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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES  
EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the fiscal year ended September 30, 2022

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

Date of event requiring this shell company report

For the transition period from to

Commission file number: 001-40231

**Universe Pharmaceuticals INC**  
(Exact name of Registrant as specified in its charter)

N/A  
(Translation of Registrant's name into English)

**Cayman Islands**  
(Jurisdiction of incorporation or organization)

**265 Jingjiu Avenue, Jinggangshan Economic and Technological Development Zone**  
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**Ji'an, Jiangxi Province**  
**People's Republic of China**  
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

**Securities registered or to be registered pursuant to Section 12(b) of the Act.**

<b>Title of each class</b>	<b>Trading Symbol(s)</b>	<b>Name of each exchange on which registered</b>
Ordinary Shares	UPC	The Nasdaq Stock Market

Securities registered or to be registered pursuant to Section 12(g) of the Act.

**None**  
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

**None**  
(Title of Class)

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Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

An aggregate of 21,750,000 ordinary shares, par value \$0.003125 per share, as of September 30, 2022.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

\* If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

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## INTRODUCTION

In this annual report on Form 20-F, unless the context otherwise requires, references to:

- “China” or the “PRC” are to the People’s Republic of China, including the special administrative regions of Hong Kong and Macau and excluding Taiwan for the purposes of this annual report only;
- “Exchange Act” are to the Securities Exchange Act of 1934, as amended;
- “fiscal year” are to the period from October 1 to September 30 of the next calendar year;
- “Jiangxi Universe” are to Jiangxi Universe Pharmaceuticals Co., Ltd., a limited liability company organized under the laws of the PRC, which is wholly owned by Universe Technology (as defined below);
- “PRC operating entities” are to Jiangxi Universe and its subsidiaries;
- “RMB” and Renminbi” are to the legal currency of China;
- “shares” or “ordinary shares” are to the ordinary shares of the Company, par value \$0.003125 per share;
- “SEC” are to the U.S. Securities Exchange Commission;
- “TCM” are to traditional Chinese medicine;
- “TCMD” are to traditional Chinese medicine derivatives;
- “Universe Hanhe” are to Guangzhou Universe Hanhe Medical Research Co., Ltd., a PRC formed on May 12, 2021, a wholly-owned subsidiary of Jiangxi Universe;
- “Universe HK” are to Universe INC’s wholly owned subsidiary, Universe Pharmaceuticals Group (International) Limited, a company incorporated in Hong Kong;
- “Universe Technology” are to Jiangxi Universe Pharmaceuticals Technology Co., Ltd., a limited liability company organized under the laws of the PRC, and is wholly owned by Universe HK;
- “Universe Trade” are to Jiangxi Universe Pharmaceuticals Trade Co., Ltd., a PRC company formed in 2010, a wholly-owned subsidiary of Jiangxi Universe;
- “US\$,” “U.S. dollars,” “\$” and “dollars” are to the legal currency of the United States; and
- “we,” “us,” “our Company,” or the “Company”, are to one or more of Universe Pharmaceuticals INC, an exempted company incorporated in the Cayman Islands and our holding company, and its subsidiaries, as the case may be.

This annual report on Form 20-F includes our audited consolidated financial statements for the fiscal years ended September 30, 2022, 2021, and 2020. In this annual report, we refer to assets, obligations, commitments, and liabilities in our consolidated financial statements in United States dollars. These dollar references are based on the exchange

rate of RMB to United States dollars, determined as of a specific date or for a specific period. Changes in the exchange rate will affect the amount of our obligations and the value of our assets in terms of United States dollars which may result in an increase or decrease in the amount of our obligations and the value of our assets.

This annual report contains translations of certain RMB amounts into U.S. dollars at specified rates. Unless otherwise stated, the following exchange rates are used in this annual report:

US\$ Exchange Rate	September 30,		
	2022	2021	2020
At the end of the year - RMB	RMB 7.1135 to \$1.00	RMB 6.4580 to \$1.00	RMB 6.8033 to \$1.00
Average rate for the year - RMB	RMB 6.5532 to \$1.00	RMB 6.5095 to \$1.00	RMB 7.0077 to \$1.00

## Part I

### ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

### ITEM 3. KEY INFORMATION

#### A. [Reserved]

#### B. Capitalization and Indebtedness

Not applicable.

#### C. Reasons for the Offer and Use of Proceeds

Not applicable.

#### D. Risk Factors

##### Summary of Risk Factors

Investing in our securities involves significant risks. You should carefully consider all of the information in this annual report before investing in our securities. Below is a summary of the principal risks we face. These risks are discussed more fully under “Item 3. Key Information—D. Risk Factors.”

***Risks Related to Our Business and Industry (for a more detailed discussion, see “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry”)***

Risks and uncertainties related to our business include, but are not limited to, the following:

- price increases in raw materials and sourced products could harm our financial results;

- high quality materials for our products may be difficult to obtain or substantially increase our production costs;
- we are exposed to a number of risks related to our supply chain for the materials required to manufacture our products which could adversely affect our business operations and future development;
- we operate in a highly competitive industry. Our failure to compete effectively could adversely affect our market share, revenues and growth prospects;
- high quality materials for our products may be difficult to obtain or substantially increase our production costs;
- our future success depends in part on our ability to increase our production capacity, and we may not be able to do so in a cost-effective manner. We have engaged a third-party sub-contractor to build manufacturing facilities and an office building for us, and we may encounter challenges relating to the construction, management and operation of such facilities;
- we are subject to evolving regulatory requirements, non-compliance with which, or changes in which, may adversely affect our business and prospects; and
- if we fail to maintain or renew requisite licenses, permits, registrations and filings applicable to our business operations, or fail to obtain additional licenses, permits, registrations or filings that become necessary as a result of new enactment or promulgation of government policies, laws or regulations or the expansion of our business, our business and results of operations may be materially and adversely affected.

***Risks Related to Doing Business in China (for a more detailed discussion, see “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China”)***

We face risks and uncertainties relating to doing business in the PRC in general, including, but not limited to, the following:

- the PRC government has significant authority to intervene or influence the China operations of an offshore holding company, such as ours, at any time. The PRC government may exert more control over offerings conducted overseas and/or foreign investment in China-based issuers. If the PRC government exerts more oversight and control over offerings that are conducted overseas and/or foreign investment in China-based issuers and we were to be subject to such oversight and control, it may result in a material adverse change to our business operations, significantly limit or completely hinder our ability to offer or continue to offer securities to investors, and cause the ordinary shares to significantly decline in value or become worthless;
- uncertainties arising from the legal system in China, including uncertainties regarding the interpretation and enforcement of PRC laws and the possibility that regulations and rules can change quickly with little advance notice, could hinder our ability to offer or continue to offer the ordinary shares, result in a material adverse change to our business operations, and damage our reputation, which would materially and adversely affect our financial condition and results of operations and cause the ordinary shares to significantly decline in value or become worthless;
- our ordinary shares may be delisted or prohibited from being traded over-the-counter under the Holding Foreign Companies Accountable Act, if the U.S. Public Company Accounting Oversight Board, or the PCAOB, is unable to inspect our auditors. The delisting or the cessation of trading of our ordinary shares, or

the threat of their being delisted or prohibited from being traded, may materially and adversely affect the value of your investment. Additionally, the inability of the PCAOB to conduct inspections would deprive our investors with the benefits of such inspections. Our auditor has not been inspected by the PCAOB, but according to our auditor, it will be inspected by the PCAOB on a regular basis;

- failure to comply with cybersecurity, data privacy, data protection, or any other laws and regulations related to data may materially and adversely affect our business, financial condition, and results of operations;
- the approval and/or other requirements of the China Securities Regulatory Commission, or the CSRC, or other PRC governmental authorities may be required in connection with an offering under PRC rules, regulations or policies, and, if required, we cannot predict whether or how soon we will be able to obtain such approval;
- PRC regulation of loans to, and direct investments in, PRC entities by offshore holding companies may delay or prevent us from using proceeds from our offerings and/or other financing activities to make loans or additional capital contributions to our PRC operating subsidiaries;
- adverse changes in political, economic and social conditions, as well as government policies in China could have a material adverse effect on our business results of operations, financial conditions and prospects; and
- changes to the PRC legal system could have an adverse effect on us.
- the Draft Rules Regarding Overseas Listings released by the CSRC for public consultation, while not yet in effect, may cause the Chinese government to exert more oversight and control over overseas public offerings conducted by China-based issuers, which could significantly limit or completely hinder our ability to offer or continue to offer our securities to investors and could cause the value of our securities to significantly decline or become worthless. See “Risk Factors—Risks Related to Doing Business in China—The Draft Rules Regarding Overseas Listings were released by the CSRC for public consultation. While such rules have not yet come into effect, the Chinese government may exert more oversight and control over overseas public offerings conducted by China-based issuers, which could significantly limit or completely hinder our ability to offer or continue to offer our securities to investors and could cause the value of our securities to significantly decline or become worthless”;
- recent greater oversight by the Cyberspace Administration of China over data security, particularly for companies seeking to list on a foreign exchange, could adversely impact our business and our offering. See “Risk Factors—Risks Related to Doing Business in China—Recent greater oversight by the Cyberspace Administration of China over data security, particularly for companies seeking to list on a foreign exchange, could adversely impact our business and our offering”;
- to the extent cash and assets of in the business is in the PRC or a PRC entity, the funds may not be available to fund operations or for other use outside of the PRC due to interventions in or the imposition of restrictions and limitations on the ability of our Company or our subsidiaries by the PRC government to transfer cash and assets. See “Risk Factors—Risks Related to Doing Business in China—To the extent cash and assets of in the business is in the PRC or a PRC entity, the funds may not be available to fund operations or for other use outside of the PRC due to interventions in or the imposition of restrictions and limitations on the ability of our Company or our subsidiaries by the PRC government to transfer cash and assets.”



In addition to the risks described above, we are subject to general risks and uncertainties relating to our ordinary shares and the trading market, including, but not limited to, the following:

- Our share price has recently declined substantially, and our ordinary shares could be delisted from the Nasdaq or trading could be suspended;
- we may issue additional ordinary shares or other equity securities without your approval, which would dilute your ownership interests and may depress the market price of our ordinary shares; and
- we are a “controlled company” within the meaning of the Nasdaq Stock Market Rules and, as a result, may rely on exemptions from certain corporate governance requirements that provide protection to shareholders of other companies;
- as a foreign private issuer, we are not subject to certain U.S. securities law disclosure requirements that apply to a domestic U.S. issuer, which may limit the information publicly available to our shareholders; and
- as a foreign private issuer, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the Nasdaq listing standards. These practices may afford less protection to shareholders than they would enjoy if we complied fully with corporate governance listing standards.

### **Risks Related to Our Business and Industry**

#### ***Price increases in raw materials and sourced products could harm our financial results.***

Our principal raw materials include angelica, codonopsis, poria mushroom isatis root, and other herbs and plant extracts. These raw materials are subject to price volatility and inflationary pressures. Our success is dependent, in part, on our ability to reduce our exposure to increases in such costs through a variety of ways, while maintaining and improving margins and market share. The manufacturers of such raw materials are also subject to price volatility and labor cost and other inflationary pressures, which may in turn result in an increase in the amount we pay for sourced products. Raw materials and sourced product price increases may offset our productivity gains and price increases and may adversely impact our financial results.

#### ***High quality materials for our products may be difficult to obtain or substantially increase our production costs.***

Raw materials account for a portion of our manufacturing costs and we rely on third-party suppliers to provide almost all raw materials. Suppliers may be unable or unwilling to provide the raw materials we need in the quantities requested, at prices we are willing to pay, or that meet our quality standards. We are also subject to potential delays in the delivery of raw materials caused by events beyond our control, including transportation interruptions, delivery delays, labor disputes, other supply chain issues, and changes in government regulations. See “—We are exposed to a number of risks related to our supply chain for the materials required to manufacture our products” for details. Our business could be adversely affected if we are unable to obtain reliable sources of the raw materials used in the manufacturing of our products that meet our quality standards. Any significant delay in or disruption of the supply of raw materials could, among other things, substantially increase the cost of such materials, require reformulation or repackaging of products, require the qualification of new suppliers, or result in our inability to meet customer demands, which could in turn adversely affect our financial results.

#### ***We are exposed to a number of risks related to our supply chain for the materials required to manufacture our products which could adversely affect our business operations and future development.***

We rely on third-party suppliers to provide almost all raw materials, and manufacturing our products is highly complex and requires sourcing specialty materials or materials with quality standards. Many of the risks associated with the complexity of manufacturing our products are applicable to the manufacture and supply of the raw materials. Minor deviations in the manufacturing process for these raw materials could result in supply disruption and reduced production yields for our products, which is beyond our control. In addition, we rely on third parties for the supply of

these materials exposing us to similar risks of reliance on third parties for final products. See “—We face risks related to our sales of products obtained from third-party suppliers” for further details.

