. We cannot predict what effect, if any, significant future sales will have on the market price of our Shares.

**There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any of our plans or at all.**

We currently do not have any dividend policy. After the completion of the [REDACTED], we may in the future distribute dividends by way of cash or by other means that we consider appropriate. A decision to declare and pay any dividends would require the recommendations of our Board and approval of our Shareholders. Under the Articles, our Directors have the power to pay interim dividends but only if they are justified by the profits of our Company. The decision to pay dividends will be reviewed in light of factors such as our results of operations, financial condition and position, and other factors deemed relevant. Any distributable profits that are not distributed in any given year may be retained and are available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be [REDACTED] in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any of our plans or at all. Our future declarations of dividends will be at the absolute discretion of our Board.

**Because the [REDACTED] of our Shares is higher than our net tangible book value per Share, purchasers of our Shares in the [REDACTED] will experience immediate dilution.**

If you purchase our Shares in the [REDACTED], you will pay more for your Shares than our net book value on a per Share basis. As a result, investors of our Shares in the [REDACTED] will experience an immediate dilution in the net tangible asset value and our existing Shareholders will receive an increase in the [REDACTED] adjusted consolidated net tangible asset value per Share of their Shares. In addition, holders of our Shares may experience a further dilution of their interest if the [REDACTED] (on behalf of the [REDACTED]), exercises the [REDACTED] or if we obtain additional capital in the future through [REDACTED].

**The laws of the Cayman Islands relating to the protection of the interests of minority shareholders are different from those in Hong Kong.**

Our corporate affairs are governed by our Memorandum and Articles of Association and by the Cayman Islands Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes or judicial precedent in existence in Hong Kong. This may mean that the remedies available to our Company's minority shareholders may be different from those they would have under the laws of other jurisdictions. A summary of Cayman Islands company law is set out in Appendix III to this document.



## **RISK FACTORS**

**Certain statistics and forecasts in this document were derived from third-party sources and have not been independently verified.**

This document includes certain statistics and facts that have been extracted from official government sources and publications or other sources and we cannot guarantee neither the quality nor the reliability of such source material. They have not been prepared or independently verified by us, the Sole Sponsor, the [REDACTED] or any of its or their respective affiliates or advisers, and therefore we take no representation as to the accuracy of such facts and statistics. In all cases, investors should give consideration as to how much weight or importance they should attach to, or place, on such facts, statistics and forecasts in this document.

**There are risks associated with the forward-looking statements contained in this document.**

This document contains certain forward-looking statements and information relating to us and the subsidiaries comprising our Group, which are based on the beliefs of our management as well as the assumptions made by and information currently available to our management. Such statements reflect the current views of our Company's management with respect to future events, operations, liquidity and capital resources, some of which may not materialise or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this document.

**You should not rely on any information contained in press articles or other media regarding our Group and the [REDACTED].**

Prior to the publication of this document, there may be certain press and media coverage regarding our Group and the [REDACTED] which may include certain information relating to the business operations, financial information, industry comparisons and other information about our Group that does not appear in this document. We did not authorise the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Prospective investors should not rely on any such information and should only rely on information included in this document in making any investment decision.