
RISK FACTORS

An investment in our Shares involves various risks. You should consider carefully all the information set out in this document and, in particular, the risks described below before making an investment in our Shares.

The occurrence of any of the following events could materially and adversely affect our business, financial position, results of operations or prospects. If any of these events occurs, the trading price of the Shares could decline and you may lose all or part of your investment. Additional risks and uncertainties not presently known to us, or not expressed or implied below, or that we deem immaterial, could also harm our business, financial condition and results of operations. You should seek professional advice from your relevant advisors regarding your prospective investment in the context of your particular circumstances.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Our operations face competition that could adversely affect our results of operations. If we cannot compete successfully with our competitors, we may be unable to increase or sustain our revenues or achieve and sustain profitability.

The ICL industry is highly competitive. We face competition from other companies engaging in the ICL testing business. We compete for a variety of matters, including but not limited to, testing portfolio, network coverage, testing and analytics capabilities, service quality, and R&D capabilities. Our current or future competitors include top market players in the ICL industry in China that have a national coverage network and comprehensive testing portfolio. We anticipate that we will continue to face increased competition as existing companies develop new or improved services and as new companies enter the market with new technologies. Extensive competition may render one or more of our technologies obsolete or uneconomical. Some of our competitors have greater financial and personnel resources, broader product lines, more focused product lines, more established customer base, and more experience in research and development than we do. In addition, as a result of mergers and acquisitions in the industry, more resources are being concentrated in our competitors and our upstream and downstream business partners. Competition may increase further due to the progress and improvements made in the commercial applicability of technologies and the increased capital investment in the industries. Our competitors may develop services and products which are more effective and less costly than ours, or obtain patent protection, regulatory approval, product commercialization, and market penetration more rapidly than we do. Furthermore, medical institutions and pharmaceutical companies, which are our potential customers and strategic partners, could also develop competing products. For details, see “Industry Overview.”

We believe that customers in our markets display a significant amount of loyalty to their initial supplier of a particular service or product. Therefore, it may be difficult to generate sales to potential customers who have purchased services or products from our competitors. To the extent we are unable to be the first to develop or offer new services, our competitive position may suffer.

We and our competitors may also compete on the basis of price. If the cost of testing falls over time, we cannot be sure that the demand for related services will increase proportionately. We may be unable to increase cost efficiencies sufficiently, if at all, and as a result, our net earnings and cash flows could be negatively impacted by such price competition. We may also face increased competition from companies that do not comply with existing laws or regulations or otherwise disregard compliance standards in the industry. Additionally, we may also face changes in fee schedules, competitive bidding for laboratory services, or other actions or pressures reducing payment schedules as a result of increased or additional competition.

RISK FACTORS

We conduct our business in a heavily regulated industry. We may be adversely affected by the uncertainties and changes in PRC regulations with respect to the ICL industry.

Our testing laboratories, technology platforms, R&D operations and marketing and distribution network are primarily in China, which we believe confers clinical, commercial and regulatory advantages. The ICL industry in China is subject to comprehensive government regulation and supervision, encompassing the approval, registration, licensing, marketing and offering of medical testing services. See “Regulatory Overview” for a discussion of regulatory requirements that are applicable to our current and planned business activities in China. If we, our customers or suppliers fail to comply with such applicable laws and regulations, we could be required to make significant changes to our business and operations or suffer fines or penalties, including the potential revocation of our business license and the suspension or cessation of our services.

In addition, regulatory requirements in China are constantly evolving and can be subject to changes and different interpretations, making the extent of our responsibilities uncertain. Any changes or amendments of our regulatory environment may result in increased compliance costs on our business. Tightened regulatory requirements could cause delays in or even prevent the success of the development or commercialization of our services in China and reduce the current benefits we believe are available to us from offering and developing testing services in China. Additionally, PRC authorities may periodically, and sometimes unexpectedly, change their enforcement practices. Therefore, prior enforcement, or lack of enforcement, is not necessarily predictive of future actions. Any failure by us or our partners to maintain compliance with applicable laws and regulations or obtain and maintain required licenses and permits may result in the suspension or termination of our business activities in China. We believe our strategy and approach are aligned with the PRC government’s policies, but we cannot ensure that our strategy and approach will continue to be aligned.

If we fail to comply with applicable licensing requirements, or become damaged or inoperable, our ability to perform tests may be jeopardized.

Our ICL business is subject to extensive regulations in China. To operate our laboratories, we are required to obtain approvals and accreditations from the NHC or its local counterparts. We currently have obtained approvals and accreditations from the NHC and its local counterparts for each of our laboratories. However, as we intend to increase the number of laboratories we operate, we will be required to obtain NHC approvals and accreditations for such additional laboratories, and there is no guarantee that we could obtain such approvals and accreditations in a timely manner, or at all, as the NHC approval and accreditation process is costly, lengthy and uncertain. If we fail to maintain or renew any major license, permit, certificate, approval or accreditations for any or all of our laboratories, or if the testing professionals at our laboratories become unlicensed at any time during their practices, or if we or our laboratories are found to be non-compliant with any applicable PRC laws or regulations, we may face penalties, suspensions of our operations or even revocation of our operating licenses, depending on the nature of the findings, any of which could materially and adversely affect our business, financial condition and results of operations.

Our services could fail to receive or maintain regulatory approvals for many reasons, including but not limited to:

- failure to maintain the necessary level of quality of our services and ICLs;
- data integrity issues related to our diagnostic testing;
- regulatory requests for additional analyses, reports or data;
- our failure to conduct diagnostic testing in accordance with regulatory requirements or our diagnostic testing protocols;

RISK FACTORS

- testing sites, devices or reagents, testing items, medical professionals or other participants deviating from diagnostic testing protocol, or failing to conduct the testing in accordance with regulatory requirements; and
- rejection by the relevant authorities to approve pending applications or supplements to approved applications filed by us or suspension, revocation or withdrawal of approvals.

In addition, if our laboratories or the research and development facilities or laboratory equipment become damaged or inoperable, we may not be able to replace our testing capacity quickly or inexpensively, or at all. In the event of a temporary or protracted loss of the laboratories, facilities or equipment, we might not be able to rebuild any of them in a timely manner. Even if we could rebuild them, it would likely be expensive and time-consuming, particularly since the new laboratories would need to comply with the necessary regulatory requirements and we would need certain regulatory agency approvals before our laboratories can open. Any damages or interruptions of our laboratory operations could result in our inability to satisfy the demand of our testing services and could materially harm our business, financial condition and results of operations.

Any adverse change in the regulatory regime relating to ICL industry or the healthcare industry may limit our ability to provide testing services and may have a material adverse effect on our business, results of operations and financial condition.

The rapid growth and development of ICL industry in China was fueled in part by the healthcare reform efforts and a series favorable policies implemented by Chinese government in recent years. For example, in July 2016, NHFPC issued the Basic Standards and Practice of Medical Test Laboratories (for Trial Implementation) (《醫學檢驗實驗室基本標準和管理規範(試行)》) to include ICLs into the local healthcare quality control system, suggest ICLs provide clinical tests for primary healthcare institutions and prioritize the approval process of chain ICL operators. Later in June 2018, NHC issued Circular on Further Reforming and Perfecting the Examination and Approval of Medical Institutions and Doctors (《關於進一步改革完善醫療機構、醫師審批工作的通知》) stipulating that medical institutions may, on the premise of ensuring medical quality and safety, entrust independent medical test laboratories to provide medical testing services. ICLs have been increasingly recognized by the Chinese government and the restrictions around ICLs collocation with hospitals have been loosened, all of which provided favorable regulatory backdrop for the overall development of the ICL industry.

However, government policies relating to ICL industry or even healthcare industry in China may change significantly in the future, depending upon the objectives prioritized by the Chinese government, as well as the political and social climate at any given time and the continued development of the healthcare industry in China. We cannot assure that currently effective policies and regulations may not change, or may continue to be favorable to us, or the Chinese government may continue to implement similar policies from which we could benefit. In addition, any future change in the relevant government policies may affect public hospital reform, limit private or foreign investments in healthcare services. Such future changes or reforms, if adopted and implemented, may limit the services we are able to or intend to provide and the sources of our revenue, increase the cost of revenue, restrict the ability to pursue potential acquisitions and expansions, intensify competition, or otherwise negatively affect us disproportionately compared to competitors. Moreover, unfavorable public opinion or negative media coverage of the healthcare industry may also trigger implementation of more stringent policies and heightened scrutiny on best practices at medical institutions. If we fail to keep up with new policies or best practices, our standard of operation may fall short of the latest standard and we could become more prone to non-compliance, resulting in increased cost of compliance and operation.

RISK FACTORS

Failure in service quality control may adversely affect our operating results, reputation and business.

Our service and testing processes are required to meet certain quality standards. We have established a quality control and assurance system and adopted standardized operating procedures in order to prevent quality issues with respect to our services and operation processes. For further details of our quality control and assurance system, see “Business – Quality Assurance”. As a market leader, we have also adopted industry-leading standards in the performance of our testing services. Despite our quality control and assurance system and procedures, we cannot eliminate the risk of service failure. Quality defects may fail to be detected or remediated as a result of a number of factors, many of which are outside of our control, including:

- operating errors;
- technical or mechanical malfunctions in any of our operating processes;
- human error or malfeasance by our quality control personnel;
- tampering by third parties; and/or
- quality issues with the equipment, medical devices, reagents or raw materials we purchase or use.

Our success depends on the market confidence that we can provide reliable, high-quality testing services that will provide patients or physicians with valuable clinical or diagnostic information. However, there is no assurance that our testing services will perform as expected at all times. Our tests may fail to accurately, incompletely or incorrectly identify the relevant diseases, or contain other errors or mistakes due to a variety of reasons (such as malfunction of our laboratory equipment and degraded samples provided by our delivery service providers), which may result in negative perception of our tests. In addition, failure to detect quality defects in our services or to prevent such defective services from being delivered to our customers could result in injury or death, license revocation, regulatory fines, professional liabilities or other problems that could seriously harm our reputation and business, expose us to liability, and materially and adversely affect our revenue and profitability. For example, we could face medical liability claims if someone alleges that our services produced inaccurate or incomplete information regarding their targeted testing item, or otherwise failed to perform as designed. A claimant could allege that our test results caused unnecessary treatment or other costs or resulted in the patient missing the best opportunity or timing for treatment. A patient could also allege other mental or physical injury or that our tests provided inaccurate or misleading information concerning the diagnosis, prognosis or recurrence of, or available therapies for, his or her disease. We may also be subject to medical liability for errors in, a misunderstanding of or inappropriate reliance upon the diagnostic information our tests provided. The tense physician-patient relationship in China could also expose us to an increased risk of potential medical liability claims.

Insurance companies in China generally offer a limited selection of medical liability and professional liability insurance policies and it is often difficult to secure suitable medical liability and professional liability insurance coverage at reasonable rates in China. Any medical liability or professional liability claim brought against us, with or without merit, could increase our insurance rates or prevent us from securing insurance coverage. Additionally, any medical liability or professional liability lawsuit could damage our reputation, or cause our business partners to terminate existing agreements with us and seek other business partners, or cause us to lose our current or potential customers. Any of these developments could adversely impact our results of operations and business prospects. In addition, not all of our medical liability claims could be covered by our insurance policies. We maintain medical liability insurance policies for a limited number of esoteric tests, for example, non-invasive prenatal testing, which we believe are in line with market practices and adequate for our business operation. For associated risks, please see “– Our insurance may not sufficiently cover, or may not cover at all, losses and liabilities we may encounter during the ordinary course of operation.” During the Track Record Period and up to the Latest Practicable Date, medical liability claims against us did not, individually or in the aggregate, have a material adverse effect on our business, results of operations or financial conditions.

RISK FACTORS

Failure to obtain and retain new customers, the loss of existing customers, or a reduction in tests requested or specimens submitted by existing customers could impact our ability to successfully grow our business.

The rapid growth of our revenue during the Track Record Period is primarily driven by the increasing number of customers and the tests requested by our customers. To maintain and further grow our business, we rely on continuous efforts in retaining existing customers and attracting new ones. Our ability to retain existing customers is dependent upon multiple factors, some of which are beyond our control (including among others, customers may no longer need the diagnostic testing services that we provide for a number of reasons; or member medical institution customers may fail to obtain, maintain or renew the approvals, permits, licenses or certificates requisite for their operations, or are otherwise found to be non-compliant with any applicable laws, regulations and regulatory practices). We may not be able to provide quality testing services in a timely manner or in a satisfactory manner to our customers, our pricing may not be competitive in the industry, and our logistics network and information systems may not be able to function effectively and efficiently to meet our customers' evolving needs.

Besides, we may be required by relevant laws or regulations, or some of our customers' internal procurement policies, to undergo public or voluntary bidding process, whose respective standards and requirements may vary from time to time. We may not always be able to compete effectively in securing customer contracts during bidding process, which may materially and adversely affect our results of operations.

In addition, during the ordinary course of our business, we may also receive customer complaints from time to time, primarily focusing on the accuracy of our test results, promptness of test results, aftersales service, and responsiveness of customer service, among others. Although we have put in place a robust customer service system to deal with complaints and rectify our action in a timely manner, we cannot assure you that such efforts would always be effective or satisfy our customer's expectation. Any failure to provide satisfactory experience may cause our customers to lose confidence in us and may even stop cooperating with us altogether. Even if we are able to provide high-quality and satisfactory services, a reduction in tests ordered or specimens submitted by existing customers due to reasons beyond our control, could impact our ability to successfully grow our business and could have a material adverse effect on our revenues and profitability.

Furthermore, although we have taken efforts in attracting new customers and business partners, these efforts may not be cost-effective and we cannot assure you that we will be able to grow our customer base and enhance our brand as we expect, which may in turn materially and adversely affect our business operations and prospects.

Also, government policy and regulatory practices may change or tighten to restrict, prohibit our cooperation with our customers, making it unlawful for us to continue to perform our obligations under the relevant agreements.

We believe that maintaining and enhancing our service quality is critical to achieving widespread acceptance of our services, to strengthening our relationships with our existing customers and to attract new customers. If our services cannot meet our customers' standards or their evolving needs, they may lose confidence in us and they may reduce or cease their use of our services. If actions we take or changes we make to our services upset these customers, they may comment negatively on us, which could harm our brand and reputation. If we fail to attract new customers or retain existing customers, our ability to generate revenue will be materially impaired, and our business, results of operations and financial condition could be adversely affected.

RISK FACTORS

Our past financial performance may not be indicative of our future results.

We experienced significant growth during the Track Record Period. Our total revenues grew from RMB2,741.7 million in 2020 to RMB3,379.5 million in 2021, and further increased to RMB4,860.6 million in 2022. We cannot assure you that the demand for our services will continue to grow at a similar rate in the future due to a variety of factors, some of which are out of our control, including market saturation as well as competition from new market participants.

The COVID-19 pandemic had and may continue to have material impacts on our business, results of operations and financial performance.

Since the outbreak of COVID-19 pandemic in late December 2019, the Chinese government imposed a series of measures to contain its spread, including travel bans, quarantine measures, social distancing, restrictions on business operations and freedom of movement, which resulted in, among other things, a significant reduction in patients’ hospital visits, cancellation of elective medical procedures and decrease in routine health checks. As a result, we experienced a material decline in our base testing volumes in the first quarter of 2020, as compared to the same period in 2019. In addition, with the outbreak of COVID-19, many hospitals in China allocated significant resources to contain the spread of the virus, and scaled back or postponed non-emergency care, which also led to a significant decline in demand for testing services, and resulted in a material adverse effect on our business, financial condition and results of operations.