Our manufacturing processes requires many equipment and raw materials such as medicinal plants. We established supplier qualification procedures to verify the operation conditions, production capabilities, credit-worthiness and quality standard of potential suppliers, in order to procure quality raw materials in a timely manner. Although we are not relying on a single supplier for any of our raw materials, we may in the future rely on sole source vendors or a limited number of vendors for some of our equipment and materials. We currently depend on a limited number of suppliers for certain materials and equipment used in the manufacture of our products. Some of these suppliers are small companies with limited resources and experience to support commercial production and may be ill-equipped to support our needs from time to time. Accordingly, we may experience delays in receiving key materials and equipment to support manufacturing. An inability to continue to source product from any of these suppliers, which could be due to regulatory actions or requirements affecting the supplier, adverse financial or other strategic developments experienced by a supplier, labor disputes or shortages, unexpected demands, or quality issues, could adversely affect our ability to satisfy demand for our products, which could adversely and materially affect our product sales and operating results or our ability to conduct clinical trials, either of which could significantly harm our business.

As we continue to develop and scale our manufacturing process, we expect that we will need to obtain supplies of certain raw materials and equipment to be used as part of that process. We may not be able to obtain rights to such materials on commercially reasonable terms, or at all, and if we are unable to alter our process in a commercially viable manner to avoid the use of such materials or find a suitable substitute, it would have a material adverse effect on our business. Even if we are able to alter our process so as to use other materials or equipment, such a change may lead to a delay in our clinical development and/or commercialization plans.

***We operate in a highly competitive industry. Our failure to compete effectively could adversely affect our market share, revenues and growth prospects.***

The Chinese patent medicine industry in the PRC is subject to significant competition and pricing pressures. We will experience significant competitive pricing pressures as well as competitive products. Several significant competitors may offer products at the same or lower prices than our products. The market is highly sensitive to the introduction of new products, which may rapidly capture a significant share of the market. It is possible that one or more of our competitors could develop a significant research advantage over us that allows them to provide superior products that are more attractive to consumers, which could put us in a competitive disadvantage. Continued pricing pressure or improvements in research and shifts in customer preference could adversely impact our customer base or pricing structure and have a material and adverse effect on our business, financial conditions, results of operations and cash flows.

***Failure to maintain or enhance our brands or image could have a material adverse effect on our business and results of operations.***

We believe several of our brands, such as “Bai Nian Dan (百年丹)”, “Hu Zhuo Ren (胡卓仁)” and “Long Zhong (龙种)”, are well-recognized among our clients and other Chinese patent medicine industry players. Our brand is integral to our sales and marketing efforts. Our continued success in maintaining and enhancing our brand and image depends to a large extent on our ability to satisfy customer needs by further developing effective and better-quality products, as well as our ability to respond to competitive pressures. If we are unable to satisfy customer needs or if our public image or reputation were otherwise diminished, our business transactions with our customers may decline, which could in turn adversely affect our results of operations.

***Our failure to appropriately respond to changing consumer preferences and demand for new products could significantly harm our customer relationships and product sales.***

Our business is particularly subject to changing consumer trends and preferences. Our continued success depends in part on our ability to anticipate and respond to these changes, and we may not be able to respond in a timely or commercially appropriate manner to these changes. If we are unable to do so, our customer relationships and product sales could be harmed significantly.

Furthermore, the Chinese patent medicine industry is characterized by rapid and frequent changes in demand and new product introductions. Our failure to accurately depict these trends could negatively impact consumer opinion of our stores as a source for latest products. This could harm our customer relationships and cause losses to our market share. The success of our new product offerings depends upon a number of factors, including our ability to: accurately anticipate customer needs; innovate and develop new products; successfully commercialize new products in a timely manner; price our products competitively; manufacture and deliver our products in sufficient volumes and in a timely manner; and differentiate our product offerings from those our competitors.

If we do not introduce new products or make enhancements to meet the changing needs of our customers in a timely manner, some of our products could become obsolete, which could have a material adverse effect on our revenues and operating results.

***If our products do not have the effects intended or cause undesirable side effects, our business may suffer.***

Many of the ingredients in our current products have a long history of human consumption, and although we believe that all of these products and the combinations of ingredients in them are safe when taken as directed, the products could have certain undesirable side effects if not taken as directed or if taken by a consumer who has certain medical conditions. In addition, these products may not have the effect intended if they are not taken in accordance with instructions, which may include dietary restrictions. Furthermore, there can be no assurance that any of these products, even when used as directed, will have the effects intended or will not have harmful side effects in an unforeseen way or on an unforeseen cohort. If any of our products or products we develop or commercialize in the future are shown to be harmful or generate negative publicity from perceived harmful effects, our business, financial condition, results of operations, and prospects could be harmed significantly.

***We have made substantial investment in advertising our products in order to improve our brand awareness and our market position, which efforts may not be successful, and in such event, our financial position and results of operations may be materially and negatively affected.***

We have made substantial investment in advertising our products in order to improve our brand awareness and our market position. In particular, in the fiscal year ended September 30, 2021, we started to advertise our products through television advertisement. For example, on September 6, 2021, we entered into a service agreement with an advertising agency, engaging such agency to develop and produce a television advertisement for our signature TCMD products, Bai Nian Dan and Guben Yanling Pill, and to coordinate with a television channel to air the advertisement to audience in certain our target markets, with a term of one year from October 1, 2021 to September 30, 2022. In connection with this agreement, we paid \$7.5 million to the advertising agency. In the fiscal year ended September 30, 2022, we entered into an advertising service agreement with a third-party, Health Headline Technology Co., Ltd. (“Health Headline”), pursuant to which, Health Headline provided media advertising services to promote our brand on the Health Headline website and mobile app, with a service period of ten months from March 1, 2022 to December 31, 2022. In addition, we incurred substantial advertising expenditures to maintain and enhance our brand and our products, which may not prove successful. Television advertising and other brand promotion activities may not generate customer awareness or increase revenue, and even if they do, any increase in revenue may not offset the expenses we incur in building our brand. Additionally, there could be a negative reaction to certain advertising campaigns. If we fail to promote our brand, or if we incur excessive expenses in this effort, we may fail to attract or retain customers necessary to realize a sufficient return on our brand-building efforts or to achieve the desired brand awareness that is critical for our success.

***Our future success depends in part on our ability to increase our production capacity, and we may not be able to do so in a cost-effective manner. We have engaged a third-party sub-contractor to build manufacturing facilities and an office building for us, and we may encounter challenges relating to the construction, management and operation of such facilities.***

To the extent we are successful in growing our business, we may need to increase our production capacity. We entered into a construction agreement with a sub-contractor, who will construct four manufacturing plants and an office building for us, with a total maximum budget of approximately RMB165 million (US\$23.2 million). The construction started on August 8, 2021, with an originally estimated completion date on August 7, 2023. However, due to resurgence in the number of COVID cases, which resulted in logistic disruptions, material and labor shortage, and domestic travel restriction, the construction work is estimated to be completed in December 2024, and the sub-contractor will bear the increased material and labor costs. Our ability to construct such additional facilities is subject to risks and uncertainties. The construction of any new facilities will be subject to risks inherent in the development and construction, including risks of delays and cost overruns as a result of factors outside of our control, which may include delays in government approvals, burdensome permitting conditions, and delays in the delivery of manufacturing equipment or raw materials required for the construction. Additionally, we also depend on the third-party sub-contractor for the development of new facilities, and as such, we are subject to the risk that such third parties do not fulfill their obligations to us under the construction agreement.

If the sub-contractor is unable to deliver the new facilities to us on time, or if we are unable to expand our manufacturing facilities in general, we may be unable to further scale our business, which would negatively affect our results of operations and financial condition. If we are unable to transition manufacturing operations to such new facilities in a cost-efficient and timely manner, then we may experience disruptions in operations, which could negatively impact our business and financial results. Further, if the demand for our products decreases or if we do not produce the expected output after any such new facilities are operational, we may not be able to spread a significant amount of our fixed costs over the production volume, thereby increasing our per product fixed cost, which would have a negative impact on our business, financial condition and results of operations.

***We have internal control deficiency in our internal control system and deficiencies in our corporate governance. If we fail to improve our internal control function and corporate governance, we may be subject to increased risk of fraud or misuse of corporate assets, which may materially and negatively impact our financial condition and results of operations.***

We have internal control deficiency in our internal control system and deficiency in our corporate governance. In the fiscal year ended September 30, 2021, we entered into several material business transactions, including a construction agreement with a third-party sub-contractor to construct manufacturing facilities and an office building for us, a real estate property purchase agreement with a related party for the purchase of certain real properties, and an advertising service agreement with a third-party advertising agency to air our television advertisements. These transactions were not submitted for approval by our board of directors or any of its committees. In the fiscal year ended September 30, 2022, we have implemented measures to improve our internal control procedures and corporate governance as a public company, and obtained board approval prior to entering into all material business transactions, including the entry into a series of definitive agreements with Kitanihon Pharmaceutical Co., Ltd., and a letter of intent for the acquisition of Yunnan Faxi Pharmaceuticals Co., Ltd. (“Yunnan Faxi”). We intend to continue improving our internal control procedures and corporate governance as a public company. Nevertheless, if we fail to communicate with our board of directors on a regular basis or otherwise implement remedial measures to improve our internal control and corporate governance function in this regard, we may be subject to increased risk of fraud or misuse of corporate assets, which may materially and negatively impact our financial condition and results of operations.

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

As a manufacturer of products designed for human consumption, we are subject to legal and regulatory requirements applicable to the Chinese patent medicine industry in the PRC. We have been subject to penalties by PRC regulatory authorities in the past due to our failure to comply with their requirements, including noncompliance with the Good Manufacturing Practice for Drugs and the National Drug Standard.

The regulations to which we are subject in this area are evolving. As a result, the interpretation of these laws and their enforcement is often uncertain. Predicting the application of these laws can be difficult, and unexpected outcomes in the interpretation and enforcement of the applicable regulations may have an adverse impact on our business and operations. Additionally, any future changes in regulations may render our business non-compliant or require changes to our business practices or licensing arrangements to ensure compliance. These changes may involve significant costs, which in turn may adversely affect our business and financial prospects.

Various regulatory authorities of the PRC government regulate the manufacturing and trading of Chinese patent medicine. Violations of regulations may lead to the imposition of significant penalties which may affect our business, operations, reputation and financial prospects. See “Item 4. Information on the Company—B. Business Overview—Regulations” for details.

As we introduce new products to our customers, we may be required to comply with additional laws and regulations that are yet to be determined. To comply with such additional laws and regulations, we may be required to obtain necessary certificates, licenses or permits, as well as expend additional resources to monitor regulatory and policy developments. Our failure to adequately comply with such additional laws and regulations may delay, or possibly prevent, some of our products from being offered to customers, which may have a material adverse effect on our business, financial condition and results of operations.

***If we fail to maintain or renew requisite licenses, permits, registrations and filings applicable to our business operations, or fail to obtain additional licenses, permits, registrations or filings that become necessary as a result of new enactment or promulgation of government policies, laws or regulations or the expansion of our business, our business and results of operations may be materially and adversely affected.***

The Chinese patent medicine industry in China is highly regulated, and multiple licenses, permits, filings and approvals are required to operate our business. Currently, through our PRC subsidiaries, we have obtained a valid pharmaceutical manufacturing license, a medical device selling license, and a pharmaceutical trade license. We have made efforts to obtain all applicable approvals, licenses and permits, but due to the complexities, uncertainties and frequent changes in laws, rules, regulations and their interpretation and implementation, we may not always be able to do so, and we may be penalized by governmental authorities for conducting pharmaceutical manufacturing or sales activities without proper approvals, licenses or permits. Moreover, as we continue to increase our product variety, we may also become subject to new or existing laws and regulations that did not affect us in the past. Failure to obtain, renew or retain requisite licenses, permits or approvals may adversely affect our ability to conduct or expand our business, and may have a material adverse impact on our business prospects, results of operations and financial condition.

***Our business is subject to inherent risks relating to product liability and personal injury claims.***

As a manufacturer of products designed for human consumption, we are subject to product liability claims if the use of our products is alleged to have resulted in injury. For instance, adverse reactions resulting from human consumption of the ingredients contained in our products could occur. We may also be obligated to recall affected products. If we are found liable for product liability claims, we could be required to pay substantial monetary damages. Furthermore, even if we successfully defend ourselves against this type of claim, we could be required to spend significant management, financial and other resources, which could disrupt our business, and our reputation as well as our brand name may also suffer. We, like many other similar companies in China, do not carry product liability insurance. As a result, any imposition of product liability could materially harm our business, financial condition and results of operations. In addition, we do not have any business interruption insurance, due to the limited coverage of any

available business interruption insurance in China, and as a result, any business disruption or natural disaster could severely disrupt our business and operations and significantly decrease our revenue and profitability.

***We may not be successful in expanding a distribution network.***

Although we intend to expand our distribution network to include additional cities and rural areas in the PRC in an effort to increase our geographic presence, our distribution, logistics and products may encounter competition from various similar or substitutive businesses. Therefore, the success of expansion will depend upon many factors, including our ability to form relationships with, and manage an increasing number of, customers base and optimize our distribution network. If we fail to expand our distribution network as planned, our business, financial condition and results of operations may be materially and adversely affected.

***The global spread of COVID-19 pandemic could materially and adversely affect our business and results of operations.***

Our business operations have been affected and may continue to be affected by the ongoing COVID-19 pandemic. In the fiscal year ended September 30, 2022, due to resurgence of COVID-19 pandemic in China and related restrictive measures, including travel restrictions, the PRC operating entities experienced delays in the receipt of purchased raw materials from suppliers and in delivering products to customers. The prices of the raw materials increased by about 5% as compared to the fiscal year ended September 30, 2021. In addition, we granted some customers extended payment terms of 30 days to 120 days. However, based on our present relationship with these customers and our evaluation of their financial conditions, we do not anticipate any material collectability problems. Although the Chinese government removed its zero-COVID policy in December 2022, China is now facing a sudden surge in COVID cases after easing the lockdown restrictions nationwide. WHO officials had expressed hope that COVID-19 might be entering an endemic phase by early 2023, but the continued uncertainties associated with the COVID-19 pandemic worldwide may cause our revenue and cash flows to underperform in the next 12 months from the date of this annual report. The extent of the future impact of the COVID-19 pandemic on our business and the results of operations is still uncertain.

***We are dependent on certain key personnel and loss of these key personnel could have a material effect on our business, financial condition and results of operations.***

Our success is, to a certain extent, attributable to the management, sales and marketing, and research and development expertise of key personnel. We are dependent upon the services of Mr. Gang Lai, the chairman of our board of directors and our chief executive officer, for the continued growth and operation of our Company, due to his industry experiences and management experiences. Although we have no reason to believe that Mr. Gang Lai will discontinue his services with us, the interruption or loss of his services would adversely affect our ability to effectively run our business and pursue our business strategy as well as our results of operation. We currently do not have “key person” insurance on any of our executives or employees. There can be no assurance that we will be able to retain our key personnel after the terms of their employment expire. The loss of the services of one or more of our key personnel could have a material adverse effect upon our business, financial condition, and results of operations.

***We may not effectively manage our growth, which could materially harm our business.***

We expect that our business will continue to grow, which may place a significant strain on our management, personnel, systems and resources. We must continue to improve our operational and financial systems and managerial controls and procedures, and we will need to continue to expand, train and manage our technology and workforce. We must also maintain close coordination among our compliance, accounting, finance, marketing and sales organizations. We cannot assure you that we will manage our growth effectively. If we fail to do so, our business could be materially harmed.

Our continued growth will require an increased investment by us in technology, facilities, personnel and financial and management systems and controls. It also will require expansion of our procedures for monitoring and assuring our compliance with applicable regulations, and we will need to integrate, train and manage a growing employee base. The expansion of our existing businesses, any expansion into new businesses and the resulting growth of our employee base will increase our need for internal audit and monitoring processes that are more extensive and broader in scope than those we have historically acquired. We may not be successful in identifying or implementing all of the processes that are necessary. Further, unless our growth results in an increase in our revenues that is proportionate to the increase in our costs associated with this growth, our operating margins and profitability will be adversely affected.

***We may not be able to hire and retain qualified personnel to support our growth and if we are unable to retain and hire these personnel in the future, our ability to improve our products and implement our business objects could be adversely affected.***

We must attract, recruit and retain a sizeable workforce of technically competent employees. Competition for senior management and personnel in the PRC is intense and the pool of qualified candidates in the PRC is very limited. We may not be able to retain the services of our senior executives or personnel, or attract and retain high-quality senior executives or personnel in the future. This failure could materially and adversely affect our future growth and financial condition.

***Our success depends on our ability to protect our intellectual property.***

We currently own 46 patents and 99 trademarks in China. We believe that our success depends on our ability to obtain and maintain patent protection for products developed utilizing our technologies, in the PRC and in other countries, and to enforce these patents. There is no assurance that any of our existing and future patents will be deemed to be valid and enforceable against third-party infringement or that our products will not infringe any third-party patent or intellectual property by a court or administrative body having jurisdiction over such matters. Although we have filed additional patent applications with Patent Administration Department of PRC, there is no assurance that they will be granted.

Any patents relating to our technologies may not be sufficiently broad to protect our products. In addition, our patents may be challenged, potentially invalidated or potentially circumvented. Our patents may not afford us protection against competitors with similar technology or permit the commercialization of our products without infringing third-party patents or other intellectual property rights.

We also rely, or intend to rely, on our trademarks, trade names and brand names to distinguish our products from the products of our competitors, and have registered or will apply to register a number of these trademarks. However, third parties may oppose our trademark applications or otherwise challenge our use of the trademarks. In the event that our trademarks are successfully challenged, we could be forced to rebrand our products, which could result in loss of brand recognition and could require us to devote resources to advertising and marketing these new brands. Further, our competitors may infringe our trademarks, or we may not have adequate resources to enforce our trademarks.

In addition, we also have trade secrets, non-patented proprietary expertise and continuing technological innovations that we expect to seek to protect, in part, by entering into confidentiality agreements with licensees, suppliers, employees and consultants. These agreements may be breached and there may not be adequate remedies in the event of a breach. Disputes may arise concerning the ownership of intellectual property or the applicability of confidentiality agreements. Moreover, our trade secrets and proprietary technology may otherwise become known or be independently developed by our competitors. If patents are not issued with respect to products arising from research, we may not be able to maintain the confidentiality of information relating to these products.

Further, the application and interpretation of China's intellectual property laws are still evolving and are uncertain. If we are found to have violated the intellectual property rights of others, we may be subject to liability and penalty for our infringement activities or may be prohibited from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives of our own. In addition, we may incur significant expenses, and may be forced to divert management's time and other resources from our business and operations to defend against these infringement claims, regardless of their merits. Successful infringement or licensing claims made against us may result in significant monetary liabilities and may materially disrupt our reputation, business and operations by restricting or prohibiting our use of the intellectual property at issue.

***Because we rely on our manufacturing operations to produce a significant amount of the products we sell, disruptions in our manufacturing system or losses of manufacturing certifications could adversely affect our sales and customer relationships.***

Our manufacturing operations produced approximately 59.8%, 61.6% and 59.8% of the total value of the products we sold for the fiscal year ended September 30, 2022, 2021, and 2020, respectively. Our products are produced in our manufacturing facility located in Jinggangshan, Jiangxi Province, China. For the fiscal year ended September 30, 2022, one supplier accounted for approximately 10.3% of our total purchases. For the fiscal year ended September 30, 2021, no supplier accounted for more than 10% of our total purchases. For the fiscal year ended September 30, 2020, two suppliers accounted for approximately 19.6% and 13.6% of our total purchases, respectively. In the event any of our third-party suppliers or vendors becomes unable or unwilling to continue to provide raw materials in the required volumes or quality levels or in a timely manner, we would be required to identify and obtain acceptable replacement supply sources. If we are unable to identify and obtain alternative supply sources, our business could be adversely affected. Any significant disruption in our operations at our manufacturing facility for any reason, including government-imposed regulatory requirements, the loss of certifications, power interruptions, fires, war, or other force of nature, could disrupt our supply of products, adversely affecting our sales and customer relationships.

***We face risks related to our sales of products obtained from third-party suppliers.***

We sell a significant number of products that are manufactured by third-party suppliers over which we have no direct control. While we have implemented processes and procedures to try to ensure that the suppliers we use are complying with all applicable regulations, there can be no assurance that such suppliers in all instances will comply with such processes and procedures or otherwise with applicable regulations. Noncompliance could result in our marketing and distribution of contaminated or dangerous products which would subject us to liabilities and could result in the imposition by government authorities of penalties that could restrict or eliminate our ability to purchase products. Any or all of these effects could adversely affect our business, financial condition and results of operation.

***The growth of our business depends on our ability to finance new product innovations and these increased costs may reduce our cash flows and, if the products in which we have invested fail, it would reduce our profitability.***

We operate in the Chinese patent medicine industry, which is characterized by significant competition and rapid change. New products appear with increasing frequency to supplant existing products. If we fail to adapt to those conditions in a timely and efficient manner, our revenues and profits would likely decline. To remain competitive, we must continue to incur significant costs in product research and development, marketing, equipment and facilities and to make capital investment. These costs may increase, resulting in greater fixed costs and operating expenses.

In the fiscal year ended September 30, 2022, we incurred \$7.6 million of research and development expenses, a 39.9% increase compared to the expenses in the fiscal year ended September 30, 2021. In order to diversify our profit portfolio, a large portion of the research and development expenses in the fiscal year ended September 30, 2022 was spent on developing and testing eight new products. In the fiscal year ended September 30, 2021, we incurred \$5.47 million of research and development expenses, an 837.3% increase compared to the expenses in the fiscal year ended September 30, 2020. In order to diversify our profit portfolio, a large portion of the research and development expenses in the fiscal year ended September 30, 2021 was spent on developing and testing eight new products.



Our future operating results will depend to a significant extent on our ability to continue to provide new products that compare favorably based on time to market, cost and performance with the design and manufacturing capabilities and competing third-party suppliers and technologies. Furthermore, our research and development efforts may not produce successful results, and our new products may not achieve market acceptance, create additional revenue for us, or bring us profits. Our failure to increase our net sales sufficient to offset these increased costs would reduce our profitability and may materially and adversely affect our business operations and results of operations.

***Future acquisitions may have an adverse effect on our ability to manage our business.***

We may acquire businesses, technologies, services or products which are complementary to our core business of manufacturing and selling TCMD products. Future acquisitions may expose us to potential risks, including risks associated with: (i) the integration of new products, services and personnel; unforeseen or hidden liabilities; (ii) the diversion of resources from our existing business; (iii) our potential inability to generate sufficient revenue to offset new costs; the expenses of acquisitions; or (iv) the potential loss of or harm to relationships with both employees and advertising clients resulting from our integration of new businesses.

Any of the potential risks listed above could have a material and adverse effect on our ability to manage our business, our revenues and net income. We may need to raise additional debt funding or sell additional equity securities to make such acquisitions. The raising of additional debt funding by us, if required, would result in increased debt service obligations and could result in additional operating and financing covenants, or liens on our assets, that could restrict our operations. The sale of additional equity securities could result in additional dilution to our shareholders.

***Increase in labor costs in the PRC may adversely affect our business and our profitability.***

China's economy has experienced increases in labor costs in recent years, and the average wage in China are expected to continue to grow. The average wage level for our employees has also increased in recent years. We expect that our labor costs, including wages and employee benefits, will continue to increase as we continue to grow our business. Unless we are able to pass on these increased labor costs to our customers by increasing prices for our products or services, our profitability and results of operations may be materially adversely affected.

In addition, we have been subject to stricter regulatory requirements in terms of entering into labor contracts with our employees and paying various statutory employee benefits, including pensions, housing fund, medical insurance, work-related injury insurance, unemployment insurance and childbearing insurance to designated government agencies for the benefit of our employees. Pursuant to the PRC Labor Contract Law (《中华人民共和国劳动合同法》) (the "Labor Contract Law") that became effective in January 2008 and its implementing rules that became effective in September 2008 and its amendments that became effective in July 2013, employers are subject to stricter requirements in terms of signing labor contracts, minimum wages, paying remuneration, determining the term of employees' probation and unilaterally terminating labor contracts. In the event that we decide to terminate some of our employees or otherwise change our employment or labor practices, the Labor Contract Law and its implementation rules may limit our ability to effect any such terminations or those changes in a desirable or cost-effective manner, which could adversely affect our business and results of operations.

As of the date of this annual report, we believe that we are in substantial compliance with labor-related laws and regulations in China, and we have not been notified of any instance of noncompliance. As the interpretation and implementation of labor-related laws and regulations are still evolving, we cannot assure you that our employment practice will not violate 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.

***Natural disasters (whether or not caused by climate change), unusually adverse weather conditions, pandemic outbreaks, terrorist acts and global political events could cause permanent or temporary distribution center or store***

***closures, impair our ability to purchase, receive or replenish inventory, or cause customer traffic to decline, all of which could result in lost sales and otherwise adversely affect our financial performance.***

The occurrence of one or more natural disasters, such as hurricanes, fires, floods and earthquakes (whether or not caused by climate change), unusually adverse weather conditions, pandemic outbreaks, terrorist acts or disruptive global political events, such as civil unrest in countries in which our suppliers are located, or similar disruptions could adversely affect our operations and financial performance. To the extent these events result in the closure of one or more of our distribution centers, a significant number of stores, a manufacturing facility or our corporate headquarters, or impact one or more of our key suppliers, our operations and financial performance could be materially adversely affected through an inability to make deliveries to our stores and through lost sales. In addition, these events could result in increases in fuel (or other energy) prices or a fuel shortage, decrease in available raw materials of sufficient quality and in sufficient amounts, delays in opening new stores, the temporary lack of an adequate work force in a market, the temporary or long-term disruption in the supply of products from some local and overseas suppliers, the temporary disruption in the transport of goods from overseas, delay in the delivery of goods to our distribution centers or stores, the temporary reduction in the availability of products in our stores and disruption to our information systems. These events also could have indirect consequences, such as increases in the cost of insurance, if any of such events was to result in significant loss of property or other insurable damage.