In response to Chinese government’s policies to contain the spread of the COVID-19, in early 2020, we implemented temporary adjustments to work schedules and travel plans. We had incurred and may continue to incur additional costs for the safety of our employees and the continuity of our operations, including increased frequency of deep cleaning and sanitation at each of our laboratory, additional safety training and processes, enhanced hygiene practices and materials, more efforts in keeping track of the travel history and the health of our employees and their immediate family members, flexible and remote working where possible, protective gears provided to our logistics personnel, and allowing for greater social distancing for the employees who must work on-site. These measures had temporarily increased our operating cost, and affected the capacity and efficiency of our operations. Our operations could also be disrupted if any of our employees, suppliers and other business partners were suspected of having contracted COVID-19, since this could require us and our suppliers and other business partners to quarantine some or all of these employees and disinfect facilities used for operations.

The rise of COVID-19 also made it increasingly important for us to develop agile and resilient responses to adjust forecasts to the market. The massive upsurge of the COVID-19 testing demand has triggered supply-side disruptions of reagents and consumables dictating course of COVID-19 testing services, resulting a leap in the prices of the raw materials. We experienced temporary difficulties in securing adequate supplies of reagents and consumables used in COVID-19 tests at the beginning of the outbreak. Failure to manage our inventories commensurately could have a material adverse impact on our ability to capitalize on emerging growth opportunities and to serve our customers.

The extent to which COVID-19 impacts our results of operations will depend on the future developments of the outbreak, including among others, the duration and the severity of the COVID-19 pandemic, further spread or resurgence of the virus, including the emergence of new strains of the virus such as the Delta and Omicron variants, potential resurgences of large scale quarantines and business restrictions, the need for, and availability of, booster vaccines; the effectiveness and efficiency of distribution of vaccines; the recovery time of the disrupted supply chains and industries, which are highly uncertain and unpredictable. We are uncertain as to when the COVID-19 pandemic will be fully contained in China and globally, nor can we predict whether COVID-19 will have long-term impact on our business operations. Despite the adverse impacts of COVID-19 mentioned above, leveraging our excellent operational and testing capabilities, we quickly developed COVID-19 testing protocol and started to offer COVID-19 tests as early as

RISK FACTORS

February 2020, and were one of the forerunners among ICL service providers in China. However, we cannot assure you that the circumstances that have accelerated the growth of our COVID-19-related testing service stemming from the effects of the COVID-19 pandemic may not continue in the future once the impact of the COVID-19 pandemic tapers. For details, please see “– Revenues generated from COVID-19 related testing services may not be sustainable”.

Revenues generated from COVID-19 related testing services may not be sustainable.

In response to the COVID-19 outbreak, we began to offer COVID-19 related tests in February 2020, and later turned COVID-19 related testing services into a regular line of service and continue to offer testing services for those who are in need. During the Track Record Period, we performed a total of over 133 million COVID-19 tests. Revenues from COVID-19 tests amounted to RMB924.5 million, RMB1,232.4 million and RMB2,284.6 million in 2020, 2021 and 2022, respectively. Although we have experienced heavy demand for COVID-19 testing as a result of the pandemic, which has had a positive impact on our overall testing volume, the duration and level of the demand for, and pricing for, COVID-19 testing is uncertain. The circumstances that have accelerated the growth of our COVID-19 related testing service may not continue in the future once the impact of the COVID-19 pandemic tapers. By the end of 2022, Chinese government eased its dynamic zero-COVID policy, lifted most of the COVID-19 related restrictions, and canceled mass testings previously implemented in various regions across the country. This had significantly reduced the demand of our COVID-19 related testing services nationwide, and is expected to result in significant decline of revenues generated from such services in the future. The extent to which the pandemic impacts our results of operations going forward will depend on future developments which are uncertain and unpredictable, including the frequency, duration and extent of outbreaks of COVID-19, the appearance of new variants with different characteristics, the effectiveness of efforts to contain or treat cases, and future actions that may be taken in response to these developments.

If we fail to keep up with industry and technology developments or implement new technologies into our test offerings in a timely and cost-effective manner, we may be unable to compete effectively and our business and prospects could suffer.

We operate in a market that evolves constantly and we must keep pace with new technologies and methodologies to maintain our competitive position. It is critical for us to continue investing significant amounts of capital resources to develop or acquire new technologies in order to enhance the scope and quality of our services. In particular, China’s ICL industry is characterized by rapid changes, including technological and scientific breakthroughs, increasing amounts of data, frequent introductions of new tests, and evolving industry standards. If we are not able to keep pace with these advances and increased customer expectations as a result of these advances and capture new market opportunities that develop as a result of these advances, our proprietary technologies could be rendered obsolete, our existing testing services and testing services we are developing could be rendered less clinically effective, and our future operations and prospects could suffer. To remain competitive, we must expend significant amount of resources to continuously upgrade our existing testing services, and launch new services, and further optimize our technology platforms to keep pace with industry and technological advances. We cannot assure you that these efforts will be successful. We may never realize a return on investment on these efforts, especially if the new test or service offerings fail to perform as expected, in which case our business, financial condition and results of operations could be adversely affected.

We may also decide to continue expanding our business by entering into new markets and new geographic areas, and therefore may need to develop or adapt to new technologies and methodologies. We cannot assure you that we will be able to develop, enhance or adapt to new technologies and methodologies in a timely manner or at all. Any failure to do so could significantly reduce demand for our services and harm our business and prospects.

RISK FACTORS

Furthermore, developing new technologies and methodologies successfully requires us to accurately assess and meet customers’ needs, make significant capital expenditures or investments, hire, train and retain qualified personnel, obtain required regulatory clearances or approvals, increase customer awareness and acceptance of our services, provide high-quality services in a timely manner, price our services competitively, integrate innovations into our existing system and effectively incorporate customer feedback into our business planning. Any failure to do so could significantly affect our ability to develop and market our new technologies and methodologies and therefore significantly reduce demand for our services and harm our business and prospects.

If we suffer substantial disruption to our laboratories by any reason beyond our control, our business, financial condition and results of operations could be adversely affected.

Any interruption in testing operations in our laboratories could result in our inability to provide satisfactory services to our customers. A number of factors could cause interruptions, including equipment malfunctions or failures, technology malfunctions, damages to or destruction of our facilities due to natural disasters, regional power shortages, product tampering or terrorist activities. Any disruption that impedes our ability to provide our services in a timely manner could materially harm our business, financial condition and results of operations.

Any negative media coverage or publicity on us or the ICL industry, whether true or not, could adversely affect our business.

The reputation of our brand is critical to our business and competitiveness. If we fail, or are perceived to have failed, to deal with issues that may give rise to reputational risk, our business and prospects may be harmed. Failure to appropriately address these issues could reduce customers’ confidence in us or increase customer attrition rate, which may adversely affect our reputation and business. In addition, any malicious or negative allegation made by the media or other parties about the foregoing or other aspects, including our management, business practices, compliance with law, financial conditions or prospects, whether with merit or not, could severely compromise our reputation and harm our business and operating results.

Negative publicity about the ICL industry in general may also have a negative impact on our reputation, regardless of whether we have engaged in any inappropriate activities. Moreover, negative publicity about our suppliers, business partners, service providers or other counterparties, such as negative publicity about their customer complaints and any failure by them to adequately protect the information of our customers and patients, to comply with applicable laws and regulations or to otherwise meet required quality and service standards could harm our reputation. If any of the foregoing takes place, our business and results of operations could be materially and adversely affected.

If our in-house logistics team or our logistics service providers encounter any performance issues, our business, results of operations and financial condition could be adversely affected, and our reputation and ability to provide our testing services on a timely basis could be harmed.

The quality of our testing service largely depends on our ability to deliver the properly stored and preserved test samples from the medical institutions to our laboratories. To render accurate testing results requires us to preserve test samples to a high standard, which could be difficult as test samples are sensitive to various external conditions, such as biological materials, temperature, air, or light. Therefore, we have established an in-house logistics team consisting of over 1,300 personnel as of December 31, 2022, a nationwide logistics service network and professional quality monitoring system to ensure high-quality logistics services. We also applied cold-chain technologies through our proprietary incubators to maintain the activity and effectiveness of the test sample during the delivery. See “Business – Our Logistics Capabilities.”

RISK FACTORS

We strive to operate our logistics team both effectively and efficiently, and we have not encountered any material inaccuracy in our testing results due to the unsatisfactory performance of our logistics team or the third-party logistics service providers we engage. However, our in-house logistics team or the third-party logistics service providers may encounter performance issues in the future that cause the test samples to be exposed to inappropriate temperatures or other improper storage conditions and lose activity or effectiveness, which in turn make the testing results based on such testing samples inaccurate. As a result, our business, results of operations and financial condition could be adversely affected, and our reputation and ability to provide our testing services on a timely basis could be harmed.

We rely on our in-house marketing force to promote our services. If our in-house sales and marketing personnel are unable to conduct effective marketing or sales, our business could be adversely affected.

Successful sales and marketing are crucial for us to increase the market penetration of our existing services, expand our coverage of medical institutions and other types of customers and promote new services in the future. If we are unable to increase or maintain the effectiveness and efficiency of our sales and marketing activities, our sales and business prospects could be adversely affected.

Our sales and marketing force must possess a relatively high level of technical knowledge, up-to-date understanding of industry trends, necessary expertise in the relevant specialty areas and testing services, as well as sufficient promotion and communication skills. If we are unable to effectively train our in-house sales personnel or monitor and evaluate their academic-driven marketing performances, our sales and marketing may be less successful than desired.

Moreover, our ability to attract, motivate and retain qualified and professional sales force is especially important because we also rely on our in-house sales force to market and sell our testing services. Competition for experienced marketing, promotion and sales personnel is intense. If we are unable to attract, motivate and retain a sufficient number of qualified and professional marketing, promotion and sales personnel, sales of our services may be adversely affected and we may be unable to expand our coverage or increase our market penetration as contemplated.

Failure in our information technology systems or delays in the development and implementation of updates or enhancements to those systems could significantly disrupt our operations.

We depend on our proprietary information technology systems, as well as those of third parties, to successfully deliver our services in all aspects including clinical testing, test reporting, billing, customer service and logistics. The satisfactory performance, reliability and availability of our IT systems are critical to our business operations. Any material disruption or slowdown of our systems or those of third parties whom we depend upon, or any technical failures associated with the information technology systems, including those caused by power loss, natural disasters, network failures, computer viruses, ransomware, or other unauthorized tampering could cause outages or delays in our services, which could harm our brand and adversely affect our operating results.

Additionally, we must continue to upgrade and improve our information technology infrastructure to support our business growth. However, we cannot assure you that we will be successful in executing these system upgrades, and the failure to do so may impede our growth. We may experience surges in orders associated with seasonal fluctuations and generally as we scale, which can put additional demand on our IT systems at specific times. Our technology or infrastructure may not function properly at all times. Any of such occurrences could cause severe disruption to our daily operations. As a result, our reputation may be materially and adversely affected, our market share could decline and we could be subject to liability claims.

RISK FACTORS

We also rely on technologies that we license from third parties, including standard office software. These licenses may not continue to be available to us on commercially reasonable terms or at all in the future. As a result, we may be required to obtain substitute technologies. There is no assurance that we will be able to obtain such substitute technologies on commercially reasonable terms, or at all, which could negatively affect the functionality of our IT systems and our business operations.

We are subject to environmental, health and safety laws and regulations. If we fail to comply with such regulations, our business may be adversely impacted.

Our past and present business operations are subject to national and local laws and regulations in which we operate, including but not limited to the laws on the treatment and discharge of pollutants into the environment, on occupational health and safety for the healthcare industry and on the use of highly toxic and hazardous chemicals used in our business operations. Because the requirements imposed by such laws and regulations may change and more stringent laws or regulations may be adopted and relevant governmental authorities may regularly or irregularly conduct inspections of the laboratories, we may be unable to comply with, or to accurately predict the timing and the outcome of such safety inspections, with risks of substantial costs needing to be incurred to comply with, these laws, regulations and inspections. If we fail to comply with environmental protection and health and safety laws and regulations, we may be subject to various consequences, including substantial fines, possibility of significant monetary damages or suspensions of our business operations. As a result, any failure by us to control the use or discharge of hazardous substances could have a material and adverse impact on our business, financial condition and results of operations.

In addition, we cannot fully eliminate the risk of accidental contamination, biological hazards or personal injury at our facilities during normal operations. In the event of any accident, we could be held liable for damages and clean-up costs that, to the extent not covered by existing insurance or indemnification, could be burdensome to our business. Other adverse effects could result from such liability, including reputational damage resulting in the loss of business from customers. We may also be forced to close or suspend operations at certain of our affected facilities temporarily, or permanently. If we breach any environmental-related laws and regulations, or face any accusation of negligence in environmental protection, in addition to the potential fines and penalties, such incidents may also adversely affect our reputation and creditability. As a result, any accidental contamination or personal injury could have a material and adverse impact on our reputation, business, financial condition and results of operations.

Furthermore, potential transition risk may result from the transitioning to a lower-carbon economy which entails change in climate-related regulations and policies. In the medium term, we may be subject to heightened pollutant discharge policies, which may result in higher operating costs due to increased cost for pollutant charge, fines and penalties as a result of non-compliance and higher operating costs incurred in connection with investment in new facilities. In the long term, alongside with worldwide initiatives for reducing carbon emissions, we may be subject to higher operational costs or tax burdens, which could have a material and adverse impact on our business, financial condition and results of operations.

Pursuant to applicable rules and regulations, medical institution construction projects shall be subject to mandatory inspection and acceptance procedures, once their actual operations reach 75% or above of their designed operating scale. As of the Latest Practicable Date, certain of our laboratories have not yet reached 75% or above of the designed operational scale, and are voluntarily preparing for or going through the environmental protection inspection and acceptance procedures and may be required by competent government authorities to take certain improvement or rectification measures before completion of such procedures. We have obtained confirmations from the ecology and environment bureaus at district or above levels that (i) the current practice of the relevant laboratories is consistent with applicable rules and regulations, and (ii) no environment-related governmental penalty has been made against the relevant laboratories during

RISK FACTORS

the Track Record Period. As advised by our PRC Legal Advisor, these local ecology and environment bureaus are the competent authorities to perform environmental protection inspection and acceptance procedures of the concerned laboratories. Based on the applicable rules and regulations, and the aforementioned confirmations, our PRC Legal Advisor is of the view that the operations of these laboratories during the Track Record Period in this regard are in compliance with applicable environmental protection laws and regulations in all material respects.

In addition, we did not obtain the Report Form on Environmental Impact of Construction Project for part of Jinan Adicon (890 square meters) due to a limitation of the condition of the leased site. The spacing between the exterior wall of the expansion area and the surrounding buildings does not meet relevant requirements of local practices. Pursuant to the Environmental Impact Assessment Law of the People's Republic of China (《中華人民共和國環境影響評價法》), the Administrative Regulations on Environmental Protection in Construction Projects (《建設項目環境保護管理條例》) and other related rules, if we fail to obtain an approval on an environmental impact report or fail to make a filing of an environmental impact registration form for construction projects (as the case may be, "**Environment Approval**") before we build up a new laboratory or make substantial changes in terms of testing volume, waste discharge measures, operational site, among others, to an existing laboratory, we may be ordered to (a) in the case of failure to obtain relevant approval, suspend the construction, subject to a fine ranging from 1% to 5% of total investment amount of the construction, which equals RMB9,600 to RMB48,000 in our case, or restore to original operating status by suspending all operations on or the construction of the concerned areas and to only operate on the approved areas; or (b) in the case of failure to make the relevant filing, make up the filing and subject to a fine up to RMB50,000. If we fail to complete environmental protection inspection and acceptance procedures in time in accordance with applicable regulations for one completed construction or changes for an existing construction which has been issued with an Environment Approval, we may be subject to, among other things, (i) an order that we make necessary rectifications with a prescribed deadline and a fine between RMB200,000 and RMB1,000,000; or (ii) in the case of failure to make rectifications, a fine between RMB1,000,000 and RMB2,000,000. We may also be ordered to suspend operations or use of the construction concerned if such non-compliance causes material environment pollution or ecological damage.