## **Risks Related to Doing Business in China**

***The PRC government has significant authority to intervene or influence the China operations of an offshore holding company, such as ours, at any time. The PRC government may exert more control over offerings conducted overseas and/or foreign investment in China-based issuers. If the PRC government exerts more oversight and control over offerings that are conducted overseas and/or foreign investment in China-based issuers and we were to be subject to such oversight and control, it may result in a material adverse change to our business operations, significantly limit or completely hinder our ability to offer or continue to offer securities to investors, and cause the ordinary shares to significantly decline in value or become worthless.***

Our business, prospects, financial condition, and results of operations may be influenced to a significant degree by political, economic, and social conditions in China generally. The PRC government has significant authority to intervene or influence the China operations of an offshore holding company at any time, which could result in a material adverse change to our operations and the value of the ordinary shares. The PRC government has recently indicated an intent to exert more oversight and control over listings conducted overseas and/or foreign investment in China-based issuers. Any such action may hinder our ability to offer or continue to offer our securities to investors, result in a material adverse change to our business operations, and damage our reputation, which could cause the ordinary shares to significantly decline in value or become worthless. See also “—Failure to comply with cybersecurity, data privacy, data protection, or any other laws and regulations related to data may materially and adversely affect our business, financial condition, and results of operations.”

***Uncertainties arising from the legal system in China, including uncertainties regarding the interpretation and enforcement of PRC laws and the possibility that regulations and rules can change quickly with little advance notice, could hinder our ability to offer or continue to offer the ordinary shares, result in a material adverse change to our business operations, and damage our reputation, which would materially and adversely affect our financial condition and results of operations and cause the ordinary shares to significantly decline in value or become worthless.***

The legal system in China is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases may be cited for reference but have less precedential value. The laws, regulations, and legal requirements in China are quickly evolving and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to you and us. In addition, we cannot predict the effect of

future developments in the PRC legal system, particularly with regard to new economies, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. Furthermore, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all. As a result, we may not be aware of our potential violation of these policies and rules. In addition, any administrative and court proceedings in China may be protracted and result in substantial costs and diversion of resources and management attention.

New laws and regulations may be enacted from time to time and substantial uncertainties exist regarding the interpretation and implementation of current and any future PRC laws and regulations applicable to our businesses. In particular, the PRC government authorities may continue to promulgate new laws, regulations, rules and guidelines governing companies in the patent medicine industry with respect to a wide range of issues, such as intellectual property, unfair competition and antitrust, privacy and data protection, and other matters. Compliance with these laws, regulations, rules, guidelines, and implementations may be costly, and any incompliance or associated inquiries, investigations, and other governmental actions may divert significant management time and attention and our financial resources, bring negative publicity, subject us to liabilities or administrative penalties, or materially and adversely affect our business, financial condition, results of operations, and the value of the ordinary shares.

***Our ordinary shares may be delisted or prohibited from being traded over-the-counter under the Holding Foreign Companies Accountable Act, if the U.S. Public Company Accounting Oversight Board, or the PCAOB, is unable to inspect our auditors. The delisting or the cessation of trading of our ordinary shares, or the threat of their being delisted or prohibited from being traded, may materially and adversely affect the value of your investment. Additionally, the inability of the PCAOB to conduct inspections would deprive our investors with the benefits of such inspections. Our auditor has not been inspected by the PCAOB, but according to our auditor, it will be inspected by the PCAOB on a regular basis.***

The Holding Foreign Companies Accountable Act, or the HFCA Act, was enacted on December 18, 2020. The HFCA Act states if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspection by the PCAOB for three consecutive years, the SEC shall prohibit our shares from being traded on a national securities exchange or in the over-the-counter trading market in the U.S.

Our auditor, the independent registered public accounting firm that issues the audit report included elsewhere in this annual report, as an auditor of companies that are traded publicly in the United States and a firm registered with the PCAOB, is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. Our auditor is headquartered in California and has not been inspected by the PCAOB, but according to our auditor, it will be inspected by the PCAOB on a regular basis.

On March 24, 2021, the SEC adopted interim final rules relating to the implementation of certain disclosure and documentation requirements of the Holding Foreign Companies Accountable Act. We will be required to comply with these rules if the SEC identifies us as having a “non-inspection” year under a process to be subsequently established by the SEC. The SEC is assessing how to implement other requirements of the Holding Foreign Companies Accountable Act, including the listing and trading prohibition requirements described above. In May 2021, the PCAOB issued for public comment a proposed rule related to the PCAOB’s responsibilities under the Holding Foreign Companies Accountable Act, which, according to the PCAOB, would establish a framework for the PCAOB to use when determining, as contemplated under the Holding Foreign Companies Accountable Act, whether the PCAOB is unable to inspect or investigate completely registered public accounting firms located in a foreign jurisdiction because of a position taken by one or more authorities in that jurisdiction. The proposed rule was adopted by the PCAOB in September 2021, pending the final approval of the SEC to become effective.

On June 22, 2021, the U.S. Senate passed the Accelerating Holding Foreign Companies Accountable Act, which, if passed by the U.S. House of Representatives and signed into law, would reduce the number of consecutive non-

inspection years required for triggering the prohibitions under the Holding Foreign Companies Accountable Act from three years to two.

On December 2, 2021, the SEC issued amendments to finalize rules implementing the submission and disclosure requirements in the Holding Foreign Companies Accountable Act. The rules apply to registrants that the SEC identifies as having filed an annual report with an audit report issued by a registered public accounting firm that is located in a foreign jurisdiction and that PCAOB is unable to inspect or investigate completely because of a position taken by an authority in foreign jurisdictions.

On December 16, 2021, the PCAOB issued a report on its determination that it is unable to inspect or investigate completely PCAOB-registered public accounting firms headquartered in China and in Hong Kong because of positions taken by PRC and Hong Kong authorities in those jurisdictions. The PCAOB has made such determination as mandated under the Holding Foreign Companies Accountable Act. Pursuant to each annual determination by the PCAOB, the SEC will, on an annual basis, identify issuers that have used non-inspected audit firms and thus are at risk of such suspensions in the future. Our auditor is headquartered in California and is not subject to this determination announced by the PCAOB.

The SEC may propose additional rules or guidance that could impact us if our auditor is not subject to PCAOB inspection. For example, on August 6, 2020, the President's Working Group on Financial Markets, or the PWG, issued the Report on Protecting United States Investors from Significant Risks from Chinese Companies to the then President of the United States. This report recommended that the SEC implement five measures to address companies from jurisdictions that do not provide the PCAOB with sufficient access to fulfil its statutory mandate. Some of the concepts of these recommendations were implemented with the enactment of the Holding Foreign Companies Accountable Act. However, some of the recommendations were more stringent than the Holding Foreign Companies Accountable Act.

The SEC has announced that the SEC staff is preparing a consolidated proposal for the rules regarding the implementation of the Holding Foreign Companies Accountable Act and to address the recommendations in the PWG report. It is unclear when the SEC will complete its rulemaking and when such rules will become effective and what, if any, of the PWG recommendations will be adopted. The SEC has also announced amendments to various annual report forms to accommodate the certification and disclosure requirements of the Holding Foreign Companies Accountable Act. There could be additional regulatory or legislative requirements or guidance that could impact us if our auditor is not subject to PCAOB inspection. The implications of this possible regulation or guidance, in addition to the requirements of the Holding Foreign Companies Accountable Act, are uncertain.

On December 15, 2022, the PCAOB announced that it has completed a test inspection of two selected auditing firms in mainland China and Hong Kong and has voted to vacate its previous Determination Report, which concluded in December 2021 that it could not inspect or investigate completely registered public accounting firms based in mainland China or Hong Kong. Moving forward, the PCAOB will continue to demand complete access in mainland China and Hong Kong. Despite the PCAOB's announcement, Chinese authorities will need to ensure that the PCAOB continues to have full access for inspections and investigations in 2023 and beyond, or the threat for Chinese companies listed on U.S. stock exchanges has not been relieved.

If, for whatever reason, the PCAOB is unable to conduct full inspections of our auditor, uncertainty under the HFCA Act could cause the market price of our ordinary shares to be materially and adversely affected, and our securities could be delisted or prohibited from being traded "over-the-counter". The risk and uncertainty associated with a potential delisting would have a negative impact on the price of our ordinary shares.

The foregoing recent developments would add uncertainties to our future offerings and may result in prohibitions on the trading of our ordinary shares on the Nasdaq Stock Market, if our auditors fail to meet the PCAOB inspection requirement in time.

***Failure to comply with cybersecurity, data privacy, data protection, or any other laws and regulations related to data may materially and adversely affect our business, financial condition, and results of operations.***

We may be subject to a variety of cybersecurity, data privacy, data protection, and other laws and regulations related to data, including those relating to the collection, use, sharing, retention, security, disclosure, and transfer of

confidential and private information, such as personal information and other data. These laws and regulations apply not only to third-party transactions, but also to transfers of information within our organization. These laws and regulations may restrict our business activities and require us to incur increased costs and efforts to comply, and any breach or noncompliance may subject us to proceedings against us, damage our reputation, or result in penalties and other significant legal liabilities, and thus may materially and adversely affect our business, financial condition, and results of operations.

In China, the cybersecurity, data privacy, data protection, or other data-related laws and regulations are relatively new and evolving, and their interpretation and application may be uncertain. For example, on November 14, 2021, the Administration Regulations on Cyber Data Security (Draft for Comments) (the “Draft Regulation”) was proposed by the Cyberspace Administration of China, or the CAC, for public comments until December 13, 2021. The Draft Regulation reiterates that data processors which process the personal information of at least one million users must apply for a cybersecurity review if they plan on listing its securities overseas, and the Draft Regulation further requires the data processors to apply for cybersecurity review in accordance with relevant laws and regulations under the following circumstances: (i) such data processor engages in merger, reorganization or division of internet platform operators that have gathered a large number of data resources related to national security, economic development and public interests affects or may affect national security; (ii) the listing of such data processor overseas affects or may affect national security; and (iii) such data processor engages in other data processing activities that affect or may affect national security. Any failure to comply with such requirements may subject us to, among others, suspension of services, fines, revocation of relevant business permits or business licenses, and/or penalties. Since the CAC is still seeking comments on the Draft Regulation from the public as of the date of this annual report, the Draft Regulation (especially its operative provisions) and its anticipated adoption or effective date are subject to further changes with substantial uncertainty.

As of the date of this annual report, we have not engaged in the relevant businesses provided in the Draft Regulation. As such, we currently do not expect the draft measures by the CAC or other recent regulations will have an impact on our business or results of operations, and we believe that we are compliant with the regulations and policies that have been issued by the CAC to date. As of the date of this annual report, we have not received any investigation, notice, warning, or sanction from applicable government authorities (including the CAC) with regard to our business operations concerning any issues related to cybersecurity and data security. In addition, we have not been involved in any review, investigation, enquiry, penalty, or other legal proceedings initiated by applicable governmental or regulatory authorities or third parties in relation to in relation to cyber security or data protection. However, we still face uncertainties regarding the interpretation and implementation of these laws and regulations in the future. Cybersecurity review could result in disruption in our operations, negative publicity with respect to our Company, and diversion of our managerial and financial resources. Furthermore, if we were found to be in violation of applicable laws and regulations in China during such review, we could be subject to fines or other government sanctions and reputational damage. Therefore, potential cybersecurity review, if applicable to us, could materially and adversely affect our business, financial condition, and results of operations.

In addition, the PRC Data Security Law, which was promulgated by the Standing Committee of the National People’s Congress (the “SCNPC”) on June 10, 2021 and took effect on September 1, 2021, requires data collection to be conducted in a legitimate and proper manner, and stipulates that, for the purpose of data protection, data processing activities must be conducted based on data classification and hierarchical protection system for data security. Furthermore, the recently issued Opinions on Strictly Cracking Down Illegal Securities Activities require (i) speeding up the revision of the provisions on strengthening the confidentiality and archives management relating to overseas issuance and listing of securities and (ii) improving the laws and regulations relating to data security, cross-border data flow, and management of confidential information. The PRC Personal Information Protection Law, which was promulgated by the SCNPC on August 20, 2021 and took effect on November 1, 2021, integrates the scattered rules with respect to personal information rights and privacy protection and applies to the processing of personal information within China as well as certain personal information processing activities outside China, including those for the

provision of products and services to natural persons within China or for the analysis and assessment of acts of natural persons within China. There remain uncertainties regarding the further interpretation and implementation of those laws and regulations, if they are deemed to be applicable to us, we cannot assure you that we will be compliant with such new regulations in all respects, and we may be ordered to rectify and terminate any actions that are deemed illegal by the government authorities and become subject to fines and other government sanctions, which may materially and adversely affect our business, financial condition, and results of operations.

***Recent greater oversight by the Cyberspace Administration of China over data security, particularly for companies seeking to list on a foreign exchange, could adversely impact our business and operations.***

On December 28, 2021, the CAC and other relevant PRC governmental authorities jointly promulgated the Cybersecurity Review Measures, which took effect on February 15, 2022. The Cybersecurity Review Measures provide that, in addition to critical information infrastructure operators (the “CIIOs”) that intend to purchase Internet products and services, net platform operators engaging in data processing activities that affect or may affect national security must be subject to cybersecurity review by the Cybersecurity Review Office of the PRC. According to the Cybersecurity Review Measures, a cybersecurity review assesses potential national security risks that may be brought about by any procurement, data processing, or overseas listing. The Cybersecurity Review Measures require that an online platform operator which possesses the personal information of at least one million users must apply for a cybersecurity review by the CAC if it intends to be listed in foreign countries.

On November 14, 2021, the CAC published the Draft Regulations on the Network Data Security Administration (Draft for Comments) (the “Security Administration Draft”), which provides that data processing operators engaging in data processing activities that affect or may affect national security must be subject to network data security review by the relevant Cyberspace Administration of the PRC. According to the Security Administration Draft, data processing operators who possess personal data of at least one million users or collect data that affects or may affect national security must be subject to network data security review by the relevant Cyberspace Administration of the PRC. The deadline for public comments on the Security Administration Draft was December 13, 2021.

As of the date of this annual report, we have not received any notice from any authorities identifying our PRC subsidiaries or the PRC operating entities as CIIOs or requiring us to go through cybersecurity review or network data security review by the CAC. As confirmed by our PRC counsel, AllBright Law Offices (Fuzhou), neither the operations of our PRC subsidiaries, nor of the PRC operating entities are expected to be affected, and that we will not be subject to cybersecurity review by the CAC under the Cybersecurity Review Measures, nor will any such entity be subject to the Security Administration Draft, if it is enacted as proposed, given that our PRC subsidiaries and the PRC operating entities possess personal data of fewer than one million individual clients and do not collect data that affects or may affect national security in their business operations as of the date of this annual report and do not anticipate that they will be collecting over one million users’ personal information or data that affects or may affect national security in the near future. In general, we believe we are compliant with the regulations or policies that have been issued by the CAC to date. There remains uncertainty, however, as to how the Cybersecurity Review Measures and the Security Administration Draft will be interpreted or implemented and whether the PRC regulatory agencies, including the CAC, may adopt new laws, regulations, rules, or detailed implementation and interpretation related to the Cybersecurity Review Measures and the Security Administration Draft. If any such new laws, regulations, rules, or implementation and interpretation come into effect, we will take all reasonable measures and actions to comply and to minimize the adverse effect of such laws on us. We cannot assure you that PRC regulatory agencies, including the CAC, would take the same view as we do. In the event that we are subject to any mandatory cybersecurity review and other specific actions required by the CAC, we face uncertainty as to whether any clearance or other required actions can be timely completed, or at all. If we inadvertently conclude that such approval is not required, fail to obtain and maintain such approvals, licenses, or permits required for our business or respond to changes in the regulatory environment, we could be subject to liabilities, penalties and operational disruption, which may materially and adversely affect our business, operating results, financial condition, and the value of our securities, significantly limit

or completely hinder our ability to offer or continue to offer securities to investors, or cause such securities to significantly decline in value or become worthless.

***The approval and/or other requirements of the China Securities Regulatory Commission, or the CSRC, or other PRC governmental authorities may be required in connection with an offering under PRC rules, regulations or policies, and, if required, we cannot predict whether or how soon we will be able to obtain such approval.***

The Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, purport to require offshore special purpose vehicles that are controlled by PRC companies or individuals and that have been formed for the purpose of seeking a public listing on an overseas stock exchange through acquisitions of PRC domestic companies or assets to obtain CSRC approval prior to publicly listing their securities on an overseas stock exchange. The interpretation and application of the regulations remain unclear. If a governmental approval is required, it is uncertain how long it will take for us to obtain such approval, and, even if we obtain such approval, the approval could be rescinded. Any failure or delay in obtaining the requisite governmental approval for an offering, or a rescission of such CSRC approval, if obtained by us, may subject us to sanctions imposed by the relevant PRC regulatory authority, which could include fines and penalties on our operations in China, restrictions or limitations on our ability to pay dividends outside of China, and other forms of sanctions that may materially and adversely affect our business, financial condition, and results of operations.

Our PRC counsel, AllBright Law Offices (Fuzhou), has advised us that, based on its understanding of the current PRC laws and regulations, we will not be required to submit an application to the CSRC for the approval under the M&A Rules for an offering because (i) the CSRC currently has not issued any definitive rule or interpretation concerning whether offerings like ours are subject to this regulation; and (ii) we did not acquire any equity interests or assets of a “PRC domestic company” as such terms are defined under the M&A Rules.

However, our PRC counsel has further advised us that there remains some uncertainty as to how the M&A Rules will be interpreted or implemented in the context of an overseas offering, and its opinions summarized above are subject to any new laws, rules and regulations or detailed implementations and interpretations in any form relating to the M&A Rules. We cannot assure you that relevant PRC governmental authorities, including the CSRC, would reach the same conclusion as our PRC counsel, and hence, we may face regulatory actions or other sanctions from them. Furthermore, relevant PRC governmental authorities promulgated the Opinions on Strictly Cracking Down Illegal Securities Activities, which provided that the administration and supervision of overseas-listed China-based companies will be strengthened, and the special provisions of the State Council on overseas issuance and listing of shares by such companies will be revised, clarifying the responsibilities of domestic industry competent authorities and regulatory authorities. However, the Opinions on Strictly Cracking Down Illegal Securities Activities were only issued recently, leaving uncertainties regarding the interpretation and implementation of these opinions. It is possible that any new rules or regulations may impose additional requirements on us. In addition, on July 10, 2021 and November 14, 2021, the CAC issued a revised draft of the Measures for Cybersecurity Review and a draft of the Regulations on the Network Data Security, respectively, for public comments, according to which, among others, operators of “critical information infrastructure” or data processors holding over one million users’ personal information shall apply to the Cybersecurity Review Office for a cybersecurity review before any listing on a foreign stock exchange. It is uncertain when the final measures will be issued and take effect, how they will be enacted, interpreted or implemented, and whether they will affect us. If it is determined in the future that CSRC approval or other procedural requirements are required to be met for and prior to an offering, it is uncertain whether we can or how long it will take us to obtain such approval or complete such procedures and any such approval could be rescinded. Any failure to obtain or delay in obtaining such approval or completing such procedures for an offering, or a rescission of any such approval, could subject us to sanctions by the relevant PRC governmental authorities. The governmental authorities may impose restrictions and penalties on our operations in China, such as the suspension of our apps and services, revocation of our licenses, shutting down part or all of our operations, limiting our ability to pay dividends outside of China, delaying or restricting the repatriation of the proceeds from an offering into China, or may take other

actions that could have a material adverse effect on our business, financial condition, results of operations and prospects, as well as the trading price of the ordinary shares. The PRC governmental authorities may also take actions requiring us, or making it advisable for us, to halt an offering before settlement and delivery of the ordinary shares offered hereby. Consequently, if you engage in market trading or other activities in anticipation of and prior to settlement and delivery, you do so at the risk that settlement and delivery may not occur. In addition, if the PRC governmental authorities later promulgate new rules or requirements that we obtain their approvals for filings, registrations or other kinds of authorizations for an offering, we cannot assure you that we can obtain the approval, authorizations, or complete required procedures or other requirements in a timely manner, or at all, or obtain a waiver of the requisite requirements if and when procedures are established to obtain such a waiver.

***The Draft Rules Regarding Overseas Listings were released by the CSRC for public consultation. While such rules have not yet come into effect, the Chinese government may exert more oversight and control over overseas public offerings conducted by China-based issuers, which could significantly limit or completely hinder our ability to offer or continue to offer our securities to investors and could cause the value of our securities to significantly decline or become worthless.***

On December 24, 2021, the CSRC and relevant departments of the State Council issued the Draft Rules Regarding Overseas Listings, which aim to regulate overseas securities offerings and listings by China-based companies, for public consultation. The Draft Rules Regarding Overseas Listing aim to lay out the filing regulation arrangement for both direct and indirect overseas listing and clarify the determination criteria for indirect overseas listing in overseas markets. Where an enterprise whose principal business activities are conducted in mainland China seeks to issue and list its shares in the name of an overseas enterprise based on equity, assets, income, or other similar rights and interests of the relevant domestic enterprise in mainland China, such activities are deemed an indirect overseas issuance and listing. According to the Draft Rules Regarding Overseas Listings, among other things, after making initial applications with overseas stock markets for initial public offerings or listings, or after the completion of issuance of overseas listed securities by the overseas listed issuer, all China-based companies shall file the required filing materials with the CSRC within three working days. In addition, overseas offerings and listings may be prohibited for such China-based companies when any of the following applies: (i) if the intended securities offerings and listings are specifically prohibited by the PRC laws and regulations; (ii) if the intended securities offerings and listings may constitute a threat to, or endanger national security as reviewed and determined by competent authorities under the State Council in accordance with laws; (iii) if there are material ownership disputes over applicants' equity interests, major assets, core technologies, or the others; (iv) if, in the past three years, applicants' domestic enterprises, controlling shareholders, or de facto controllers have committed corruption, bribery, embezzlement, misappropriation of property, or other criminal offenses disruptive to the order of the socialist market economy, or are currently under judicial investigation for suspicion of criminal offenses, or are under investigation for suspicion of major violations; (v) if, in the past three years, any directors, supervisors, or senior executives of applicants have been subject to administrative punishments for severe violations, or are currently under judicial investigation for suspicion of criminal offenses, or are under investigation for suspicion of major violations; or (vi) other circumstances as prescribed by the State Council. The Draft Administrative Provisions further stipulate that a fine between RMB1 million (approximately \$157,255) and RMB10 million (approximately \$1,572,550) may be imposed if an applicant fails to fulfill the filing requirements with the CSRC or conducts an overseas offering or listing in violation of the Draft Rules Regarding Overseas Listings, and in cases of severe violations, a parallel order to suspend relevant businesses or halt operations for rectification may be issued, and relevant business permits or operational license revoked.

As of the date of this annual report, the Draft Rules Regarding Overseas Listings have not been formally promulgated, and neither we, our subsidiaries, nor any of the PRC operating entities have been required to complete the filing procedures. However, uncertainties remain as to its enactment or future interpretations and implementations. Our PRC counsel, AllBright Law Offices (Fuzhou), has advised us that, even if the final rules are promulgated as proposed in the current Draft Rules Regarding Overseas Listings, none of the situations that would clearly prohibit overseas offering and listings would apply to us. In addition, we would only need to submit the filing materials and no CSRC



approval would be required under such rules. Notwithstanding the above, our PRC counsel has further advised us that uncertainties still exist as to whether we, our subsidiaries, or the PRC operating entities are required to obtain permissions from the Chinese government that is required to approve of our operations and/or offering. In the event that we, our subsidiaries, or the PRC operating entities are subject to the compliance requirements, we cannot assure you that any of these entities will be able to receive clearance of such compliance requirements in a timely manner, or at all. Any failure of our Company, our subsidiaries, or the PRC operating entities to fully comply with new regulatory requirements may subject us to regulatory actions, such as fines, relevant businesses or operations suspension for rectification, revocation of relevant business permits or operational license, or other sanctions, which may significantly limit or completely hinder our ability to offer or continue to offer our securities cause significant disruption to our business operations, severely damage our reputation, materially and adversely affect our financial condition and results of operations and cause our securities to significantly decline in value or become worthless.

***PRC regulation of loans to, and direct investments in, PRC entities by offshore holding companies may delay or prevent us from using proceeds from our offerings and/or other financing activities to make loans or additional capital contributions to our PRC operating subsidiaries.***

As an offshore holding company with PRC subsidiaries, we may transfer funds to our PRC subsidiaries or finance our operating entity by means of loans or capital contributions. Any capital contributions or loans that we, as an offshore entity, make to our Company's PRC subsidiaries are subject to PRC regulations. Any loans to our PRC subsidiaries, which are foreign-invested enterprises, cannot exceed statutory limits based on the difference between the amount of our investments and registered capital in such subsidiaries, and shall be registered with China's State Administration of Foreign Exchange ("SAFE"), or its local counterparts. Furthermore, any capital increase contributions we make to our PRC subsidiaries, which are foreign-invested enterprises, are subject to the requirement of making necessary filings in the Foreign Investment Comprehensive Management Information System, or FICMIS, and registration with other government authorities in China. We may not be able to obtain these government registrations or approvals on a timely basis, if at all. If we fail to obtain such approvals or make such registration, our ability to make equity contributions or provide loans to our Company's PRC subsidiaries or to fund their operations may be negatively affected, which may adversely affect their liquidity and ability to fund their working capital and expansion projects and meet their obligations and commitments. As a result, our liquidity and our ability to fund and expand our business may be negatively affected.