If we are unable to attract or retain experienced and qualified personnel, including key management personnel, qualified professionals, our business, financial conditions and results of operations could be adversely affected.

The loss of key management personnel or the inability to attract and retain experienced and qualified professionals, as well as employees at our laboratories could adversely affect our business. Our success is dependent in part on the efforts of key members of our management team. The operation of our laboratories also depends on employing and retaining qualified and experienced professionals, including specialists, who perform laboratory research activities and testing services. The supply of professionals in our industry is limited due to the length of study and training required, including academic study and clinical training, which can take years. We believe that skilled professionals generally consider the following key factors, among others, when selecting laboratories to work at, the reputation and culture of the company, the quality of facilities and supporting staff, the efficiency of management, the level of compensation, and the number and quality of training programs. We may not compete favorably with our competitors in respect of one or more of these factors and, we may not be able to attract or retain the talent desired.

The same is true for our sales and marketing staff as well as logistics personnel with specialized training required to perform activities related to specimen collection, handling and delivery. In the future, if competition for the services of professionals and staff increases, we may not be able to continue to attract and retain individuals in the market. Changes in key management, or the ability to attract and retain qualified personnel, could lead to strategic and operational challenges and uncertainties, distractions of management from other key initiatives, and inefficiencies and increased costs, any of which could adversely affect our business, financial condition, results of operations, and cash flows.

RISK FACTORS

We depend on third-party suppliers and service providers for different aspects of our business. If these suppliers and service providers can no longer provide satisfactory services to us on commercially reasonable terms, our business and results of operations may experience adverse impact.

We depend on third parties for different aspects of our business, such as hazardous wastes disposal, supplying equipment, reagents, consumables and other raw materials, and delivering samples for our testing services. We also cooperate with some qualified third-party service providers on an insignificant portion of testing items to our customers. Selecting, managing and supervising these third-party suppliers and service providers require significant resources and expertise. Unsatisfactory performance by these third parties, including their failure to provide services according to applicable legal and regulatory requirements, the terms of our contracts or otherwise below standard, could significantly and negatively affect the quality of our services, damage our reputation or cause other harm or losses to us.

Our suppliers expose us to risks associated with fluctuations in prices of equipment, reagents, materials and services they provide us, and reductions in the availability of these services, equipment and materials may disrupt our operations. During the Track Record Period, our major suppliers were generally able to satisfy our demands, and the price set by our suppliers remained relatively stable. See "Business – Top Customers and Suppliers" for a detailed description of our suppliers. However, we cannot assure you that this will continue to be the case in the future. The prices may be affected by a number of factors beyond our control, including market supply and demand, the PRC or international environmental and regulatory requirements, natural disasters, the PRC and global economic conditions. A significant increase in the costs of such equipment, reagents, materials and services may increase our cost of sales and negatively affect our profit margins and, more generally, our business, financial conditions, results of operation and prospects. In addition, the service or supply agreements we have with third-party suppliers and service providers are generally not on an exclusive basis. If these third parties do not continue to maintain or expand their cooperation with us, we would be required to seek new substitutes for these third-party material or service providers, which could disrupt our operations and adversely affect our results of operations.

We have limited control over our third-party suppliers. Illegal actions, misconduct or any failure by our suppliers to provide satisfactory services could materially and adversely affect our business, reputation, financial condition, and results of operations. In addition, we may be unable to receive sufficient compensation from our suppliers for the losses caused by them.

Since we rely on third-party suppliers to conduct various aspect of our business, such as providing the testing equipment, reagent and materials or promoting our services, we are exposed to the risk of illegal actions, misconduct or any failure by our third-party suppliers to provide satisfactory services. For instance, certain of our suppliers are subject to various regulations and are required to obtain and maintain various qualifications, government licenses and approvals. If any of these suppliers loses its qualification or eligibility because of its failure to comply with regulatory requirements, we may not be able to find alternative suppliers in a timely manner or at all. In addition, some of our suppliers import certain equipment and materials from manufacturers located outside China and resell to us. As a result, trade or regulatory embargoes imposed by foreign countries or China could also result in delays or shortages that could harm our business. Moreover, general economic conditions could also adversely affect the financial viability of our suppliers, resulting in their inability to provide materials and services used in our operations. If we are unable to identify alternative materials or suppliers and secure approval for their use in a timely manner, our business could be materially harmed. Any change in suppliers could require significant effort or investment, particularly in circumstances where the items supplied are integral to service performance or incorporate unique technologies, and the loss of these supply contracts may have a material adverse effect on us. Any material misconduct or disputes against our suppliers could potentially harm our business and reputation.

RISK FACTORS

Although we take precautions to detect and prevent misconduct of, or provision of defective products or services provided by our suppliers, it is not always possible to identify and deter such misconduct or defects, and we may not be able to effectively control unknown or unmanaged risks or losses, or protect us from governmental investigations or other actions or lawsuits stemming from such misconduct or defects. Our suppliers or service providers who are responsible for the claims, disputes or legal proceedings against us due to defective supplies or services provided to us or our customers, may not be able to indemnify us in a timely manner, or at all, for any costs or losses that we incur as a result of such claims, disputes and legal proceedings.

The price of equipment, reagents and consumables, which is affected by many factors beyond our control, could adversely affect our margins and results of operations.

We procure equipment, reagents, consumables and other goods and services necessary for our operations. The prices may increase in the future due to various factors beyond our control. In the event of significant price increases for such supplies, we may have to pass the increased costs to our customers. However, we cannot assure you that we will be able to raise the prices of our services sufficiently to cover such increased costs. As a result, any significant price increase of our raw materials may have an adverse effect on our profitability and results of operations. In order to meet the increasing demand arising out of our growth in business, we will be required to increase our procurement of the abovementioned products. However, as we grow, our existing suppliers may not be able to meet our increasing demand, and we may need to find additional suppliers. There is no assurance that we will always be able to secure suppliers who provide products at reasonable and acceptable prices, and the failure to do so will adversely affect our business performance and results of operations. Furthermore, as we sold certain medical products during the Track Record Period, we also face uncertainties in relation to the volume-based procurement policies in China. If any of the medical products we sell are subject to volume-based procurement scheme implemented in places where we operate, the procurement prices for such medical products may decrease, which may adversely affect our profitability and results of operations.

Availability of public and private insurance coverage and insurers reimbursement policies may affect our revenues, margins and results of operations

Sales of our testing services partly depends on the reimbursement policies of the governmental authorities and health insurers. Failure to obtain or maintain adequate medical insurance coverage and reimbursement for our testing services could limit our ability to market those services and decrease our ability to generate revenue.

Our ability to sell our testing services may be affected by the availability of governmental and private health insurance in China. China has a complex medical insurance system that is undergoing reform. The governmental insurance coverage or reimbursement level in China for new healthcare services is subject to significant uncertainty and varies from region to region, as local government approvals for such coverage must be obtained in each geographic region in China. In addition, the PRC government may change, reduce or eliminate the governmental insurance coverage currently available for treatments based on a number of factors, including due to price and efficacy.

We cannot assure you that our testing services will be covered by the PRC national medical insurance reimbursement list in the future or our services will be covered by private insurance companies in China in the future. In addition, currently certain private insurance companies in China tend to reimburse patients for a higher percentage of the cost if they use a medical device manufactured by a Chinese domestic company as opposed to an imported device. We cannot be certain that insurers will continue to adopt this favorable policy in the future.

RISK FACTORS

On the other hand, PRC regulations and medical insurance plans may exert significant influence over our pricing policies, which could affect our profitability. We may need to lower the prices of our services in order to have them included in the medical insurance reimbursement list, and such price cuts and reimbursement may not necessarily lead to increase in our sales and our results of operations may be adversely affected.

Business development activities are inherently risky and integrating businesses we acquired with our existing operations may be difficult and unsuccessful.

We plan to expand our business from time to time through business development activities. For example, acquisitions of local laboratories with strong potential and broad local customer base, minority investments and strategic alliances. However, these plans are subject to the availability of appropriate opportunities and competition from other companies seeking similar opportunities. Moreover, the success of any such effort may be affected by a number of factors, including our ability to properly assess and value the potential business opportunity, and our ability to integrate the targeted business into our own. The success of our strategic alliances depends not only on our contributions and capabilities, but also on the property, resources, efforts and skills contributed by our strategic partners. Further, disputes may arise with strategic partners, due to conflicting priorities or conflicts of interests.

Structural differences in acquisitions such as asset acquisitions or acquisitions of equity interests may have differing risks. We may not be successful in integrating our acquisition targets, whom may have different systems, processes, policies and cultures. Integration of acquisitions involves a number of risks including the diversion of management’s attention to the assimilate the operations of assets or businesses we have acquired, difficulties in the integration of operations and systems and the realization of potential operating synergies, the assimilation and retention of the personnel of the acquired businesses, challenges in retaining the customers of the combined businesses, and could have potential adverse effects on our operating results. The process of combining acquisitions may be disruptive to our businesses and may cause an interruption of, or a loss of momentum in, such businesses as a result of the difficulties in standardizing information and other systems, in consolidating facilities and infrastructure, to maintain the quality or timeliness of services that we have historically provided, as a result of diverting our management’s attention from the day-to-day business as a result of the need to deal with the foregoing disruptions and integration, and the added costs of dealing with such disruptions.

If we are unable successfully to integrate strategic acquisitions in a timely manner, our business and our growth strategies could be negatively affected. Even if we are able to successfully complete the integration of the operations of other assets or businesses we may acquire in the future, we may not be able to realize all or any of the benefits that we expect to result from such integration, either in monetary terms or in expected capabilities in a timely manner, if at all.

If we fail to comply with anti-bribery or anti-money laundering laws, our reputation may be harmed, and we could be subject to significant penalties and expenses that could have a material adverse effect on our business, financial condition, and results of operations.

We are subject to the anti-bribery laws of the jurisdictions in which we operate, particularly China. In China, the Anti-Unfair Competition Law (《反不正當競爭法》) promulgated by SCNPC, as amended and effective as of April 23, 2019, the Interim Provisions on the Prohibition of Commercial Bribery (《關於禁止商業賄賂行為的暫行規定》) promulgated by the former State Administration of Industry and Commerce on November 15, 1996 and other related laws and regulations, prohibit giving and receiving money or property (which includes cash, proprietary interests and items of value) to obtain an undue benefit. Further, in China, Anti-Money Laundering Law of the People’s Republic of China (《中華人民共和國反洗錢法》), promulgated by the Standing Committee of the National People’s Congress on October 31, 2006 and effective on January 1, 2007, prohibits money laundering. In addition, many of our customers require us to follow strict anti-bribery as part of doing business with us. Our procedures and controls to monitor

RISK FACTORS

anti-bribery and anti-money laundering compliance may fail to protect us from reckless or criminal acts committed by our employees or agents. If we fail to comply with applicable anti-bribery laws and anti-money laundering laws, we may be subject to civil liabilities, and administrative and criminal penalties and sanctions or incur significant expenses, our reputation and bidding qualifications could be negatively affected and our customers could cancel or not renew contracts for our services, all of which could have a material adverse effect on our business, financial condition and results of operations.

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

We are exposed to the risk of fraud, bribery, misconduct or other illegal activities by our employees, senior management, directors, customers, suppliers, business partners or other third parties, which may adversely affect our business and reputation. Misconduct by these parties could include intentional failures to (i) comply with the regulations of State Administration for Market Regulation or SAMR, National Medical Products Administration or NMPA, National Health Commission or NHC and overseas regulators that have jurisdiction over us, (ii) comply with healthcare fraud and abuse laws and regulations in China and abroad, (iii) report financial information or data accurately or, (iv) disclose unauthorized activities to us. Also, sales, marketing, and business arrangements in the healthcare industry are subject to extensive laws and regulations intended to prevent fraud, misconduct, kickbacks, self-dealing and other abusive practices. These laws and regulations may restrict or prohibit a wide range of pricing, discounting, marketing and promotion, sales commission, customer incentive programs and other business arrangements. Such misconduct could also involve the improper use of information, including sensitive information such as personal data and other privacy, obtained in the course of clinical studies, which could result in regulatory sanctions and cause serious harm to our reputation.

We have established internal control policies on guiding and monitoring the conduct of our employees, senior management, directors, customers, suppliers, business partners or other third parties. We provide training on our internal control policies to our employees on a regular basis. However, it is not always possible to identify and deter employee misconduct, and our internal controls to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses, or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to comply with our internal control policies. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could result in the imposition of significant civil, criminal and administrative penalties, including, without limitation, temporary or permanent restrictions on our business, cancellation of licenses and permits, damages, monetary fines, individual imprisonment, disgorgement of profits, contractual damages, reputational harm, diminished profits and future earnings, additional reporting or oversight obligations, disqualification for biddings. If we become subject to a corporate integrity agreement or other agreement to resolve allegations of non-compliance with the law which could require curtailment or restructuring of our operations and could have a significant impact on our business. Whether or not we are successful in defending against such actions or investigations, we could incur substantial costs, including legal fees, and divert the attention of management while defending ourselves against any of these claims or investigations.

In particular, the promotion, sales and marketing of our testing services, as well as certain business arrangements in the ICL and healthcare industry, are subject to extensive laws designed to prevent fraud, kickbacks, self-dealing and other abusive practices. Activities subject to these laws also involve the improper use of information obtained in the course of clinical testing, which could result in regulatory sanctions and cause serious harm to our reputation. It is not always possible to identify and deter misconduct by our employees and other parties, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to comply with these laws or regulations. If any such actions are instituted against

RISK FACTORS

us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business, including the imposition of significant fines or other sanctions. In addition, our employees, management, directors, customers, suppliers, business partners and other third parties may be subject to legal, regulatory and administrative proceedings. The existence of such legal, regulatory and administrative proceedings, even if they do not involve us, may harm our reputation, and adversely affect our business and operations. We may also be subject to administrative or criminal penalties for misconducts and illegal activities conducted by our employees.

We cannot guarantee that our employees, management, directors, customers, suppliers, business partners and other third parties will not act in breach of our internal control policies nor attempt to evade our monitoring nor breach applicable laws and regulations. According to (2015) Min Xing Chu Zi No. 3087 Judgment, the People’s Procuratorate of Minhang District, Shanghai prosecuted Shanghai Adicon due to bribery conducts in a total amount of RMB1,814,378 as a result of its sales manager and the relevant sales representatives with the approval of its then general manager from January 2011 to May 2014 seeking to maintain a competitive advantage (the “**Shanghai Incident**”). In December 2015, due to the Shanghai Incident, Shanghai Adicon was fined RMB600,000 and became disqualified to participate in government procurement activities for the following three years. After the Shanghai Incident, we terminated the employment agreements with these aforementioned employees and relevant sales representatives. Other than Shanghai Adicon, the business of our other subsidiaries has not been affected by the Shanghai Incident. The impact of the Shanghai Incident on Shanghai Adicon was not material and Shanghai Adicon has been eligible to participate in government procurement activities from 2019. As of the Latest Practicable Date, the main business of Shanghai Adicon is to provide testing services for CRO and pharmaceutical companies for scientific research or clinical trial purposes. See “Business – Incidents – Incidents Relating To Bribery.”

In addition, we may have disputes with our employees, third-party suppliers, consultants and commercial partners due to such misconduct or for other reasons, such as quality of products or services provided by these third-parties, which may result in suspension or termination of supply of products or services to us, suspension or termination of certain of our production or research and development activities, litigation or arbitration, contractual damages and other payments by us, other liabilities of ours, writing off of amounts paid or receivables, and other negative impacts on our business operations, and such results may have a material adverse effect on our business, financial condition and results of operations.