***We must remit proceeds of any future offerings to China before they may be used to benefit our business in China, and this process may take several months to complete.***

The proceeds of our future offerings must be sent back to China, and the process for sending such proceeds back to China may take as long as six months after the closing of an offering. As an offshore holding company of our PRC operating subsidiaries, we may make loans to our PRC subsidiaries, or we may make additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries are subject to PRC regulations. For example, loans by us to our subsidiaries in China, which are foreign-invested enterprises, to finance their activities cannot exceed statutory limits and must be registered with SAFE.

To remit the proceeds of our offerings, we must take the following steps:

- First, we will open a special foreign exchange account for capital account transactions. To open this account, we must submit to SAFE certain application forms, identity documents, transaction documents, form of foreign exchange registration of overseas investments of the domestic residents, and foreign exchange registration certificate of the invested company.
- Second, we will remit the offering proceeds into this special foreign exchange account.

- Third, we will apply for settlement of the foreign exchange. In order to do so, we must submit to SAFE certain application forms, identity documents, payment order to a designated person, and a tax certificate.

The timing of the process is difficult to estimate because the efficiencies of different SAFE branches can vary significantly. Ordinarily the process takes several months but is required by law to be accomplished within 180 days of application.

We may also decide to finance our subsidiaries by means of capital contributions. These capital contributions must be subject to the requirement of making necessary filings in the FICMIS, and registration with other government authorities in China. We cannot assure you that we will be able to obtain these government approvals on a timely basis, if at all, with respect to future capital contributions by us to our subsidiaries. If we fail to receive such approvals, our ability to use the proceeds of any future offerings and to capitalize our Chinese operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business. If we fail to receive such approvals, our ability to use the proceeds of our future offerings and to capitalize our Chinese operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

***We may rely on dividends paid by our subsidiaries for our cash needs, and any limitation on the ability of our subsidiaries to make payments to us could have a material adverse effect on our ability to conduct business.***

As a holding company, we conduct substantially all of our business through our consolidated subsidiaries incorporated in China. We may rely on dividends paid by these PRC subsidiaries for our cash needs, including the funds necessary to pay any dividends and other cash distributions to our shareholders, to service any debt we may incur and to pay our operating expenses. The payment of dividends by entities established in China is subject to limitations. Regulations in China currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in China. In accordance with the Article 166, 168 of the Company Law of the PRC (Amended in 2018) (the “PRC Company Law”), each of our PRC subsidiaries is required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves or statutory capital reserve fund until the aggregate amount of such reserves reaches 50% of its respective registered capital. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. The statutory common reserve fund of a company shall be used to cover the losses of the company, expand the business and production of the company or be converted into additional capital. As a result, our PRC subsidiaries are restricted in their ability to transfer a portion of their net assets to us in the form of dividends. In addition, if any of our PRC subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Any limitations on the ability of our PRC subsidiaries to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

***Adverse changes in political, economic and social conditions, as well as government policies in China could have a material adverse effect on our business results of operations, financial conditions and prospects.***

Substantially all of our business operations are conducted in China. Accordingly, our financial condition, results of operations and prospects are, to a material extent, subject to economic, political and legal developments in China. The economy in China differs from the economies of developed countries in many respects, including, among other things, the degree of government involvement, control of investment, level of economic development, growth rate, foreign exchange controls and resource allocation. Although the economy in China has been transitioning from a planned economy to a more market-oriented economy for about four decades, a substantial portion of productive assets in China is still owned by the PRC government. The PRC government also exercises significant control over the economic growth of China through allocating resources, controlling payments of foreign currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. In recent years, the PRC government has implemented measures emphasizing the utilization of market forces in

economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance practices in business enterprises. Some of these measures benefit the overall economy in China, but may adversely affect us. For example, our financial condition and results of operations may be adversely affected by government policies on the Chinese patent medicine industry in China or changes in tax regulations applicable to us. If the business environment in China deteriorates, our business in China may also be materially and adversely affected.

***Changes to the PRC legal system could have an adverse effect on us.***

The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions under the civil law system may be cited for reference but have limited precedential value. Since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and the enforcement of these laws, regulations and rules involves uncertainties.

In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past decades has significantly enhanced the protections afforded to various forms of foreign investments in China. However, recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, the interpretation and enforcement of these laws and regulations involve uncertainties. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory provisions and contractual terms, it may be difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy. These uncertainties may affect our judgment on the relevance of legal requirements and our ability to enforce our contractual rights or tort claims.

Furthermore, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all and may have retroactive effect. As a result, we may not be aware of our violation of any of these policies and rules until sometime after the violation. In addition, any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention.

***Labor Contract Law and other labor-related laws in the PRC may adversely affect our business and our results of operations.***

On December 28, 2012, the PRC government released the revision of the Labor Contract Law, which became effective on July 1, 2013. Pursuant to the Labor Contract Law, employers are subject to stricter requirements in terms of signing labor contracts, minimum wages, paying remuneration, determining the term of employees' probation and unilaterally terminating labor contracts. In the event that we decide to terminate some of our employees or otherwise change our employment or labor practices, the Labor Contract Law and its implementation rules may limit our ability to effect those changes in a desirable or cost-effective manner, which could adversely affect our business and results of operations. According to the PRC Social Insurance Law (《中华人民共和国社会保险法》), employees must participate in pension insurance, work-related injury insurance, medical insurance, unemployment insurance and maternity insurance and the employers must, together with their employees or separately, pay the social insurance premiums for such employees. In accordance with the Regulations on the Management of Housing Fund which was promulgated by the State Council in 1999 and amended in 2002 and 2019, employers must register at the designated administrative centers and open bank accounts for depositing employees' housing funds. As the interpretation and implementation of labor-related laws and regulations are still evolving, we cannot assure you that our employment practices do not and will not violate labor-related laws and regulations in China, which may subject us to labor disputes or government investigations. As of the date of this annual report, we believe that we are in substantial compliance with labor-related laws and regulations in China, and we have not been notified of any instance of noncompliance. We cannot assure you that we will be able to comply with all labor-related law and regulations regarding including

those relating to obligations to make social insurance payments and contribute to the housing provident fund. 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 will be adversely affected.

***There are significant uncertainties under the Enterprise Income Tax Law, or the EIT Law, relating to the withholding tax liabilities of our PRC subsidiaries, and dividends payable by our PRC subsidiaries to our offshore subsidiaries may not qualify to enjoy certain treaty benefits.***

China passed the EIT Law, and it is implementing rules, both of which became effective on January 1, 2008. Under the PRC EIT Law and its implementation rules, the profits of an FIE generated through operations, which are distributed to its immediate holding company outside the PRC, will be subject to a withholding tax rate of 10%. Pursuant to a special arrangement between Hong Kong and the PRC, such rate may be reduced to 5% if a Hong Kong resident enterprise owns more than 25% of the equity interest in the PRC company. Our PRC subsidiaries, Universe Technology, Jiangxi Universe and Universe Trade, are wholly-owned by our Hong Kong subsidiary. Moreover, under the Notice of the State Administration of Taxation on Issues regarding the Administration of the Dividend Provision in Tax Treaties promulgated on February 20, 2009, the taxpayer needs to satisfy certain conditions to enjoy the benefits under a tax treaty. The beneficial owner of the relevant dividends and the corporate shareholder to receive dividends from the PRC subsidiary must have continuously met the direct ownership thresholds during the 12 consecutive months preceding the receipt of the dividends. Further, the State Administration of Taxation (the “SAT”) promulgated the Notice on How to Comprehend and Determine the “Beneficial Owner” in Tax Treaties (《国家税务总局关于税收协定中“受益所有人”有关问题的公告》) on February 3, 2018, which limits the “beneficial owner” to individuals, projects or other organizations normally engaged in substantive operations, and sets forth certain detailed factors in determining the “beneficial owner” status. In current practice, a Hong Kong enterprise must obtain a tax resident certificate from the relevant Hong Kong tax authority to apply for the 5% lower PRC withholding tax rate. As the Hong Kong tax authority will issue such a tax resident certificate on a case-by-case basis, we cannot assure you that we will be able to obtain the tax resident certificate from the relevant Hong Kong tax authority. As of the date of this annual report, we have not commenced the application process for a Hong Kong tax resident certificate from the relevant Hong Kong tax authority, and there is no assurance that we will be granted such a Hong Kong tax resident certificate.

Even after we obtain the Hong Kong tax resident certificate, we are required by applicable tax laws and regulations to file required forms and materials with relevant PRC tax authorities to prove that we can enjoy 5% lower PRC withholding tax rate. Universe HK intends to obtain the required materials and file with the relevant tax authorities when it plans to declare and pay dividends, but there is no assurance that the PRC tax authorities will approve the 5% withholding tax rate on dividends received from Universe HK.

***Failure to qualify for or obtain any preferential tax treatments that are available in China could adversely affect our results of operations and financial condition.***

The EIT Law and its implementation rules generally impose a uniform income tax rate of 25% on all enterprises, but grant preferential treatment to “high and new technology enterprises strongly supported by the state,” or HNTEs, with a preferential enterprise tax rate of 15%. Our subsidiaries, Jiangxi Universe and Universe Trade, are currently accredited as HNTE and will enjoy the reduced income tax rate of 15% for three years through November 2025 and December 2023, respectively. According to the relevant administrative measures, to qualify as an “HNTE,” Jiangxi Universe must meet certain financial and non-financial criteria and complete verification procedures with the administrative authorities. Continued qualification as an HNTE is subject to review by the relevant government authorities in China every three years, and in practice, certain local tax authorities may require annual evaluation of the qualification. In the event that Jiangxi Universe fails to renew its status as HNTE with the local tax authority, it will be subject to the standard PRC enterprise income tax rate of 25%.

***Under the EIT Law, we may be classified as a “Resident Enterprise” of China. Such classification will likely result in unfavorable tax consequences to us and our non-PRC shareholders.***

The EIT Law and its implementing rules became effective on December 9, 2019. Under the EIT Law, an enterprise established outside of China with “de facto management bodies” within China is considered a “resident enterprise,” meaning that it can be treated in a manner similar to a Chinese enterprise for enterprise income tax purposes. The implementing rules of the EIT Law define de facto management as “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise.

If the PRC tax authorities determine that we are a “resident enterprise” for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we may be subject to the enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. In our case, this would mean that income such as non-China source income would be subject to PRC enterprise income tax at a rate of 25%. Currently, we do not have any non-China source income, as we conduct our sales in China. Second, under the EIT Law and its implementing rules, dividends paid to us from our PRC subsidiaries would be deemed as “qualified investment income between resident enterprises” and therefore qualify as “tax-exempt income” pursuant to the clause 26 of the EIT Law. Finally, it is possible that future guidance issued with respect to the new “resident enterprise” classification could result in a situation in which the dividends we pay with respect to our ordinary shares, or the gain our non-PRC shareholders may realize from the transfer of our ordinary shares, may be treated as PRC-sourced income and may therefore be subject to a 10% PRC withholding tax. The EIT Law and its implementing regulations are, however, relatively new and ambiguities exist with respect to the interpretation and identification of PRC-sourced income, and the application and assessment of withholding taxes. If we are required under the EIT Law and its implementing regulations to withhold PRC income tax on dividends payable to our non-PRC shareholders, or if non-PRC shareholders are required to pay PRC income tax on gains on the transfer of their ordinary shares, our business could be negatively impacted and the value of your investment may be materially reduced. Further, if we were to be treated as a “resident enterprise” by PRC tax authorities, we would be subject to taxation in both China and such countries in which we have taxable income, and our PRC tax may not be creditable against such other taxes.

***To the extent cash in and assets of the business is in the PRC or a PRC entity, the funds and assets may not be available to fund operations or for other use outside of the PRC due to interventions in or the imposition of restrictions and limitations on the ability of our Company or our subsidiaries by the PRC government to transfer cash and assets.***

Relevant PRC laws and regulations permit the companies in mainland China to pay dividends only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Additionally, each of the companies in mainland China are required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory reserve until such reserve reaches 50% of its registered capital. The companies in mainland China are also required to further set aside a portion of their after-tax profits to fund the employee welfare fund, although the amount to be set aside, if any, is determined at their discretion. These reserves are not distributable as cash dividends. Furthermore, if we determine to pay dividends on any of our ordinary shares in the future, as a holding company, we will rely on payments from subsidiaries of Jiangxi Universe to Jiangxi Universe, and from Jiangxi Universe to Universe Technology, and the distribution of such payments to Universe HK, and then to our Company. If our PRC subsidiaries and the PRC operating entities incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us.

Our cash dividends, if any, will be paid in U.S. dollars. If we are considered a tax resident enterprise of mainland China for tax purposes, any dividends we pay to our overseas shareholders may be regarded as China-sourced income and as a result may be subject to PRC withholding tax. See “—Under the EIT Law, we may be classified as a “Resident

Enterprise” of China. Such classification will likely result in unfavorable tax consequences to us and our non-PRC shareholders.”

The PRC government also imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of mainland China. The majority of our and the PRC operating entities’ income is received in Renminbi and shortages in foreign currencies may restrict our ability to pay dividends or other payments, or otherwise satisfy our foreign currency denominated obligations, if any. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from the State Administration of Foreign Exchange as long as certain procedural requirements are met. Approval from appropriate government authorities is required if Renminbi is converted into foreign currency and remitted out of mainland China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may, at its discretion, impose restrictions on access to foreign currencies for current account transactions and if this occurs in the future, we may not be able to pay dividends in foreign currencies to our shareholders.

Any limitation on the ability of our PRC subsidiaries and the PRC operating entities to distribute dividends or other payments to their respective shareholders could materially and adversely limit our ability to conduct operations, make investments, engage in acquisitions, or undertake other activities requiring working capital. However, our operations and business, including investment and/or acquisitions by our PRC subsidiaries and the PRC operating entities within mainland China, will not be affected as long as the capital is not transferred in or out of mainland China.

***We may be exposed to liabilities under the Foreign Corrupt Practices Act and Chinese anti-corruption law.***

We are subject to the U.S. Foreign Corrupt Practices Act (the “FCPA”), and other laws that prohibit improper payments or offers of payments to foreign governments and their officials and political parties by U.S. persons and issuers, as defined by the statute, for the purpose of obtaining or retaining business. We are also subject to Chinese anti-corruption laws, which strictly prohibit the payment of bribes to government officials. We have operations, agreements with third parties, and make sales in China, which may expose us to claims of corruption. Our activities in China create the risk of unauthorized payments or offers of payments by one of the employees of our Company, because these parties are not always subject to our control.

Although we believe that, as of the date of this annual report on Form 20-F, we have complied in all material respects with the provisions of the FCPA and Chinese anti-corruption law, our existing safeguards and any future improvements may prove to be less than effective, and the employees of our Company may engage in conduct for which we might be held responsible. Violations of the FCPA or Chinese anti-corruption law may result in severe criminal or civil sanctions, and we may be subject to other liabilities, which could negatively affect our business, operating results and financial condition. In addition, the government may seek to hold our Company liable for successor liability FCPA violations committed by companies in which we invest or that we acquire.

***The enforcement of stricter advertisement laws and regulations in the PRC may adversely affect our business and our profitability.***

In October 2018, the SCNPC promulgated the PRC Advertising Law, effective on October 26, 2018. According to the Advertising Law, advertisements shall not have any false or misleading content, or defraud or mislead consumers. Furthermore, an advertisement will be deemed as a “false advertisement” if any of the following situations exist: (i) the advertised product or service does not exist; (ii) there is any inconsistency that has a material impact on the decision to purchase in what is included in the advertisement with the actual circumstances with respect to the product’s performance, functions, place of production, uses, quality, specification, ingredient, price, producer, term of validity, sales condition, and honors received, among others, or the service’s contents, provider, form, quality, price, sales condition, and honors received, among others, or any commitments, among others, made on the product or service; (iii) fabricated, forged or unverifiable scientific research results, statistical data, investigation results, excerpts, quotations, or other information have been used as supporting material; (iv) effect or results of using the good or receiving the service are fabricated; or (v) other circumstances where consumers are defrauded or misled by any false or misleading content.

Our current marketing relies on advertisements on media platforms. The laws and regulations of advertising are relatively new and evolving and there is substantial uncertainty as to the interpretation of “false advertisement” by the State Administration for Industry and Commerce (the “SAIC”). If any of the advertisements published by our customers is deemed to be a “false advertisement” by the SAIC or its local branch, we could be subject to various penalties, such as discontinuation of publishing the target advertisement, imposition of fines and obligations to eliminate any adverse effects incurred by such false advertisement. Any such penalties may disrupt our business and our competition with competitors, and could affect our results of operations and financial conditions.

***We were not in compliance with the PRC’s regulations relating to employee’s social insurance and housing funds prior to April 2020, and as a result, we may be subject to penalties for such non-compliance.***

Pursuant to the Social Insurance Law of the PRC (the “Social Insurance Law”), which was promulgated by the SCNPC on October 28, 2010 and amended on December 29, 2018, and the Administrative Regulations on the Housing Provident Funds, which was promulgated by the State Council on April 3, 1999 and last amended on March 24, 2019, employers are required to make contributions, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity insurance and to housing provident funds. Prior to April 2020, we only contributed to the social insurance and housing provident funds for some, but not all, of our employees. Since April 2020, we have started contributing to the social insurance and housing funds for our eligible full-time employees in accordance with the aforementioned PRC laws and regulations. Even though we are currently making contributions in accordance with applicable PRC laws, there is a risk that the labor security administration authority may take enforcement action to collect from us all the outstanding contributions of the social insurance and housing provident funds required to be made for the employees in the past, and we may be subject to a late charge at the rate of 0.05% per day on the total outstanding contribution.

***U.S. regulatory bodies may be limited in their ability to conduct investigations or inspections of our operations in China.***

The U.S. Securities and Exchange Commission (the “SEC”), the U.S. Department of Justice and other U.S. authorities may also have difficulties in bringing and enforcing actions against us or our directors or executive officers in the PRC. The SEC has stated that there are significant legal and other obstacles to obtaining information needed for investigations or litigation in China. Although the authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such cooperation with the securities regulatory authorities in Hong Kong or other jurisdictions may not be efficient in the absence of mutual and practical cooperation mechanism. Furthermore, China has recently adopted a revised securities law that became effective on March 1, 2020, Article 177 of which provides, among other things, that no overseas securities regulator is allowed to directly conduct investigation or evidence collection activities within the territory of the PRC. Accordingly, without governmental approval in China, no entity or individual in China may provide documents and information relating to securities business activities to overseas regulators when it is under direct investigation or evidence discovery conducted by overseas regulators. While detailed interpretation of or implementation rules under Article 177 have yet to be promulgated, it could present significant legal and other obstacles to obtaining information needed for investigations and litigation conducted outside of China, which may further increase difficulties faced by you in protecting your interests. See also “—You may experience difficulty in effecting service of process, enforcing foreign judgments or bringing actions against our directors and officers.”

***You may experience difficulty in effecting service of process, enforcing foreign judgments or bringing actions against our directors and officers.***

We are a Cayman Islands exempted company with limited liability and most of our assets are located outside of the United States. In addition, almost all of our directors and officers are nationals or residents of the PRC, including our chief executive officer and chairman of the board of directors, Mr. Gang Lai, our chief financial officer, Ms. Lin Yang, and our directors, Mr. Jiawen Pang and Mr. Ding Zheng, and all or a substantial portion of their assets are located outside the United States. As a result, it may be difficult or impossible for you to effect service of process within the United States upon our directors and executive officers. It may also be difficult for you to enforce in the United States courts judgments obtained in the United States courts based on the civil liability provisions of the United States federal securities laws against us and our officers and directors who reside and whose assets are located outside the United States.

In addition, there is uncertainty as to whether the courts of the Cayman Islands or the PRC would recognize or enforce judgments of the United States courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state. The recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions. China does not have any treaties or other forms of reciprocity with the United States that provide for the reciprocal recognition and enforcement of foreign judgments. In addition, according to the PRC Civil Procedures Law, the PRC courts will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates the basic principles of PRC laws or national sovereignty, security or public interest. As a result, it is uncertain whether and on what basis a PRC court would enforce a judgment rendered by a court in the United States.

Further, pursuant to the PRC Civil Procedures Law, any matter, including matters arising under U.S. federal securities laws, in relation to assets or personal relationships may be brought as an original action in China, only if the institution of such action satisfies the conditions specified in the PRC Civil Procedures Law. As a result of the conditions set forth in the PRC Civil Procedures Law and the discretion of the PRC courts to determine whether the conditions are satisfied and whether to accept the action for adjudication, there remains uncertainty as to whether an investor will be able to bring an original action in a PRC court based on U.S. federal securities laws.

***Because our business is conducted in the RMB and the price of our ordinary shares is quoted in United States dollars, changes in currency conversion rates may affect the value of your investments.***

Our business is conducted in the PRC, our books and records are maintained in the RMB, the legal currency of the PRC, and the financial statements that we file with the SEC and provide to our shareholders are presented in United States dollars. Changes in the exchange rate between the RMB and U.S. dollars affect the value of our assets and the results of our operations in U.S. dollars. The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in the PRC's political and economic conditions and perceived changes in the economy of the PRC and the United States. Any significant revaluation of the RMB may materially and adversely affect our cash flows, revenue and financial condition. Further, our securities will be offered in United States dollars, and we will need to convert any net proceeds we receive into RMB in order to use the funds for our business. Changes in the conversion rate between the United States dollar and the RMB will affect that amount of proceeds we will have available for our business.

***Government control in currency conversion may adversely affect our financial condition, our ability to remit dividends, and the value of your investment.***

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in Renminbi. Under our current corporate structure, our Cayman Islands holding company may rely on dividend payments from our PRC subsidiaries to fund any cash and financing requirements we may have.



Under existing PRC foreign exchange regulations, the Renminbi cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. It cannot be guaranteed that under a certain exchange rate, we will have sufficient foreign exchange to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advance approval from SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within China that have the licenses to carry out foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be approved in advance by SAFE.

Under existing foreign exchange regulations, we are able to pay dividends in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, we cannot assure you that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future.

In fact, in light of the flood of capital outflows of China in 2016 due to the weakening Renminbi, the PRC government has imposed more restrictive foreign exchange policies and stepped up scrutiny of major outbound capital movement including overseas direct investment. More restrictions and substantial vetting process may be put in place by SAFE to regulate cross-border transactions falling under the capital account. If any of our shareholders regulated by such policies fails to satisfy the applicable overseas direct investment filing or approval requirement timely or at all, it may be subject to penalties from the relevant PRC authorities. The PRC government may, at its discretion, further restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of the ordinary shares. Our capital expenditure plans and our business, operating results and financial condition may be materially and adversely affected.

***Our business may be materially and adversely affected if any of our PRC subsidiaries declare bankruptcy or become subject a dissolution or liquidation proceeding.***

The Enterprise Bankruptcy Law of the PRC, or the Bankruptcy Law, came into effect on June 1, 2007. The Bankruptcy Law provides that an enterprise will be liquidated if the enterprise fails to settle its debts as and when they fall due and if the enterprise's assets are, or are demonstrably, insufficient to clear such debts.

Our PRC subsidiaries hold certain assets that are important to our business operations. If any of our PRC subsidiaries undergoes a voluntary or involuntary liquidation proceeding, unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

If any of our PRC subsidiaries undergoes a voluntary or involuntary liquidation proceeding, prior approval from SAFE for remittance of foreign exchange to our shareholders abroad is no longer required, but we still need to conduct a registration process with the SAFE local branch. It is not clear whether "registration" is a mere formality or involves the kind of substantive review process undertaken by SAFE and its relevant branches in the past.

***Our current corporate structure and business operations may be affected by the newly enacted PRC Foreign Investment Law.***

On March 15, 2019, the National People's Congress approved the Foreign Investment Law, which became effective on January 1, 2020. The PRC Foreign Investment Law defines the "foreign investment" as the investment activities in China conducted directly or indirectly by foreign investors in the following manners: (i) the foreign investor, by itself or together with other investors establishes a foreign invested enterprises in China; (ii) the foreign investor acquires shares, equities, asset tranches, or similar rights and interests of enterprises in China; (iii) the foreign investor,

by itself or together with other investors, invests and establishes new projects in China; (iv) the foreign investor invests through other approaches as stipulated by laws, administrative regulations or otherwise regulated by the State Council. If our PRC subsidiaries are recognized as “foreign investment enterprises,” PRC governmental authorities will regulate foreign investment by applying the principle of re-entry national treatment together with a “negative list,” which will be promulgated by or promulgated with approval by the State Council. Foreign investors are prohibited from making any investments in the industries which are listed as “prohibited” in such negative list; and, after satisfying certain additional requirements and conditions as set forth in the “negative list,” are allowed to make investments in industries which are listed as “restricted” in such negative list. For any foreign investor that fails to comply with the negative list, the competent authorities are entitled to ban its investment activities, require such investor to take measures to correct its non-compliance and impose other penalties.

Pharmaceutical production and distribution activities that we conduct through our PRC subsidiaries are not subject to foreign investment restrictions or prohibitions set forth in the Special Administrative Measures for the Access of Foreign Investment (Negative List) (Edition 2021) (the “2021 Negative List”). We do not intend to conduct any types of business activities restricted or prohibited under the 2021 Negative List in the future. However, it is unclear whether any updated “negative list” to be published by the State Council in the future will be different from the 2021 Negative List. If future laws, administrative regulations or provisions of the State Council set forth restrictions or prohibitions on foreign investment in our current business activities, and that our PRC subsidiaries are recognized as “foreign investment enterprises,” we may be required to take appropriate and timely measures to comply with such regulatory requirements. If we fail to do so, our business operations could be materially and adversely affected.