Any change in the regulations governing the use of personal data in China, which are still under development, and any failure to comply with such current or future regulations, could adversely affect our business and reputation.

In the ordinary course of our business, we collect and store sensitive data, including protected health information, personally identifiable information, financial information, intellectual property, and proprietary business information owned or controlled by ourselves or our customers, payors, and other parties in China. Any such unauthorized access, loss, or dissemination of information could result in legal claims, proceedings or liability under PRC laws and regulations that protect the privacy of personal information. For example, pursuant to the Measures for the Administration of General Population Health Information (for Trial Implementation) (《人口健康信息管理辦法(試行)》), the medical institutions including our medical laboratories are responsible for collection, management, utilization, safety and privacy protection of personal healthcare data.

We have established internal systems to safeguard relevant personal healthcare data. However, the laws and regulations regarding privacy and data protection in China, as well as other jurisdictions, are generally complex and evolving, with uncertainty as to the interpretation and application thereof. As such, we cannot assure you that our privacy and data protection measures are, and will be, always considered sufficient under applicable laws and regulations. If we are

RISK FACTORS

unable to comply with the applicable laws and regulations, or to address any data privacy and protection concerns, such actual or alleged failure could damage our reputation, deter current and potential customers from using our services and could subject us to significant legal, financial and operational consequences.

Furthermore, we are subject to a variety of laws and other obligations relating to the security and privacy of data, including restrictions on the collection, use and storage of personal information and requirements to take steps to prevent personal data from being divulged, stolen, or tampered with. In light of the constantly evolving and potentially more stringent regulatory requirements of cybersecurity and data privacy and the possible variation of regulations and interpretations, it remains unclear how and to what extent such regulatory requirements will apply to us.

For example, on June 10, 2021, the SCNPC promulgated the Data Security Law of the People’s Republic of China (《中華人民共和國數據安全法》), or the Data Security Law, which became effective on September 1, 2021. The Data Security Law provides that “data” refers to any recording of information by electronic or other means and “data processing” includes the collection, storage, use, processing, transmission, availability and disclosure of data, etc. Data processors shall establish and improve the whole-process data security management rules, organize and implement data security training as well as take appropriate technical measures and other necessary measures to protect data security. Data processing activities that affect or may affect national security shall be subject to a data security review procedure. However, as of the Latest Practicable Date, Chinese governments have not yet promulgated any specific measures on how to implement such data security review system in practice.

In addition, on December 28, 2021, the CAC, jointly with other 12 governmental authorities, promulgated the revised Measures for Cybersecurity Review (《網絡安全審查辦法》), or the Revised CAC Measures, which became effective from February 15, 2022. On the basis of the Measures for Cybersecurity Review promulgated on April 13, 2020, or the CAC Measures, the Revised CAC Measures further restates and expands the applicable scope of the cybersecurity review. Pursuant to the Revised CAC Measures, a cybersecurity review is required when national security has been or may be affected where a critical information infrastructure operator (the “**CIIO**”) (關鍵信息基礎設施運營者) purchases network products and services, and an online platform operator carries out data processing activities. Moreover, the Revised CAC Measures also provide that an online platform operator (網絡平台運營者) possessing personal information of more than one million users that applies for listing abroad, shall make declaration for cybersecurity review with the Office of Cybersecurity Review. On July 30, 2021, the State Council promulgated the Regulations for Safe Protection of Critical Information Infrastructure (《關鍵信息基礎設施安全保護條例》) (the “**CII Regulation**”) which came into effect on September 1, 2021. Pursuant to the CII Regulation, critical information infrastructure refers to important network infrastructure and information system in public telecommunications, information services, energy sources, transportation and other critical industries and domains, in which any destruction or data leakage will have severe impact on national security, the nation’s welfare, the people’s living and public interests. The CII Regulation also stipulates the procedures for determining critical information infrastructure. It provides that competent authorities shall promulgate detailed rules in designating critical information infrastructure, identify critical information infrastructure in the relevant industries, and notify operators of such critical information infrastructure in a timely manner. As of the Latest Practicable Date, the responsible authorities had not promulgated any implementation provisions or identification rules which include ICL industry in the relevant scope of “critical information infrastructure”. In addition, as of the Latest Practicable Date, we had not been notified by any authorities of being classified as a CIIO, involved in any cybersecurity review or received any investigation, inquiry, notice, warning or sanctions by any governmental authorities on such basis. Based on the foregoing, our Directors believe that we should not be classified as a CIIO. In addition, on March 14, 2022, our PRC Legal Advisor and the PRC legal advisor to the Joint Sponsors conducted a telephone consultation with the China Cybersecurity Review Technology and Certification Center (中國網絡安全審查技術與認證中心) (the “**Center**”), the department responsible for accepting cybersecurity review applications under the guidance of the Cybersecurity

RISK FACTORS

Review Office. During the consultation, our PRC Legal Advisor and the PRC legal advisor to the Joint Sponsors have informed the Center our proposed [REDACTED] plan, and the Center confirmed that [REDACTED] does not fall within the scope of “listing abroad” under the Revised CAC Measures, and therefore we are not required to proactively apply for cybersecurity review with respect to our proposed [REDACTED]. Our PRC Legal Advisor is of the view that the Center is the competent authority for the Consultation, and the staff who responded our inquires during the Consultation is the duly designated person in the Center to handle public inquiries. As such, our PRC Legal Advisor is of the view that [REDACTED] does not fall within the scope of “listing abroad” under the Revised CAC Measures and thereby we are not required to proactively apply for cybersecurity review with respect to the proposed [REDACTED].

Based on the fact that (i) our Directors believe that we should not be identified as CIIO, (ii) our PRC Legal Advisor is of the view, that we are not required to proactively filed for cybersecurity review with the CAC currently, (iii) as of the Latest Practicable Date, we had not received any notice from the competent government authorities requiring us to apply for the cybersecurity review, nor had we been subject to any fines or administrative penalties imposed by regulatory authorities for any violation of laws and regulations regarding cybersecurity or national security concerns, (iv) we source certain of our IT related products and services reliable providers with relevant qualifications required by applicable laws, (v) our integrated management system (信息綜合管理平台) has obtained the Filing Certificate for Information System Security Protection (Level II) issued by Hangzhou Public Security Bureau to ensure the security of information related to our business, and (vi) we have implemented a comprehensive set of internal policies, procedures, and measures to ensure our compliance practice, and to our best knowledge as of the Latest Practicable Date, none of our data processing activities have or may have any national security concerns, our Directors do not anticipate any impediment for us in complying with the Revised CAC Measures in all material aspects, nor do they foresee the Revised CAC Measures would have any material adverse impact on our business operations or our proposed [REDACTED].

Nevertheless, there remain uncertainties with respect to any future development of the relevant regulatory regime. There can be no assurance that the relevant authorities will not take a view that is contrary to or otherwise different from that of our Directors and our PRC Legal Advisor above, and it is also possible that the PRC government authorities may require us to apply for the cybersecurity review for other reasons, which is out of our control.

On November 14, 2021, the CAC issued the Regulations on the Administration of Cyber Data Security (Consultation Draft) (《網絡數據安全管理條例(徵求意見稿)》) (the “**Draft Data Security Regulations**”) for public comments. The Draft Data Security Regulations have set out requirements on matters such as the protection of personal information, security of important data, security management of cross-border data transfer, application for cybersecurity review and obligations of internet platform operators. According to the Draft Data Security Regulations, a data processor shall apply for a cybersecurity review if it involves the following activities: (i) the merger, reorganization or separation of internet platform operators that possess a large number of data resources related to national security, economic development or public interests, that influence or may influence national security; (ii) seeking listing abroad and processing personal information of more than one million users; (iii) seeking listing in Hong Kong, which will influence or may influence the national security; (iv) other data processing activities that will influence or may influence national security. However, neither the Revised CAC Measures nor the Draft Data Security Regulations provides further explanation or interpretation for “influence or may influence national security”. If (i) we are deemed as online platform operators and our data processing activities are deemed to influence or may influence national security under the Revised CAC Measures, or (ii) the Draft Data Security Regulations is fully implemented in the current form, and our [REDACTED] is deemed to influence or may influence national security, we may be subject to cybersecurity review.

RISK FACTORS

Given that as of the date of this Document, the Draft Data Security Regulations were released for public comments only and has not come into effect, and is thus subject to substantial uncertainties, it is impractical for us to predict the impact of the Draft Data Security Regulations on us at the current stage. Based on the facts that as of the date of this Document, (a) the Draft Data Security Regulations have not been formally adopted, and are subject to further guidance or related implementation rules, (b) we have not received any notices or inquiries from competent authorities requiring us to apply for the cybersecurity review according to the Draft Data Security Regulations, and (c) we have not been involved in any investigations on cybersecurity review made by the CAC on such basis and not received any inquiry, notice, warning, or sanctions in such respect, we and our PRC Legal Advisor do not expect, which the PRC legal advisor to the Joint Sponsors concurs, that as of the date of this Document, the Draft Data Security Regulations would have a material adverse impact on our business operations or the [REDACTED]. We will closely monitor the rule-making process and will assess and determine whether we are required to apply for the cybersecurity review once the Draft Data Security Regulations are formally promulgated.

In addition, as advised by our PRC Legal Advisor, by collecting, storing and otherwise processing certain information via internet during our business operation, we will be subject to relevant requirements under the Draft Data Security Regulations in terms of personal data protection, cybersecurity management, assessment and report and other applicable aspects assuming such regulations were to take full effect in the current form. In preparation of the Draft Data Security Regulations becoming effective in the future, we have studied various requirements under the Draft Data Security Regulations with regard to the protection of personal information, cybersecurity control, assessment and report, and have taken immediate internal control measures to ensure the compliance with the regulatory requirements in the current form, including thoroughly reviewing our business practices and operational policies, improving our privacy policies and service agreements with our customers, establishing relevant mechanism in response to data security incidents. We will continuously improve our operational procedures and take preventative measures to avoid future non-compliance under the guidance of relevant authorities. Based on the fact that during the Track Record Period and up to the Latest Practicable Date, (i) we had not been subject to material fines or administrative penalties imposed by relevant PRC government authorities for any violation of laws and regulations regarding data security and cybersecurity, and (ii) there had been no incident of data or personal information leakage, infringement of data protection laws and regulations or investigation or other legal proceeding against us in such aspects that materially and adversely affected our business, we and our PRC Legal Advisor are of the view, which the PRC legal advisor to the Joint Sponsors concurs, that if the Draft Data Security Regulations are fully implemented in the current form, we currently do not expect the Draft Data Security Regulations will have a material adverse impact on our business operations.

We expect that we will continue to face uncertainty as to whether our efforts will be sufficient to comply with evolving obligations under PRC data protection, privacy and security laws. Any non-compliance or perceived non-compliance with Data Security Law, Cybersecurity Law or related PRC regulations may result in fines or other penalties such as making certain required rectification, suspending our related business, taking down our operations and reputational damages or proceedings or actions against us by PRC regulatory authorities, customers or others, which may have an adverse effect on our business, operation or financial conditions.

Our insurance may not sufficiently cover, or may not cover at all, losses and liabilities we may encounter during the ordinary course of operation.

We maintain insurance policies that are required under PRC laws and administrative regulations as well as based on our assessment of our operational needs and industry practice. However, we cannot assure that our insurance coverage will be sufficient or available to cover damage, liabilities or losses we may incur in the ordinary course of our business. Our insurance coverage may be insufficient to cover any claim for medical disputes, damage to our fixed assets or employee injuries. Any liability or damage to, or damage caused by, our facilities or our personnel beyond our insurance coverage may result in our incurring substantial costs and require

RISK FACTORS

significant management attention. In addition, there are certain losses for which insurance is not available in the PRC on commercially practicable terms, such as losses suffered due to earthquakes, typhoons, flooding, war or civil disorder. If we are held responsible for any such damages, liabilities or losses and there is insufficient or unavailable insurance, we could suffer significant costs and diversion of our resources, and thereby materially and adversely affect our business, financial condition and results of operation.

Any breaches to our security measures leading to failure to maintain the security of customer-related information or compliance with security requirements could adversely reduce use of our services from customers and damage our reputation and brand name.

In the ordinary course of our business, we collect, process, and store sensitive data including, among other things, legally protected patient health information, personally identifiable information about our employees and proprietary business information, which makes our IT systems attractive targets and potentially vulnerable to cyberattacks, computer viruses, ransomware, physical or electronic break-ins or similar disruptions. While we have taken steps to protect the confidential information that we have access to, our security measures could be breached. Because techniques used to sabotage or obtain unauthorized access to systems change frequently and generally are not recognized until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any accidental or willful security breaches or other unauthorized access to our systems could cause confidential patient information to be stolen and used for criminal purposes. Security breaches or unauthorized access to confidential information could also expose us to liability related to the loss of the information, time-consuming and expensive litigation and negative publicity. If security measures are breached because of third-party action, employee error, malfeasance or otherwise, or if design flaws in our technology infrastructure are exposed and exploited, our reputation and brand name could be severely damaged, we could incur significant liability and our business and operations could be adversely affected.

We may not be able to obtain, maintain, or enforce our intellectual property rights and may be subject to intellectual property litigations that could adversely impact our business.

Intellectual property rights are essential to our business, and we devote significant time and resources to their development and protection. Our business relies on intellectual property, including patents, copyrights, trademarks, etc. The value of our intellectual property relies in part on our ability to maintain proprietary rights to such intellectual property. If we are unable to obtain or maintain the proprietary rights to our intellectual property, if we are unable to prevent attempted infringement against our intellectual property, or if we are unable to defend against claims of infringing on another party’s intellectual property, our business could be adversely affected. These adverse effects could include having to abandon, alter or delay the deployment of services or processes that rely on such intellectual property, having to procure and pay for licenses from the holders of intellectual property rights that we seek to use, and having to pay damages, fines, and costs in connection with intellectual property litigation.

Assertions by third parties of infringement or other violations by us of their intellectual property rights could result in significant costs and harm our business and results of operations.

The validity, enforceability and scope of intellectual property rights protection in China are uncertain and still evolving. We cannot be certain that our tests, technologies and services do not or will not infringe patents, software copyrights, trademarks or other intellectual property rights held by third parties. From time to time, we may be subject to legal proceedings and claims alleging infringement of patents, trademarks or copyrights, or misappropriation of creative ideas or formats, or other infringement of proprietary intellectual property rights. Any such proceedings and claims could result in significant costs to us and divert the time and attention of our management and technical personnel from the operation of our business. These types of claims could also potentially adversely impact our reputation and our ability to conduct business and raise capital, even if we are

RISK FACTORS

ultimately absolved of all liability. Moreover, third parties making claims against us may be able to obtain injunctive relief against us, which could block our ability to offer one or more services or tests and could result in a substantial award of damages against us. Intellectual property litigation can be very expensive, and it may have material adverse effect on our results of operations and financial positions to defend ourselves.

Because patent applications can take many years to issue, there may be pending applications, some of which are unknown to us, that may result in issued patents upon which our services, tests or proprietary technologies may infringe. Moreover, we may fail to identify issued patents of relevance or incorrectly conclude that an issued patent is invalid or not infringed by our technology or any of our services or tests. There is a substantial amount of litigation involving patents and other intellectual property rights in the PRC. If a third-party claim that we infringe upon a third-party's intellectual property rights, we may have to, among others:

- seek to obtain licenses that may not be available on commercially reasonable terms, if at all;
- abandon any services alleged or held to infringe, or redesign our services or processes to avoid potential assertion of infringement;
- pay substantial damages including, in exceptional cases, treble damages and attorneys' fees, if a court decides that the device, test or proprietary technology at issue infringes upon or violates the third-party's rights;
- pay substantial royalties or fees or grant cross-licenses to our technology; and
- defend litigation or administrative proceedings that may be costly whether we win or lose, and which could result in a substantial diversion of our financial and management resources.

If we are unable to maintain the confidentiality of our trade secrets or know-hows, our reputation, business and competitive position may be harmed.

Our commercial success will depend, in large part, on our ability to obtain, maintain and defend know-hows and other intellectual property protection with respect to our services. We seek to protect our trade secrets or know-hows, in part, by entering into agreements, including confidentiality agreements and non-disclosure agreements, with parties that have access to them, such as our employees, consultants, corporate partners and, other third-party service providers. Nevertheless, there can be no guarantee that an employee or a third party will not make an unauthorized disclosure of such proprietary confidential information. This might happen intentionally or inadvertently. It is possible that a competitor will make use of such information, and that our competitive position will be compromised, in spite of any legal action we might take against persons making such unauthorized disclosure. In addition, to the extent that our employees, consultants or contractors use intellectual property owned by others in their work for us, disputes may arise as to the rights of related work products created or the resulting know-how and inventions. Enforcing a claim that a third party illegally obtained and is using any of our trade secrets or know-hows is expensive and time-consuming, and the outcome is unpredictable.

We sometimes collaborate with third parties, such as research institutions to conduct research relevant to our business. The ability of these third-parties to publish or otherwise publicly disclose data and other information generated during the course of their research is subject to certain contractual limitations. These contractual provisions may be insufficient or inadequate to protect our confidential information. If we do not apply for patent protection prior to such publication, or if we cannot otherwise maintain the confidentiality of our confidential information, then our ability to obtain patent protection or to protect our trade secrets or know-hows may be jeopardized. Failure to protect our intellectual property may severely disrupt our business operations, reduce or eliminate any competitive advantage we have developed, and materially harm our business, financial condition results of operations and prospects, and any remediation may significantly divert management's attention and resources from other activities.

RISK FACTORS

We are subject to credit risks in relation to trade and bill receivables and customers could default on their obligations to pay our fees.

We are exposed to credit risks from our customers. Our trading terms with our customers are mainly on credit, except for new customers, where payment in advance is normally required. In general, we normally grant a credit period of 90 to 120 days. Starting from 2022, in response to Chinese government’s measures to contain the spread of the Omicron variant, we have participated in an increasing number of COVID-19 mass testing organized by local governments, which may have longer payment periods. We seek to maintain strict control over our outstanding receivables and we seek to minimize credit risks. However, there is no guarantee that all of our customers will settle payment in full as it falls due. If any of our customers refuses to settle the payment, becomes insolvent or delays its payment of our fees, our cash flow, as well as our business, results of operations, and financial position could be adversely affected. As of December 31, 2020, 2021 and 2022, we had total trade and bills receivables of RMB942.0 million, RMB1,213.5 million and RMB1,856.8 million, respectively. Any financial difficulties experienced by our customers may result in a reduction in their engagement of our services and expose us to higher credit risks, which could in turn materially and adversely affect our financial condition and results of operations.

We may not be able to effectively manage our inventory levels.

Our inventories mainly include reagents and consumables used in relation to our laboratory services, as well as finished goods which are equipment and instruments we sell to our customers. We have adopted a centralized inventory management system, to help manage our inventory levels based on our forecasts of customer demand for our services in each laboratory. Customer demand, however, can be affected by numerous uncertainties, including in relation to the outbreak of pandemic, regulatory approvals, possible seasonality and other factors beyond our control. Our inventories amounted to RMB102.9 million, RMB109.4 million and RMB229.4 million as of December 31, 2020, 2021 and 2022, respectively. If we fail to manage our inventory levels effectively, we may be subject to a higher risk of inventory obsolescence, a decline in the value of inventories, and potential inventory write-downs or write-offs. Procuring additional inventories may also require us to commit substantial working capital, which would prevent us from using this capital for other purposes. Any of the foregoing may adversely affect our results of operations and financial condition.

Our results of operations, financial conditions have been adversely affected by fair value changes of our convertible redeemable preferred shares during the Track Record Period and the effect of the fair value change may continue to adversely affect our results of operations and prospects.

We use significant unobservable inputs, such as expected volatility, discount for lack of marketability, risk-free interest rate and discount rate, in valuing our convertible redeemable preferred shares. Changes in fair value of our convertible redeemable preferred shares may significantly affect our financial position and results of operations. Accordingly, such determination requires us to make significant estimates, which may be subject to material changes, and therefore inherently involves a certain degree of uncertainty. Fair value of our convertible redeemable preferred shares amounted to RMB443.9 million, RMB621.9 million and RMB589.2 million as of December 31, 2020, 2021 and 2022, respectively. We experienced fair value losses on convertible redeemable preferred shares of RMB61.5 million in 2021. Factors beyond our control can significantly influence and cause adverse changes to the estimates we use and thereby affect the fair value of such liabilities. These factors include, but are not limited to, general economic condition, changes in market interest rates and stability of the capital markets. Any of these factors, as well as others, could cause our estimates to vary from actual results, which could materially and adversely affect our results of operations and financial condition. We will continue to experience fluctuation of the fair value of our convertible redeemable preferred shares after December 31, 2022 till the [REDACTED], upon which all the convertible redeemable preferred shares will automatically convert into our Shares. After the automatic conversion of the convertible redeemable preferred shares into Shares upon the [REDACTED], which may result in a net asset position, we do not expect to recognize any further loss or gain on fair value changes from the convertible redeemable preferred shares in the future.

RISK FACTORS

Our deferred tax assets may not be recovered.

Our deferred tax assets amounted to RMB52.0 million, RMB74.6 million and RMB118.4 million, as of December 31, 2020, 2021 and 2022, representing approximately 1.9%, 2.4% and 2.4% of our total assets as of the same dates, respectively. We periodically assess the probability of the realization of deferred tax assets, using accounting judgments and estimates with respect to, among other things, historical operating results, expectations of future earnings and tax planning strategies. In particular, as those deferred tax assets can only be recognized to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized. However, there can be no assurance that our expectation of future earnings will always be accurate as a result of factors beyond our control, such as general economic conditions or negative development of regulatory environment, or if we fail to recover impaired receivables and advances or financial assets, in which case the value of our deferred tax assets may not be recoverable and may result in a valuation allowance that would negatively affect our financial condition and results of operations.

We may suffer from goodwill impairment.

Goodwill is initially measured at cost. After initial recognition, goodwill is measured at cost less any accumulated impairment charges. We test goodwill for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash generating units to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. There are inherent uncertainties related to these factors and to our judgment in applying these factors to the assessment of goodwill recoverability. We could be required to evaluate the recoverability of goodwill prior to the annual assessment if there are any impairment indicators which could potentially be caused by our failure to successfully integrate the operations of our acquisition of the business to which the goodwill relates with our other operations. Where the actual future cash flows are less than expected, a material impairment charge may arise. The carrying amount of goodwill as of December 31, 2022 was RMB79.8 million, and we have not recognized any impairment charges as of the same date. Impairment charges could substantially affect our reported results of operations in the periods of these charges. In addition, impairment charges could negatively impact our financial ratios and limit our ability to obtain financing.

We have intangible assets other than goodwill. If our other intangible assets were determined to require impairment, it could adversely affect our results of operations and financial position.

We have intangible assets other than goodwill in the form of software, patents, and customer relationship. As of December 31, 2020, 2021 and 2022, the carrying value of our intangible assets excluding goodwill amounted to RMB3.0 million, RMB20.5 million and RMB143.7 million, respectively. At the end of each reporting period, we review the carrying amounts of intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment charge. In the event that our intangible assets are impaired, the amount of the impairment will constitute a non-cash expense to the profit or loss. A slowdown in revenue growth or a decrease in profit margins could result in an impairment to our intangible assets other than goodwill. We cannot assure you that we will continue to maintain the same level of revenue growth or profit margins. In addition, a change in the assumptions used in the impairment testing of intangible assets may lead to significant impairment charges. While we did not identify any indicators of impairment during the Track Record Period, if our intangible assets are impaired, or there is a change in the assumptions used in the impairment testing of our intangible assets, our results of operations could be adversely affected.

RISK FACTORS

We may not be able to fulfil our obligations in respect of contract liabilities, which may have a material and adverse impact on our results of operations and financial condition.

Our contract liabilities amounted to RMB11.7 million, RMB20.7 million and RMB21.1 million, as of December 31, 2020, 2021 and 2022, respectively. Our contract liabilities primarily arose from the advance payments from customers for the delivery of services and equipment. If we fail to fulfill our obligations under our contracts with customers, we may not be able to convert such contract liabilities into revenue, and our customers may also require us to refund the advance payments we have received, which may adversely affect our cash flow and liquidity condition. In addition, it may adversely affect our business, our relationship with such customers, which may also affect our reputation and results of operations in the future.

We have incurred, and expect to continue to incur, share-based compensation expenses, which may have a material and adverse effect on our results of operations.

We adopted Employee Incentive Plans in July 9, 2019, which were subsequently amended and restated on November 7, 2020, April 14, 2021 and October 1, 2021, to enhance our ability to attract and retain qualified individuals and align their interests with our growth and performance. For details of the Employee Incentive Plans, see “Appendix IV – Statutory and General Information”. We recorded RMB63.6 million, RMB37.3 million and RMB15.0 million in share-based compensation expenses in 2020, 2021 and 2022, respectively. We believe the granting of share based compensation is of significant importance to our ability to attract and retain key personnel and employees, and we will continue to grant share based compensation to key personnel in the future. As a result, our expenses associated with share-based compensation may increase, which may have an adverse effect on our results of operations.

Certain of our leased properties are subject to land defects, and we could be required to vacate such properties which may adversely affect our business, financial condition and results of operations.

As of the Latest Practicable Date, we did not own any real property, and we entered into 43 lease agreements of properties across different regions used for our offices and operating laboratories in the PRC. Upon expiration of the leases, we will need to negotiate for renewal of the leases and may have to pay increased rent. We cannot assure you that we will be able to renew our leases on terms which are favorable or otherwise acceptable to us, or at all.

As of the Latest Practicable Date, with respect to our leased properties in Changchun, Qingdao, Xiamen, Harbin and one of the leased properties in Hangzhou, the lessors had not provided valid title certificates, but all provided the Planning Permit for Construction Engineering for such properties. As advised by our PRC Legal Advisor, the validity and enforceability of the relevant lease agreements are not affected by such non-compliance. The lessor of the leased properties used by our newly acquired laboratory in Henan also failed to provide relevant valid title certificates. The competent local government authorities have acknowledged the major terms of and confirmed our laboratory’s rights under the underlying lease agreement and we will not be subject to any penalties or forced relocation due to the lack of the relevant title certificates. The landlords of the properties in Qingdao, Xiamen, Harbin and Henan have agreed to indemnify the damages or losses that we would suffer due to the lack of title certificate of the leased properties concerned. Nevertheless, we cannot assure you that the lessors will not be subject to any challenges, lawsuits or other actions taken against the properties leased by us. If the lessors’ rights with respect to any of such properties were successfully challenged, 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, our business, financial condition and results of operations may be materially and adversely affected.

RISK FACTORS

As of the Latest Practicable Date, we had one property each in Jinan and Kunming leased by Jinan Adicon and Yunan Adicon, respectively, that were built on allocated land (劃撥用地). Pursuant to the Provisional Regulations of the People's Republic of China Concerning the Grant and Assignment of the Right to Use State-owned Land in Urban Areas (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》), lease of any property built on allocated land should be approved by local competent land and housing administrative authorities. As advised by our PRC Legal Advisor, according to consultations with and the compliance letter issued by the competent government authorities, according to the local practice in Tianqiao District of Jinan and Wuhua District of Kunming, no government approval is required for the lease of premises built on the allocated land by Jinan Adicon and Yunan Adicon. The landlords have agreed to indemnify the damages or losses that Jinan Adicon and Yunnan Adicon would suffer due to the lack of government approval for the lease of allocated land. Nevertheless, we cannot assure you that the landlords of Jinan Adicon and Yunnan Adicon will not be subject to any challenges, lawsuits or other actions taken against the properties leased by us. If the landlords' rights with respect to such properties were successfully challenged, we may be forced to relocate our operations in Jinan and Kunming. Our business, financial condition and results of operations in Jinan may be materially and adversely affected.

As of the Latest Practicable Date, the actual land use of the properties leased for our laboratories is inconsistent with the designated land use as specified in their land use right certificates. As of the Latest Practicable Date, one of our laboratories is located on land for commercial use, one of our laboratories is located on land for warehousing use, two of our laboratories are located on land for scientific study and educational use, one of our laboratories is located on construction land without specific use restrictions, one of our laboratories is located on land to be used as general plants for biology, medical and pharmaceutical industry and the rest of our operating laboratories are located on land for industrial use. Pursuant to applicable laws and regulations in China, any change in the use of land within an urban planning area shall be approved by the competent land and natural resources administration authorities and submitted to the competent authority that originally approved the land use for approval. If the use of a premise is inconsistent with the designated purpose of the state-owned land where the premise locates and deemed by competent natural resources and planning bureaus as a violation of applicable land related laws and regulations, the landlords of the properties would be required to rectify the noncompliance, imposed on a penalty ranging from RMB100 to RMB500 per square meter of the concerned land and even be ordered to return the land if the noncompliance could not be rectified within a required time period. As a tenant, we will not be subject to the aforesaid administrative penalties. However, if a landlord of the properties for our leases is required by competent authorities to rectify such land use or return the land, we may have to relocate and bear relocation costs. We may not be able to find other suitable properties to lease for our laboratory operation in a timely manner or at all, which may adversely affect our business operations. Please see "Business – Properties."

The above mentioned inconsistent land use is primarily due to the limited land available for medical purposes. In practice, due to the long cycle of formulation, modification and change of urban land use planning, the land for medical purposes is relatively limited, which hardly meet the needs of rapid development of medical services. Therefore, it is difficult for many non-hospital medical institutions (such as medical examination centers, independent clinical laboratories) to find suitable medical land, resulting in a large number of non-hospital medical institutions, like us, using non-medical properties in practice. However, in recent years, to ease the tight supply of suitable premises for privately-run medical institutions, relevant PRC government authorities have released several guidance, including Opinions on Promoting the Sustainable and Healthy and Standardized Development of Socially-run Medical Institutions (《關於促進社會辦醫持續健康規範發展的意見》), which confirmed that the premises approved to be used for commercial, industrial, office purposes could be used by medical institutions without changing the designated land use for a transitional period of five years, subject to local implementations. Our PRC Legal Advisor has confirmed that there are currently no locations where we operate laboratories where local policies or relevant government authorities have commenced the five-year transitional period or announced a date for the commencement of the five-year transitional period. Despite such positive development relating to land use for private medical institutions, we cannot assure you that such policies and regulations will continue to be of our advantage.

RISK FACTORS

We may be subject to fines due to the lack of registration of our leases.

Pursuant to the Measures for Administration of Lease of Commodity Properties (《商品房屋租賃管理辦法》) which was promulgated by the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部) on December 1, 2010 and became effective on February 1, 2011, both lessors and lessees are required to file the lease agreements for registration and obtain property leasing filing certificates for their leases.

As of the Latest Practicable Date, the lease agreements with respect to 11 properties we lease in the PRC for our business operations had not been registered and filed with the relevant PRC government authorities. As advised by our PRC Legal Advisor, failure to register such lease agreements with the relevant PRC government authorities does not affect the validity and enforceability of the relevant lease agreements but the relevant PRC government authorities may order us or the lessors to, within a prescribed time limit, register the lease agreements. Failure to do so within the time limit may subject us to a fine ranging from RMB1,000 to RMB10,000 for each non-registered lease. During the Track Record Period and as of the Latest Practicable Date, we had not received any such request or suffered any such fine from the relevant PRC government authorities.

As confirmed by our PRC Legal Advisor, the estimated aggregate maximum penalty is RMB110,000 with respect to the unregistered leases of properties leased by our Group. We are not subject to any action, claim or investigation being conducted or threatened by any third parties or the competent government authorities with respect to the registration in our leased properties as of the Latest Practicable Date. For more details, see “Business – Properties.”

We may be adversely affected by the uncertainties and changes in the regulation of laboratory developed tests (“LDT”) in the PRC, and any lack of requisite approvals, permits, registrations or filings in relation to our testing technologies developed in-house may have a material adverse effect on our business, results of operations and prospects.

Certain esoteric tests provided by Hangzhou Adicon are conducted in the form of LDTs with unregistered testing reagents as there is no registered testing reagent available in the market. As confirmed by our industry advisor, Frost & Sullivan, it is common for ICLs, including us, to provide testing services in the form of LDTs with unregistered testing reagents if there is no registered testing reagent available in the market. Revenues generated from LDTs each accounted for 0.5%, 0.5% and 0.3% of our total revenues in 2020, 2021 and 2022, respectively. Once registered reagents are available in the market, we plan to switch to those registered reagents.

Pursuant to Article 53 of Regulations on the Supervision and Administration of Medical Devices (《醫療器械監督管理條例》), or the Medical Devices Regulation, promulgated by the State Council and effective from April 1, 2000, latest amended on February 9, 2021 and effective on June 1, 2021, for in-vitro testing reagents that are not available in China, qualified medical institutions can develop such testing reagents on their own according to their clinical needs, and use such testing reagents within their own medical institutions under the guidance of practicing physicians. Specific administrative measures with respect to such development and use shall be formulated by National Medical Products Administration or NMPA in conjunction with the National Health Commission or NHC.

As advised by our PRC Legal Advisor, notwithstanding the latest amendments to the Medical Devices Regulation, up to the Latest Practicable Date, there is no specific definition for LDTs under the PRC laws and regulations, nor is there any specific administrative measure or standard for the use of LDTs within the PRC healthcare industry. As the latest amendments of the Medical Devices Regulation only became effective on June 1, 2021, a comprehensive regulatory framework governing the LDT industry has not yet been established. We cannot rule out the possibility that some common practices in the application of tests developed in-house might be viewed as not being in full compliance with the applicable PRC laws and regulations.

RISK FACTORS

As advised by our PRC Legal Advisor, we may be subject to medical liability claims if the test is found to be inaccurate or erroneous as a result of the use of unregistered testing reagents and causes damage or loss to the clients or related parties. As further advised by our PRC Legal Advisor, pursuant to the Medical Devices Regulation, illegal or unpermitted use of unregistered medical devices may be subject to a fine of not less than five (5) times but not more than ten (10) times (for non-compliance before June 1, 2021) or twenty (20) times (for noncompliance after June 1, 2021) the value of such unregistered medical devices, and unregistered medical devices may be confiscated by NMPA or its local counterpart and in extreme circumstance, the business concerned may be ordered to be suspended. If all of our LDTs conducted during the Track Record Period were deemed to be illegal or unpermitted, the maximum penalty we may be exposed would be a monetary penalty of a cumulative of RMB122.3 million plus confiscation of unregistered testing reagents. During the Track Record Period, we did not make any provisions in this regard. According to the compliance letter issued by NHC of Xihu District, Hangzhou, Hangzhou Adicon has been in strict compliance with all applicable laws and regulations governing ICLs in terms of its technology, testing items, testing products and devices, among others during the Track Record Period. During the Track Record Period and up to the Latest Practicable Date, we had not been penalized or investigated by any relevant government authorities for provision of tests developed in-house by us. Additionally, we undertake to closely monitor the regulatory development and practices, and once the detailed implementing rules with respect to LDT are formally released by the NMPA and the NHC, we will take all necessary measures to ensure our LDT business is in compliance with such rules. Based on the consultations with Zhejiang NMPA and Hangzhou NMPA and applicable PRC laws and regulations, our PRC Legal Advisor is of the view that Article 53 of the Medical Devices Regulation provided legal basis of our current LDT business in principle and the likelihood of us being penalized due to our use of unregistered testing reagents for our LDT business will be substantially reduced.

We face risks associated with uncertainties relating to the interpretation and implementation of the Regulation for the Administration of Human Genetic Resources and other applicable laws and regulations.

The collection, preservation, usage and outbound provision of human genetic resources in the PRC are governed by Regulation for the Administration of Human Genetic Resources of the People’s Republic of China (《中華人民共和國人類遺傳資源管理條例》), or HGR Regulation, except for activities relating to human genetic resources conducted for some specific purposes including clinical diagnosis and treatment. As advised by our PRC Legal Advisor, according to consultation with the competent government authority, our testing business for the purpose of clinical diagnosis and treatment (“**Clinical Testing**”) are not governed by HGR Regulation. However, we cannot assure you that all our Clinical Testing will be continuously deemed as conducted for the purpose of clinical diagnosis and treatment by the relevant government authority. If such business is not deemed as for the purpose of clinical diagnosis and treatment, additional regulatory requirements including regulatory approvals may be required. Meanwhile, our testing services including those conducted in collaboration with external institutions for scientific research may be governed by HGR Regulation.

As advised by our PRC Legal Advisor, although an entity controlled, directly or indirectly, by foreign persons through shareholding ownership would be deemed as a restricted entity (“**Restricted Entity**”), which would be not allowed to or restricted to engage in certain activities relating to human genetic resources for non-clinical diagnosis and treatment purpose), HGR Regulation remains unclear as to whether a variable interest entity controlled by a wholly foreign owned enterprise through contractual arrangements would be deemed and filed as a Restricted Entity. We cannot assure you that our PRC Operating Entities will not be deemed as Restricted Entities, given the lack of clear statutory interpretation regarding HGR Regulation. If our PRC Operating Entities are deemed as the Restricted Entities by relevant government authority, our non-clinical diagnosis and treatment business may be adversely affected and we may have to seek approval for such business from the relevant government authority, which may be difficult or impracticable and/or cooperate with domestic entities that are not Restricted Entities for purposes of the HGR Regulation and be required to obtain approvals or file with relevant government authority for such cooperation, which could result in additional cost and our business, financial condition and results of operations will be adversely affected.

RISK FACTORS

Any litigation, legal and contractual disputes, claims, or administrative proceedings against us could be costly and time-consuming to defend or settle.

We may from time to time be involved in contractual disputes or legal and administrative proceedings and claims arising out of the ordinary course of business or pursuant to governmental or regulatory enforcement activity. Any claims, disputes or legal proceedings initiated by us or brought against us, with or without merit, may result in substantial costs and diversion of resources, and if we are unsuccessful, could materially harm our reputation. Any litigation, legal disputes, claims or administrative proceedings that are initially not material may escalate and become material to us due to a variety of factors, such as changes in the facts and circumstances of the cases, the likelihood of loss, the monetary amount at stake and the parties involved. Laws, regulations and legal actions could also have significant regulatory consequences and result in regulatory enforcement actions.

In 2019, due to inaccurate information presented in bidding materials as result of the carelessness of our employees, our subsidiary Hefei Adicon was disqualified on a bid with Mingguang Municipal People’s Hospital, was imposed a fine of RMB5,100, and banned from participating in government procurement activities for one year from October 31, 2019, and was recorded and publicly disclosed as an ordinary dishonest conduct (一般失信行為) on website of Credit China (www.creditchina.gov.cn). Hefei Adicon had fully paid the fine and made all necessary rectification measures, and the competent government authorities made the decision on February 12, 2020, to restore the credibility of Hefei Adicon and the public disclosure of the ordinary dishonest conduct was subsequently withdrawn from Credit China. See “Business – Incidents – Incident Relating To Bidding.”

Furthermore, claims, disputes or legal proceedings against us may be due to our counterparties, such as our suppliers, customers, and other third party service providers. Even if we are able to seek indemnity from them, they may not be able to indemnify us in a timely manner, or at all, for any losses or costs that we incur as a result of such claims, disputes and legal proceedings.

Our insurance might not cover claims brought against us, might not provide sufficient payments to cover all of the costs to resolve one or more such claims and might not continue to be available on terms acceptable to us. In particular, any claim could result in unanticipated liability to us if such claim is outside the scope of the indemnification arrangement we have with our customers, our customers do not abide by the indemnification arrangement as required or the liability exceeds the amount of any applicable indemnification limits or available insurance coverage. A claim brought against us that is uninsured or underinsured could result in unanticipated costs and could have a material adverse effect on our business, financial condition and results of operations.

Fluctuations in interest rate may adversely affect our cash flow.

We currently fund our operations principally by cash generated from our business operations and bank borrowings. We had no indebtedness, mortgages or charges, did not issue any debt securities and did not utilize any bank facilities, except as disclosed in “Financial Information – Indebtedness”. We entered into a credit facility agreement of US\$150 million on July 20, 2022, for the purposes of paying the special dividend we declared on May 18, 2022 and other general corporate purposes. For details, see “Financial Information – Dividends”. However, we cannot assure you that we will be able to obtain bank loans or renew existing credit facilities in the future on favorable terms, or at all. Additionally, any fluctuation in interest rates may affect our ability to fund our operations and dividend payments.

RISK FACTORS

Our operations may be adversely impacted by the effects of natural disasters such as hurricanes and earthquakes, public health emergencies and health pandemics, acts of terrorism and other criminal activities.

Natural disasters, acts of war or terrorism or other factors beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the regions where we conduct our business. Serious natural disasters may result in loss of lives, injury, destruction of assets and disruption of our business and operations. Acts of war or terrorism may also injure our employees, cause loss of lives, disrupt our business network and destroy our markets. Any of these factors and other factors beyond our control could have an adverse effect on the overall business sentiment and environment, cause uncertainties in the regions where we conduct business, cause our business to suffer in ways that we cannot predict and materially and adversely impact our business, financial conditions and results of operations.

A severe or prolonged downturn in the domestic or global economy could materially and adversely affect our business and financial condition.

The global macroeconomic environment is facing numerous challenges. There are threats of trade wars between the United States and its major trading partners, including China, and uncertainties over the impact of Brexit. The growth rate of the Chinese economy has generally been slowing since 2012 and the trend may continue. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world’s leading economies, including the United States and China. There have been concerns over unrest and terrorist threats in the Middle East, Europe and Africa, which have resulted in market volatility. There have also been concerns on the relationship between China and other countries, including the surrounding Asian countries, which may potentially have economic effects. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Any severe or prolonged slowdown in the global or Chinese economy may materially and adversely affect our business, results of operations and financial condition.

RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

If the PRC government deems that the Contractual Arrangements do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests received through the Contractual Arrangements.

Foreign ownership of certain business in PRC is subject to restrictions under current PRC laws and regulations. For example, except for qualified service providers from Hong Kong, Macao and Taiwan, foreign investors are not allowed to own 100% of the equity interest in medical institutions.

We are an exempted company incorporated in the Cayman Islands, as such, we are classified as a foreign enterprise under PRC laws and regulations. Through our wholly-owned PRC subsidiary, Aidiken WFOE, we have entered into a series of Contractual Arrangements with Hangzhou Adicon and the Registered Shareholders. Please see “Contractual Arrangements” for a detailed description of the Contractual Arrangements. Through our shareholdings and the Contractual Arrangements, our Company acquired effective control over the PRC Operating Entities and, at our Company’s sole discretion, can receive all of the economic benefits generated by the PRC Operating Entities.

As advised by our PRC Legal Advisor, save as disclosed in the section headed “Contractual Arrangements – Legality of the Contractual Arrangements” in this Document, the Contractual Arrangements are legal, valid, enforceable and binding upon the parties thereto under the current laws and regulations. However, our PRC Legal Advisor has also advised us that there are substantial uncertainties regarding the interpretation and application of current or future PRC laws and

RISK FACTORS

regulations. In addition, certain PRC court rulings may invalidate certain contractual agreements if they are considered to be entered into with the intention of circumventing foreign investment restrictions in the PRC in contravention of the Civil Code of the People’s Republic of China (《中華人民共和國民法典》). Accordingly, there can be no assurance that the PRC government will ultimately take a view that is consistent with the opinion of our PRC Legal Advisor.

On March 15, 2019, the National People’s Congress approved the Foreign Investment Law of the People’s Republic of China (《中華人民共和國外商投資法》) (the “**FIL**”) which became effective on January 1, 2020. According to the FIL, the “foreign investment” refers to investment activities carried out directly or indirectly by foreign natural persons, enterprises or other organizations (hereinafter referred to as “**Foreign Investors**”). However, the interpretation and application of the FIL remain uncertain. In addition, the FIL stipulates that foreign investment includes “*Foreign Investors investing in PRC through many other methods under laws, administrative regulations or provisions prescribed by the State Council*”. We cannot assure you that the Contractual Arrangements will not be deemed as a form of foreign investment under laws, regulations or provisions prescribed by the State Council in the future, as a result of which, it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and the impact on the Contractual Arrangements.

If our ownership structure, Contractual Arrangements or the business of Hangzhou Adicon and its subsidiaries are found to be in violation of any existing or future PRC laws or regulations, or we fail to obtain or maintain any of the required permits or approvals, the relevant governmental authorities would have broad discretion in dealing with such violations, including:

- (i) levying fines on us;
- (ii) confiscating our income or the income of the PRC Operating Entities;
- (iii) revoking our business licenses and/or operating licenses;
- (iv) shutting down our institutions;
- (v) discontinuing or imposing restrictions or onerous conditions on our operations, requiring us to undergo a costly and disruptive restructuring; and
- (vi) taking other regulatory or enforcement actions that could be harmful to our business.

Any of these actions could cause significant disruption to our business operations and severely damage our reputation, which would result in us failing to receive a portion of the economic benefits from Hangzhou Adicon and its subsidiaries, and in turn may materially and adversely affect our business, financial condition and results of operations.

Furthermore, new PRC laws, rules and regulations may be introduced to impose additional requirements that may be applicable to our corporate structure and the Contractual Arrangements. In addition, if any equity interest held by Aidiken WFOE in the PRC Operating Entities is held in the court custody in connection with its litigation, arbitration or other judicial or dispute resolution proceedings, we cannot assure you that the equity interest will be disposed of to us in such proceedings in accordance with the Contractual Arrangements. The occurrence of any of these events could adversely affect our business, financial condition and results of operations.

Our Contractual Arrangements may not be as effective in providing operational control as direct ownership and our PRC Operating Entities and their shareholders may fail to perform their obligations under our Contractual Arrangements.

We provide business support, technical and consulting services to Hangzhou Adicon and its subsidiaries, in which we have no ownership interest and rely on the Contractual Agreements with Hangzhou Adicon and the Registered Shareholders to control and operate the relevant business. Although we have been advised by our PRC Legal Advisor that, save as disclosed in this Document, our Contractual Arrangements constitute valid and binding obligations enforceable against each party of such agreements in accordance with their terms, these Contractual Arrangements may not be as effective in providing us with control over Hangzhou Adicon as direct ownership. Direct

RISK FACTORS

ownership would allow us, for example, to directly or indirectly exercise our rights as a shareholder to effect changes in the board of directors of the PRC Operating Entities, which, in turn, could effect changes, subject to any applicable fiduciary obligations, at the management level.

If any PRC Operating Entity fails to perform its respective obligations under the Contractual Arrangements, we may incur substantial costs and expend substantial resources to enforce our rights. All of these Contractual Arrangements are governed by and interpreted in accordance with PRC laws, and disputes arising from these Contractual Arrangements will be resolved through arbitration or litigation in PRC. However, 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 or litigation. These uncertainties could limit our ability to enforce these Contractual Arrangements.

The Contractual Arrangements contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of the PRC Operating Entities, injunctive relief and/or winding up of these entities. These agreements also contain provisions to the effect that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, under PRC laws, these terms may not be enforceable. Under PRC laws, an arbitral body does not have the power to grant injunctive relief to issue a provisional or final liquidation order. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC. In the event we are unable to enforce these Contractual Arrangements or we experience significant delays or other obstacles in the process of enforcing the Contractual Arrangements, we may not be able to exert effective control over the PRC Operating Entities and may not prevent leakage of equity and values to the shareholders of the PRC Operating Entities or obtain the full economic benefits of the same. Our ability to conduct our business may be negatively affected.

Our Contractual Arrangements may result in adverse tax consequences to us.

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the Contractual Arrangements were not made on an arm's length basis and adjust our income and expenses for PRC tax purposes by requiring a transfer pricing adjustment. A transfer pricing adjustment could materially and adversely affect us by (i) increasing the tax liabilities of the PRC Operating Entities without reducing the tax liability of Aidiken WFOE; or (ii) limiting the ability of the PRC Operating Entities to obtain or maintain preferential tax treatments and other financial incentives.

The Registered Shareholders of PRC Operating Entities may have conflicts of interest with us, which may materially and adversely affect our business.

The Registered Shareholders of PRC Operating Entities may potentially have a conflict of interest with us, and they may breach the Contractual Arrangements with us, if they believe it would further their own interest or if they otherwise act in bad faith. We cannot assure you that when conflicts of interest arise between us and PRC Operating Entities, the Registered Shareholders of PRC Operating Entities will act in our interests or that the conflicts of interest will be resolved in our favor.

In addition, the Registered Shareholders of PRC Operating Entities may breach or cause PRC Operating Entities to breach the Contractual Arrangements. If PRC Operating Entities or the Registered Shareholders breach the Contractual Arrangements with us or otherwise have disputes with us, we may have to initiate legal proceedings, which involve significant uncertainty. Such disputes and proceedings may significantly disrupt our business operations, adversely affect our ability to control PRC Operating Entities and otherwise result in negative publicity. We cannot assure you that the outcome of any such dispute or proceeding will be in our favor.

RISK FACTORS

If we exercise the option to acquire equity ownership and assets of PRC Operating Entities, the ownership or asset transfer may subject us to certain limitations and substantial costs.

Pursuant to the Contractual Arrangements, Aidiken WFOE or its designated person(s) has the exclusive right to purchase all or any part of the equity interests in PRC Operating Entities from the Registered Shareholders for a nominal price.

The equity transfer may be subject to the approvals from and filings with the SAMR and other competent governmental authorities and/or their local competent branches. In addition, the equity transfer price may be subject to review and tax adjustment by the relevant tax or commerce authority. The Registered Shareholders will pay the equity transfer price they receive to PRC Operating Entities under the Contractual Arrangements. The amount to be received by PRC Operating Entities may also be subject to enterprise income tax. Such tax amounts could be substantial.

RISKS RELATING TO DOING BUSINESS IN CHINA

China’s economic, political and social conditions, as well as governmental policies, could affect the business environment and financial markets in China, our ability to operate our business, our liquidity and our access to capital.

Substantially all of our operations are conducted in China. Accordingly, our business, results of operations, financial condition and prospects may be influenced to a significant degree by economic, political, legal and social conditions in China as well as China’s economic, political, legal and social conditions in relation to the rest of the world. China’s economy differs from the economies of developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While China’s economy has experienced significant growth over the past 40 years, growth has been uneven across different regions and among various economic sectors of China. China’s government has implemented various measures to encourage economic development and guide the allocation of resources. Some of these measures may benefit the overall economy in China, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are currently applicable to us. In addition, in the past, China’s government implemented certain measures, including interest rate increases, to control the pace of economic growth. These measures may cause decreased economic activity in China, which may adversely affect our business and results of operation. More generally, if the business environment in China deteriorates from the perspective of domestic or international investment, our business in China may also be adversely affected.

Uncertainties with respect to Chinese legal system and changes in laws, regulations and policies in China could materially and adversely affect us.

We conduct our business primarily through our subsidiaries in China. PRC laws and regulations govern our operations in China. Our subsidiaries are generally subject to laws and regulations applicable to foreign investments in China, which may not sufficiently cover all of the aspects of our economic activities in China. In addition, the implementation of laws and regulations may be in part based on government policies and internal rules that are subject to the interpretation and discretion of different government agencies (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not always be aware of any potential violation of these policies and rules. Such unpredictability regarding our contractual, property and procedural rights could adversely affect our business and impede our ability to continue our operations. Furthermore, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties could materially and adversely affect our business and results of operations.

RISK FACTORS

Filing with the CSRC may be required in connection with the [REDACTED], and, if required, we cannot predict whether we will be able to complete such filing.

In January 2015, the Ministry of Commerce of China, or the MOFCOM, published a discussion draft of the proposed FIL. The FIL passed the legislative review in March 2019, and came into effect on January 1, 2020. Foreign-invested entities will enjoy national treatment in industry sectors that are not prohibited or restricted from foreign investment. The FIL imposes information reporting requirements on foreign investors and the applicable foreign invested entities. Non-compliance with the reporting requirements will result in corrective orders and fines between RMB100,000 and RMB500,000. The FIL reinforces the duties of government authorities to protect intellectual property rights and trade secrets of foreign-investment entities. Government authorities cannot compel technology transfer by administrative means, reveal or provide trade secrets of foreign-invested entities to third parties. Last but not least, the FIL calls for the establishment of a foreign investment security review mechanism. In addition, any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention.

According to Article 6 of the 2021 Negative List, where a domestic company engaged in the business in the prohibited areas provided in the 2021 Negative List seeks to issue and list its shares overseas, it shall complete the examination process and obtain approval by the relevant competent authorities; the foreign investors shall not participate in the operation and management of the company; its shareholding percentage shall be subject to the relevant provisions on the administration of domestic securities investment by foreign investors. See “Regulatory Overview – Regulations Relating to Foreign Investment” and “Contractual Arrangements – Recent Regulatory Development in China” for more details.

Furthermore, on February 17, 2023, the CSRC released the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies (境內企業境外發行證券和上市管理試行辦法) (the “**Overseas Listing Trial Measures**”) and five supporting guidelines, which will come into effect on March 31, 2023. The Overseas Listing Trial Measures will regulate both direct and indirect overseas offering and listing of PRC domestic companies’ securities by adopting a filing-based regulatory regime. Pursuant to the Overseas Listing Trial Measures, where an issuer submits an application for initial public offering to competent overseas regulators, such issuer must file with the CSRC within three business days after such application is submitted. The Overseas Listing Trial Measures also requires subsequent reports to be filed with the CSRC on material events, such as change of control or voluntary or forced delisting of the issuer(s) who have completed overseas offerings and listings.

On the same day, the CSRC also held a press conference for the release of the Overseas Listing Trial Measures and issued the Notice on Administration for the Filing of Overseas Offering and Listing by Domestic Companies (關於境內企業境外發行上市備案管理安排的通知), which, among others, clarifies that companies that satisfy all of the following conditions shall be deemed as “Existing Applicants” and are not required to complete the overseas listing filing immediately, but shall complete filings as required if they conduct refinancing or are involved in other circumstances that require filing with the CSRC (i) the application for overseas offering or listing shall have been approved by the relevant overseas regulatory authority or stock exchange (such as passing the hearing for the listing application of its shares on the Stock Exchange) prior to March 31, 2023, (ii) the company is not required to reapply for offering and listing procedures to the overseas regulatory authority or securities exchanges (such as a new hearing for the listing application of its shares on the Stock Exchange) after March 31, 2023, and (iii) such overseas securities offering or listing shall be completed on or prior to September 30, 2023. See “Regulatory Overview – Regulations Relating to Foreign Investment”. Based on the foregoing, if we are not deemed as an Existing Applicant, we will be required to complete the filing procedures with the CSRC in connection with the [REDACTED].

RISK FACTORS

As of the date of this document, we had not received any inquiry, notice, warning, or sanctions regarding the proposed [REDACTED] or our corporate structure from the CSRC or any other PRC government authorities with respect to the filing requirement under the Overseas Listing Trial Measures or with respect to the VIE structure. However, given that the Overseas Listing Trial Measures were recently promulgated, there remains substantial uncertainties as to their interpretation, application, and enforcement and how they will affect our operations and our future financing. In addition, we cannot guarantee that new rules or regulations promulgated in the future will not impose any additional requirements on us or otherwise tighten the regulations on companies with a VIE structure. If it is determined that we are subject to any CSRC approval, filing, other governmental authorization or requirements, we may fail to obtain such approval or meet such requirements in a timely manner or at all. Such failure may subject us to fines, penalties or other sanctions which may have a material adverse effect on our business and financial condition as well as our ability to complete the [REDACTED].

Restrictions on currency exchange may limit our ability to receive and use financing in foreign currencies effectively.

Our PRC subsidiaries’ ability to obtain foreign exchange is subject to significant foreign exchange controls and, in the case of transactions under the capital account, requires the approval of and/or registration with PRC government authorities, including the State Administration of Foreign Exchange of the PRC, or SAFE. In particular, if we finance our PRC subsidiaries by means of foreign debt from us or other foreign lenders, the amount is not allowed to, among other things, exceed the statutory limits and such loans must be registered with the local counterpart of the SAFE. If we finance our PRC subsidiaries by means of additional capital contributions, these capital contributions are subject to registration with the SAMR or its local branch, reporting of foreign investment information with the PRC Ministry of Commerce, or registration with other governmental authorities in China.

In the light of the various requirements imposed by PRC regulations on loans to, and direct investment in PRC entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary government formalities or obtain the necessary government approvals on timely basis, if at all, with respect to future loans or capital contributions by us to our PRC subsidiaries. If we fail to complete such registrations or obtain such approval, our ability to capitalize or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

Discontinuation of government grant and preferential tax treatments we currently enjoy or other unfavorable changes in tax law could result in additional compliance obligations and costs, and may impact on our business and results of operations.

A number of our PRC operating entities enjoy various types of government grants and preferential tax treatment according to the prevailing PRC tax laws. Our PRC subsidiaries may, if they meet the relevant requirements, qualify for certain preferential tax treatment.

For a qualified high and new technology enterprise, the applicable enterprise income tax rate is 15%. For a qualified enterprise registered in western regions, the applicable enterprise income tax rate is 15%. For a qualified small low-profit enterprise, the applicable enterprise income tax rate is 20%. For our subsidiaries which are medical institutions, its revenues arising out of medical services are exempt from a 6% value-added tax. Pursuant to the policy on the exemption of value-added tax specified in Item 7 of Article 1 of the Annex 3 to the Circular on the Pilot Program for Overall Implementation of the Collection of Value Added Tax Instead of Business Tax (Cai Shui [2016] No. 36) (《財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知》(財稅[2016]36號)), revenues arising out of medical services rendered by a medical institution is exempt from value-added tax. On February 2, 2019, STA and Ministry of Finance issued Circular on Clarifying the Exemption of Elderly Care Agencies from Value-added Tax and Other Policies (《財政部、稅務

RISK FACTORS

總局關於明確養老機構免徵增值稅等政策的通知》(財稅[2019]20號) (“**2019 VAT Circular**”), pursuant to which, from February 1, 2019 to December 31, 2020, a medical institution’s revenues arising out of medical services rendered as entrusted by another medical institution shall be exempted from value-added tax.

If such PRC subsidiaries fail to maintain its respective qualification under the relevant PRC laws and regulations, their applicable enterprise income tax rates may increase to up to 25% and they may need to pay value-added tax for clinical testing revenues collected from customers, which could have a material adverse effect on our results of operations. In addition, the discontinuation of our existing government grants may also negatively impact on our business and results of operations.

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

Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (“**Circular 37**”), which was promulgated by SAFE and became effective on July 4, 2014, together with relevant laws and regulations, requires PRC residents to register with banks designated by local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents’ legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in Circular 37 as a “special purpose vehicle.”

In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiary of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the offshore parent may be restricted in its ability to contribute additional capital into the PRC subsidiary. Furthermore, failure to comply with the SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

As of the Latest Practicable Date, each of our senior management who indirectly hold shares in our Company, being PRC resident and subject to the SAFE regulations have completed the initial registrations with the local SAFE branch or qualified banks as required by Circular 37. However, we may not be informed of the identities of all the PRC residents holding direct or indirect interest in our Company, and we cannot provide any assurance that these PRC residents will comply with our request to make or obtain any applicable registrations or continuously comply with all requirements under Circular 37 or other related rules. Even if our Shareholders and beneficial owners who are PRC residents comply with such request, we cannot provide any assurance that they will successfully obtain or update any registration required by Circular 37 or other related rules in a timely manner due to many factors, including those beyond our and their control. For example, due to the inherent uncertainty in the implementation of the regulatory requirements by PRC authorities, such registration might not be always practically available under all circumstances as prescribed in those regulations. Any failure by our PRC residents Shareholders or beneficial owners to register with SAFE or update their SAFE registrations in a timely manner pursuant to Circular 37 and subsequent implementation rules, or the failure of our future shareholders or beneficial owners who are PRC residents to comply with the registration requirements set forth in Circular 37 and subsequent implementation rules may result in penalties and limit our PRC subsidiary’s ability to make distributions, pay dividends or other payments to us or affect our ownership structure and restrict our cross-border investment activities, which could adversely affect our business, financial condition and results of operations.

RISK FACTORS

Failure to comply with PRC regulations regarding the registration requirements for the Employee Incentive Plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

In February 2012, the SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies (the “**SAFE Circular 7**”, 《國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》). Under SAFE Circular 7 and other relevant rules and regulations, PRC residents who participate in a stock incentive plan in an overseas publicly-listed company are required to register with the SAFE or its local branches or commercial banks and complete certain other procedures.

Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly listed company or another qualified institution selected by a PRC subsidiary, to conduct SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend its SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes.

We and our PRC employees who are granted options and/or restricted share unites will be subject to these regulations upon the completion of this [REDACTED]. Failure to complete their SAFE registrations may subject these PRC residents to fines of up to RMB300,000 for entities and up to RMB50,000 for individuals, and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiary, limit our PRC subsidiary’s ability to distribute dividends to us, or otherwise materially adversely affect our business.

The Chinese tax authorities have strengthened their scrutiny over transfers of equity interests in a Chinese resident enterprise by a non-resident enterprise.

On February 3, 2015, the STA issued the Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (關於非居民企業所得稅源泉扣繳有關問題的公告) (“**Bulletin 7**”), which has been further amended by the Bulletin on Issues Concerning the Withholding of Non-PRC Resident Enterprise Income Tax at Source (“**Bulletin 37**”) issued by the STA on October 17, 2017 and amended on June 15, 2018. Pursuant to these bulletins, an “indirect transfer” of PRC assets, including a transfer of equity interests in a non-PRC holding company of a Chinese resident enterprise, by non-Chinese resident enterprise may be re-characterized and treated as a direct transfer of the underlying PRC assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax (the “**PRC Taxable Assets**”).

For example, Bulletin 7 provides that where a non-resident enterprise transfers PRC Taxable Assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such PRC Taxable Assets, PRC tax authorities may disregard the existence of the overseas holding company and re-characterize the nature of the indirect transfer of PRC Taxable Assets as a direct transfer of PRC Taxable Assets, if such transfer is deemed to have been conducted for the purposes of avoiding PRC EIT and without any other reasonable commercial purpose.

Although Bulletin 7 contains certain exemptions, it is unclear whether any exemptions under Bulletin 7 will be applicable to the transfer of our Shares or to any future acquisition by us outside of China involving PRC Taxable Assets, or whether China’s tax authorities will reclassify such transactions by applying Bulletin 7. Therefore, China’s tax authorities may deem any transfer of our Shares by our shareholders that are non-resident enterprises, or any future acquisition by us outside of China involving PRC Taxable Assets, to be subject to the foregoing regulations, which may subject our shareholders or us to additional PRC tax reporting obligations or tax liabilities.

RISK FACTORS

We may be subject to penalties under relevant PRC laws and regulations due to failure to be in full compliance with social insurance and housing provident fund regulation.

Pursuant to PRC laws and regulations, we are required to participate in the employee social welfare plan administered by local governments. Such plan consists of pension insurance, medical insurance, work-related injury insurance, maternity insurance, unemployment insurance and housing provident fund. The amount we are required to contribute for each of our employees under such plan should be calculated based on the employee's actual salary level of previous year, and be subject to a minimum and maximum level as from time to time prescribed by local authorities. During the Track Record Period, we did not pay social insurance and housing provident fund in full for our employees based on their actual salary level in accordance with the relevant PRC laws and regulations.

Our PRC Legal Advisor has advised us that, pursuant to relevant PRC laws and regulations, if we fail to pay the full amount of social insurance contributions as required, we may be ordered to pay the outstanding social insurance contributions within a prescribed time limit and may be subject to an overdue charge of 0.05% of the delayed payment per day from the date on which the payment is payable. If such payment is not made within the stipulated period, the competent authority may further impose a fine from one to three times the amount of any overdue payment. Our PRC Legal Advisor has further advised us that, pursuant to relevant PRC laws and regulations, if we fail to pay the full amount of housing provident fund as required, the housing provident fund management center may order us to make the outstanding payment within a prescribed time limit. If the payment is not made within such time limit, an application may be made to the PRC courts for compulsory enforcement. As of the Latest Practicable Date, no competent government authorities had imposed administrative action, fine or penalty to us with respect to this non-compliance incident nor had any competent government authorities required us to settle the outstanding amount of social insurance payments and housing provident fund contributions.

In addition, during the Track Record Period, some of our PRC subsidiaries engaged third-party human resources agencies to pay social insurance premium and housing provident funds for certain of our employees. Pursuant to the agreements entered into between such third-party human resources agencies and our relevant PRC subsidiaries, the third-party human resources agencies have the obligation to pay social insurance premium and housing provident funds for our relevant employees. These third-party human resources agencies have confirmed in writing that they have paid such contributions in full compliance with the agreements with us. Pursuant to the PRC laws and regulations, the contributions to social insurance premium and housing provident funds made through third-party accounts may not be viewed as contributions made by us. As of the Latest Practicable Date, neither our Company nor our PRC subsidiaries had received any administrative penalty or labor arbitration application from employees for its agency arrangement with third-party human resources agencies. As of December 31, 2022, our PRC subsidiaries paid contributions to social insurance premium and housing provident funds for seven employees through third party agencies per such employees' personal requests.

As the interpretation and implementation of labor laws and regulations are still evolving, we cannot assure you that our employment practice policy is and will at all times be deemed to be in full compliance with labor-related laws and regulations in China, which may subject us to labor disputes or government investigations. If we are deemed to have violated relevant labor laws and regulations, we could be required to provide additional compensation to our employees and our business, financial condition and results of operations could be materially and adversely affected.

RISK FACTORS

PRC rules on mergers and acquisitions may make it more difficult for us to pursue growth through acquisitions in China.

PRC regulations and rules concerning mergers and acquisitions including the Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors (《關於外國投資者併購境內企業的規定》), or the M&A Rules, and other regulations and rules with respect to mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time consuming and complex. For example, the M&A Rules require that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, if (i) any important industry is concerned, (ii) such transaction involves factors that have or may have impact on the national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand. Moreover, according to the Anti-Monopoly Law of PRC promulgated on August 30, 2007 and the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings (《國務院關於經營者集中申報標準的規定》) issued by the State Council in August 2008 and amended in September 2018, the concentration of business undertakings by way of mergers, acquisitions or contractual arrangements that allow one market player to take control of or to exert decisive impact on another market player must also be filed in advance with the anti-monopoly enforcement agency of the State Council when the threshold is crossed and such concentration shall not be implemented without the clearance of prior notification. In addition, in 2011, the General Office of the State Council promulgated a Notice on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《國務院辦公廳關於建立外國投資者併購境內企業安全審查制度的通知》), also known as Circular 6, which officially established a security review system for mergers and acquisitions of domestic enterprises by foreign investors. Under Circular 6, a security review is required for mergers and acquisitions by foreign investors having “national defence and security” concerns and mergers and acquisitions by which foreign investors may acquire the “de facto control” of domestic enterprises with “national security” concerns. On December 19, 2020, the NDRC and MOFCOM jointly promulgated the Measures on the Security Review of Foreign Investment (《外商投資安全審查辦法》), effective on January 18, 2021, setting forth provisions concerning the security review mechanism on foreign investment, including the types of investments subject to review, review scopes and procedures, among others. The Office of the Working Mechanism of the Security Review of Foreign Investment (外商投資安全審查工作機制辦公室) (the “Office of the Working Mechanism”) will be established under NDRC, who will lead the task together with MOFCOM. Foreign investor or relevant parties in China must declare the security review to the Office of the Working Mechanism prior to the investments in, among other industries, important cultural products and services, important information technology and internet products and services, important financial services, key technologies and other important fields relating to national security, and obtain control in the target enterprise. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes, including obtaining approval from competent government authorities may delay or inhibit our ability to complete such transactions. It is unclear whether our business would be deemed to be in an industry that raises “national defense and security” or “national security” concerns. However, the NDRC, the MOFCOM or other government agencies may publish explanations in the future determining that our business is in an industry subject to the security review, in which case our future acquisitions in the PRC, including those by way of entering into contractual control arrangements with target entities, may be closely scrutinized or prohibited. Our ability to expand our business or maintain or expand our market share through future acquisitions would as such be materially and adversely affected.

RISK FACTORS

Payment of dividends may be subject to restrictions under the PRC laws.

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

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

Holders of our Shares may be subject to PRC income tax obligations.

Under current PRC tax laws, regulations and rules, non-PRC resident individuals and non-PRC resident enterprises are subject to different tax obligations with respect to the dividends paid to them by us and the gains realized upon the sale or other disposition of Shares.

Non-PRC resident individuals are required to pay PRC individual income tax at a 20% rate under Individual Income Tax Law of the People’s Republic of China (中華人民共和國個人所得稅法) for the interests, dividends and bonus they obtain from the PRC. Accordingly, we are required to withhold such tax from dividend payments, unless applicable tax treaties between China and the jurisdiction in which the foreign individual resides reduce or provide an exemption for the relevant tax obligations. Generally, in accordance with the Notice on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 045 Issued by the STA (國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知), domestic non-foreign-invested enterprises issuing shares in Hong Kong may, when distributing dividends to overseas resident individuals in the jurisdiction of the tax treaty, withhold individual income tax at the rate of 10%. When a tax rate of 10% is not applicable, the withholding company shall: (a) return the excessive tax amount pursuant to due procedures if the applicable tax rate is lower than 10%; (b) withhold such foreign individual income tax at the effective tax rate agreed on if the applicable tax rate is between 10% and 20%; or (c) withhold such foreign individual income tax at a rate of 20% if no taxation treaty is applicable.

For non-PRC resident enterprises that were established under foreign laws with no real management body in China but have establishments or premises in China, or for those which have no establishments or premises in China but whose income is derived from China, under the Enterprise Income Tax Law of the People’s Republic of China (中華人民共和國企業所得稅法), dividends paid by us and gains realized by such foreign enterprises upon the sale or other disposition of H Shares are ordinarily subject to PRC enterprise income tax at a 20% rate. In accordance with the Circular on Issues Relating to the Withholding of Enterprise Income Tax by PRC Resident Enterprises on Dividends Paid to Overseas Non-PRC Resident Enterprise Shareholders of H Shares (關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知) issued by the STA, such tax rate has been reduced to 10%, subject to a further reduction under special arrangements or applicable treaties between China and the jurisdiction of the residence of the relevant non-PRC resident enterprise.

RISK FACTORS

Despite the arrangements mentioned above, there are significant uncertainties as to the interpretation and application of applicable PRC tax laws and regulations due to several factors, including whether the relevant preferential tax treatment will be revoked in the future such that all non-PRC resident individual holders will be subject to PRC individual income tax at a flat rate of 20%.

In addition, there remain significant uncertainties as to the interpretation and application of applicable PRC tax laws and regulations by the PRC’s tax authorities, including individual income tax on dividends paid to non-PRC resident Shareholders, and on gains realized on sale or other disposition of our Shares. The PRC’s tax laws and regulations may also change. If there is any change to applicable tax laws and regulations or in the interpretation or application of such laws and regulations, the value of your [REDACTED] in our [REDACTED] may be materially affected.

Investors may experience difficulties in effecting service of legal process and enforcing judgments against us, our Directors, Supervisors or senior management.

Our operations are primarily in the PRC and most of our assets and our subsidiaries are located within the PRC. Most of our Directors, Supervisors and senior management reside within the PRC. As a result, it may not be possible to effect service of process outside of the PRC upon us or most of our Directors, Supervisors and senior management.

A judgment of a court of another jurisdiction may be reciprocally recognized or enforced in the PRC only if the jurisdiction has a treaty with the PRC or if the jurisdiction has been otherwise deemed by the PRC courts to satisfy the requirements for reciprocal recognition, subject to the satisfaction of other requirements. However, the PRC is not a party to treaties providing for the reciprocal enforcement of judgments of courts with foreign countries such as the United States and the United Kingdom and enforcement in the PRC of judgments of a court in these jurisdictions may consequently be difficult or impossible. On July 14, 2006, the Supreme People’s Court of the PRC and the Government of the Hong Kong Special Administrative Region signed the Arrangement between the Mainland and the HKSAR on Reciprocal Recognition and Enforcement of the Decisions of Civil and Commercial Cases under Consensual Jurisdiction (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) (the “2006 Arrangement”). Under the 2006 Arrangement, where any designated PRC court or Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement, the party concerned may apply to the relevant PRC court or Hong Kong court for recognition and enforcement of the judgment. The 2006 Arrangement took effect on August 1, 2008, but the effectiveness of any action brought under the arrangement still remain uncertain. On January 18, 2019, the Supreme People’s Court of the People’s Republic of China and the Department of Justice under the Government of the Hong Kong Special Administrative Region signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排) (the “2019 Arrangement”). The 2019 Arrangement regulates, among others, the scope and particulars of judgments, the procedures and methods of the application for recognition or enforcement, the review of the jurisdiction of the court that issued the original judgment, the circumstances where the recognition and enforcement of a judgment shall be refused, and the approaches towards remedies for the reciprocal recognition and enforcement of judgments in civil and commercial matters between the courts in mainland China and those in the Hong Kong Special Administrative Region. As for now, the 2019 Arrangement has not come into force.

RISK FACTORS

RISKS RELATING TO THE [REDACTED]

There has been no [REDACTED] for the Shares and an [REDACTED] may not develop.

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

The trading price of our Shares may be volatile, which could result in substantial losses to you.

The trading price 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, China, the United States and elsewhere in the world. In particular, the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have [REDACTED] their securities in Hong Kong may affect the volatility in the price of and trading volumes for our Shares. A number of PRC-based companies have [REDACTED] their securities, and some are in the process of preparing for [REDACTED] their securities, in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their [REDACTED]. The trading performances of the securities of these companies at the time of or after their [REDACTED] may affect the overall investor sentiment towards PRC-based companies [REDACTED] in Hong Kong and consequently may impact the trading performance of our Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

Investors will experience immediate dilution.

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

Future sales or perceived sales of substantial amounts of our Shares in the public market could have a material adverse effect on the prevailing market price of our Shares and our ability to raise additional capital in the future.

The market price of our Shares could decline as a result of substantial future sales of our Shares or other securities relating to Shares in the public market. Such a decline could also occur with the issuance of new Shares or other securities relating to our Shares, or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amounts of our Shares could materially adversely affect the prevailing market price of our Shares and our ability to raise future capital at a favorable time and price. Our shareholders would experience a dilution in their holdings upon the issuance or sale of additional securities for any purpose.

RISK FACTORS

If securities or industry analysts do not publish research reports about our business, or if they adversely change their recommendations regarding our Shares, the market price and trading volume of our Shares may decline.

The trading market for our Shares will be influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of the analysts who cover us downgrade our Shares, the price of our Shares would likely decline. If one or more of these analysts cease coverage of our Company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

Because we do not expect to pay dividends in the foreseeable future after the [REDACTED], you must rely on price appreciation of Shares for a return on your investment.

We currently intend to retain most, if not all, of our available funds and any future earnings after the [REDACTED] to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future. Therefore, you should not rely on an investment in our Shares as a source for any future dividend income.

Our Board has discretion as to whether to declare and pay dividends. In addition, our shareholders may in a general meeting also declare dividends, provided that no dividends shall exceed the amount recommended by our Directors. In either case, in no circumstances may a dividend be paid if this would result in our Company being unable to pay its debts as they fall due in the ordinary course of business. Even if our Board decides to declare and pay dividends, or to recommend such dividends to our shareholders, the timing, amount and form of future dividends, if any, will depend on our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions (if any) received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our Board. Accordingly, the return on your investment in our Shares will likely depend entirely upon any future price appreciation of our Shares. There is no guarantee that our Shares will appreciate in value after the [REDACTED] or even maintain the price at which you purchased the Shares. You may not realize a return on your investment in our Shares and you may even lose your entire investment in our Shares.

Investors may experience difficulties in enforcing Shareholder rights.

Our Company is an exempted company incorporated in the Cayman Islands with limited liability and the laws of the Cayman Islands differ in some respects from those of Hong Kong or other jurisdictions where investors may be located. The corporate affairs of our Company are governed by the Memorandum and the Articles, the Companies Act and the common law of the Cayman Islands. The rights of Shareholders to take legal action against our Company and/or our Directors, actions by minority Shareholders and the fiduciary duties of our Directors to our Company under Cayman Islands laws are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. Shareholders may have different remedies in exercising their rights in the face of actions taken by the management of our Company, Directors or major Shareholders than they would as shareholders of a Hong Kong company or company incorporated in other jurisdictions. Such differences could mean that minority Shareholders could have different protections than they would have under the laws of Hong Kong or other jurisdictions with which minority Shareholders are more familiar.

RISK FACTORS

There can be no assurance of the accuracy or completeness of certain facts, forecasts and other statistics obtained from various government publications, market data providers and other independent third-party sources, including the industry expert reports, contained in this document.

This document, particularly the section headed “Industry Overview,” contains information and statistics relating to the healthcare and ICL industries. Such information and statistics were extracted from different official government publications, available sources from public market research and other sources from independent suppliers, and from the independent industry report prepared by Frost & Sullivan, an independent third party we engaged in connection with the [REDACTED]. The information from official government sources has not been independently verified by us, the [REDACTED], the [REDACTED], Joint Sponsors, [REDACTED], [REDACTED], any of the [REDACTED], the [REDACTED], any of their respective directors and advisers, or any other persons or parties involved in the [REDACTED], and no representation is given as to its accuracy. Accordingly the information from official government sources contained herein may not be accurate and should not be unduly relied upon.

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

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

You should rely solely upon the information contained in this document, the [REDACTED] and any formal announcements made by us in Hong Kong in making your investment decision regarding our Shares. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our Shares, the [REDACTED] or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such data or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions as to whether to invest in our [REDACTED]. By applying to purchase our Shares in the [REDACTED], you will be deemed to have agreed that you will not rely on any information other than that contained in this document and the [REDACTED].