***Failure to comply with PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to personal liability, may limit our ability to acquire PRC companies or to inject capital into our PRC subsidiaries, may limit the ability of our PRC subsidiaries to distribute profits to us or may otherwise materially and adversely affect us.***

Pursuant to the Circular on relevant issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents through Overseas Special Purpose Vehicle (the “Circular 37”), which was promulgated by SAFE, and became effective on July 4, 2014, (1) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle, or an Overseas SPV, that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing; and (2) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change in the Overseas SPV’s PRC resident shareholder, name of the Overseas SPV, term of operation, or any increase or reduction of the contributions by the PRC resident, share transfer or swap, and merger or division. Additionally, pursuant to the Circular of SAFE on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (the “Circular 13”), which was promulgated on February 13, 2015 and became effective on June 1, 2015, the aforesaid registration shall be directly reviewed and handled by qualified banks in accordance with the Circular 13, and SAFE and its branches shall perform indirect regulation over the foreign exchange registration via qualified banks.

Mr. Gang Lai completed the initial foreign exchange registration on June 3, 2019. As it remains unclear how Circular 37 and Circular 13 will be interpreted and implemented, and how or whether SAFE will apply them to us. Therefore, we cannot predict how they will affect our business operations or future strategies. For example, the ability of our present and prospective PRC subsidiaries to conduct foreign exchange activities, such as the remittance of dividends and foreign currency-denominated borrowings, may be subject to compliance with Circular 37 and Circular 13 by our PRC resident beneficial holders. In addition, as we have little control over either our present or prospective, direct or indirect shareholders or the outcome of such registration procedures, we cannot assure you that these shareholders who are PRC residents will amend or update their registration as required under Circular 37 and Circular 13 in a timely manner or at all. Failure of our present or future shareholders who are PRC residents to comply with Circular 37 and Circular 13 could subject these shareholders to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit the ability of our PRC subsidiaries to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

***We may be unable to complete a business combination transaction efficiently or on favorable terms due to complicated merger and acquisition regulations and certain other PRC regulations.***

On August 8, 2006, six PRC regulatory authorities, including the Ministry of Commerce of the People's Republic of China, or MOFCOM, the State Assets Supervision and Administration Commission, the SAT, the SAIC, the CSRC and the SAFE, jointly issued the M&A Rules, which became effective on September 8, 2006 and was amended in June 2009. The M&A Rules, governing the approval process by which a PRC company may participate in an acquisition of assets or equity interests by foreign investors, requires the PRC parties to make a series of applications and supplemental applications to the government agencies, depending on the structure of the transaction. In some instances, the application process may require presentation of economic data concerning a transaction, including appraisals of the target business and evaluations of the acquirer, which are designed to allow the government to assess the transaction. Accordingly, due to the M&A Rules, our ability to engage in business combination transactions has become significantly more complicated, time-consuming and expensive, and we may not be able to negotiate a transaction that is acceptable to our Shareholders or sufficiently protect their interests in a transaction.

The M&A Rules allow PRC government agencies to assess the economic terms of a business combination transaction. Parties to a business combination transaction may have to submit to the MOFCOM and other relevant government agencies an appraisal report, an evaluation report and the acquisition agreement, all of which form part of the application for approval, depending on the structure of the transaction. The M&A Rules also prohibit a transaction at an acquisition price obviously lower than the appraised value of the business or assets in China and in certain transaction structures, require that consideration must be paid within defined periods, generally not in excess of a year. In addition, the M&A Rules also limit our ability to negotiate various terms of the acquisition, including aspects of the initial consideration, contingent consideration, holdback provisions, indemnification provisions and provisions relating to the assumption and allocation of assets and liabilities. Transaction structures involving trusts, nominees and similar entities are prohibited. Therefore, such regulation may impede our ability to negotiate and complete a business combination transaction on legal and/or financial terms that satisfy our investors and protect our shareholders' economic interests.

***We face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.***

The SAT released a circular on December 15, 2009 that addresses the transfer of shares by nonresident companies, generally referred to as Circular 698. Circular 698, which became effective retroactively to January 1, 2008, may have a significant impact on many companies that use offshore holding companies to invest in China. Circular 698 has the effect of taxing foreign companies on gains derived from the indirect sale of a PRC company. Where a foreign investor indirectly transfers equity interests in a PRC resident enterprise by selling the shares in an offshore holding company, and the latter is located in a country or jurisdiction that has an effective tax rate less than 12.5% or does not tax foreign income of its residents, the foreign investor must report this indirect transfer to the tax authority in charge of that PRC resident enterprise. Using a "substance over form" principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of avoiding PRC tax. As a result, gains derived from such indirect transfer may be subject to PRC withholding tax at a rate of up to 10.0%.

SAT subsequently released public notices to clarify issues relating to Circular 698, including the Announcement on Several Issues concerning the EIT on the Indirect Transfers of Properties by Nonresident Enterprises (the "SAT Notice 7"), which became effective on February 3, 2015. SAT Notice 7 abolished the compulsive reporting obligations originally set out in Circular 698. Under SAT Notice 7, if a non-resident enterprise transfers its shares in an overseas holding company, which directly or indirectly owns PRC taxable properties, including shares in a PRC company, via an arrangement without reasonable commercial purpose, such transfer shall be deemed as indirect transfer of the underlying PRC taxable properties. Accordingly, the transferee shall be deemed as a withholding agent with the obligation to withhold and remit the EIT to the competent PRC tax authorities. Factors that may be taken into consideration when determining whether there is a "reasonable commercial purpose" include, among other factors,

the economic essence of the transferred shares, the economic essence of the assets held by the overseas holding company, the taxability of the transaction in offshore jurisdictions, and economic essence and duration of the offshore structure. SAT Notice 7 also sets out safe harbors for the “reasonable commercial purpose” test.

On October 17, 2017, the SAT released the Notice on Several Issues concerning the Withholding and Collection of Income Tax of Non-resident Enterprises from the Source (the “SAT Notice 37”). SAT Notice 37 clarifies: (1) matters concerning the withholding and collection of corporate income tax, and property transfer of non-resident enterprises based on the EIT Law; (2) the currencies required to be used by the withholding agents (when the payments is made in a currency rather than RMB), as well as the time, venue and business for the performance of the withholding and collection obligations; and (3) the abolishment of Circular 698.

There is little guidance and practical experience regarding the application of SAT Notice 7 and SAT Notice 37 and the related SAT notices. Moreover, the relevant authority has not yet promulgated any formal provisions or formally declared or stated how to calculate the effective tax rates in foreign tax jurisdictions. As a result, due to our complex offshore restructuring, we may become at risk of being taxed under SAT Notice 7 and SAT Notice 37 and we may be required to expend valuable resources to comply with SAT Notice 7 and SAT Notice 37 or to establish that we should not be taxed under SAT Notice 7 and SAT Notice 37, which could have a material adverse effect on our financial condition and results of operations.

## **Risks Related to our Ordinary Shares and the Trading Market**

*Our share price may be volatile and could decline substantially, which could result in substantial losses to our investors.*

The trading price of our shares is likely to continue to be volatile and could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, including the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in the United States. The securities of some of these companies have experienced significant volatility since their initial public offerings, including, in some cases, substantial price declines in their trading prices. The trading performances of other Chinese companies’ securities after their offerings may affect the attitudes of investors toward Chinese companies listed in the United States in general and consequently may impact the trading performance of our shares, regardless of our actual operating performance.

The market price of our ordinary shares may be volatile, both because of actual and perceived changes in the company’s financial results and prospects, and because of general volatility in the stock market. The factors that could cause fluctuations in our share price may include, among other factors discussed in this section, the following:

- actual or anticipated variations in the financial results and prospects of the company or other companies in the pharmaceutical business;
- changes in financial estimates by research analysts;
- changes in the market valuations of other education technology companies;
- announcements by us or our competitors of new education services, expansions, investments, acquisitions, strategic partnerships or joint ventures;
- mergers or other business combinations involving us;
- additions and departures of key personnel and senior management;

- changes in accounting principles;
- the passage of legislation or other developments affecting us or our industry;
- the trading volume of our ordinary shares in the public market;
- the release of lockup, escrow or other transfer restrictions on our outstanding equity securities or sales of additional equity securities;
- potential litigation or regulatory investigations;
- changes in economic conditions, including fluctuations in global and Chinese economies;
- financial market conditions;
- natural disasters, terrorist acts, acts of war or periods of civil unrest; and
- the realization of some or all of the risks described in this section.

The listing of our ordinary shares on the Nasdaq Global Market is contingent on our compliance with the Nasdaq Global Market’s conditions for continued listing. On July 15, 2022, we received written notification (the “Notification Letter”) from the Nasdaq Stock Market LLC (“Nasdaq”) that we were not in compliance with the minimum bid price requirement of US\$1.00 per share under the Nasdaq Listing Rules. In accordance with Nasdaq Listing Rules, we must regain compliance within 180 calendar days, or until January 11, 2023. To regain compliance, our ordinary shares must have a closing bid price of at least US\$1.00 for a minimum of 10 consecutive business days. In the event we do not regain compliance by January 11, 2023, we may be eligible for an additional 180 calendar days to regain compliance or face delisting. On September 23, 2022, we held our 2022 annual general meeting of shareholders, during which our shareholders approved the proposal to authorize our board of directors to effect a share consolidation at a ratio of no less than 2-for-1, and no greater than 10-for-1 (the “Share Consolidation”). As of the date of this annual report, our board of directors has not adopted resolutions to effect the Share Consolidation.

The notification letter the Company received from the Listing Qualifications Department of the Nasdaq on November 9, 2022 noted that the Company evidenced a closing bid price of its ordinary shares at or greater than the \$1.00 per share minimum requirement for the last 10 consecutive business days, from October 26, 2022 through November 8, 2022. Accordingly, the Company has regained compliance with Nasdaq Listing Rule 5450(a)(1). Even though we have regained compliance, we cannot assure you that we will not receive other deficiency notifications from Nasdaq in the future. A decline in the closing price of our ordinary shares could result in a breach of the requirements for listing on the Nasdaq Global Market. If we do not maintain compliance, Nasdaq could commence suspension or delisting procedures in respect of our ordinary shares. The commencement of suspension or delisting procedures by an exchange remains at the discretion of such exchange and would be publicly announced by the exchange. If a suspension or delisting were to occur, there would be significantly less liquidity in the suspended or delisted securities. In addition, our ability to raise additional necessary capital through equity or debt financing would be greatly impaired. Furthermore, with respect to any suspended or delisted ordinary shares, we would expect decreases in institutional and other investor demand, analyst coverage, market making activity and information available concerning trading prices and volume, and fewer broker-dealers would be willing to execute trades with respect to such ordinary shares. A suspension or delisting would likely decrease the attractiveness of our ordinary shares to investors and cause the trading volume of our ordinary shares to decline, which could result in a further decline in the market price of our ordinary shares.

In addition, the stock markets have experienced significant price and trading volume fluctuations from time to time, and the market prices of the equity securities of pharmaceutical companies are sometimes subject to sharp price and trading volume changes. These broad market fluctuations may materially and adversely affect the market price of our ordinary shares.

***We may issue additional ordinary shares or other equity securities without your approval, which would dilute your ownership interests and may depress the market price of our ordinary shares.***

We may issue additional ordinary shares or our other securities to investors. We may also issue additional ordinary shares or other equity securities of equal or senior rank in the future for any reason or in connection with, among other things, future acquisitions or repayment of outstanding indebtedness, without shareholder approval, in a number of circumstances.

Our issuance of additional ordinary shares or other equity securities of equal or senior rank would have the following effects:

- our existing shareholders' proportionate ownership interest in us will decrease;
- the amount of cash available per share, including for payment of dividends in the future, may decrease;
- the relative voting strength of each previously outstanding share may be diminished; and
- the market price of our ordinary shares may decline.

***We currently do not expect to pay dividends on our ordinary shares in the foreseeable future.***

We currently do not expect to pay dividends on our ordinary shares in the foreseeable future. Instead, for the foreseeable future, it is expected that we will continue to retain any earnings to finance the development and expansion of its business, and not to pay any cash dividends on its ordinary shares. Consequently, you should not rely on an investment in the Company as a source for any future dividend income.

Our board of directors has complete discretion as to whether to distribute dividends, subject to applicable laws. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, 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 of directors. Accordingly, the return on your investment in our ordinary shares will likely depend entirely upon any future price appreciation of our ordinary shares. We cannot guarantee that our ordinary shares will appreciate in value or even maintain the price at which you purchased the ordinary shares. You may not realize a return on your investment in our ordinary shares and you may even lose your entire investment in our ordinary shares.

***If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about us or our business, our ordinary share price and trading volume could decline.***

The trading market for our ordinary shares will depend in part on the research and reports that securities or industry analysts publish about us or our business. Securities and industry analysts do not currently, and may never, publish research on us. If no securities or industry analysts commence coverage of our Company, the trading price for its ordinary shares would likely be negatively impacted. In the event securities or industry analysts initiate coverage, if one or more of the analysts who cover us downgrade its securities or publish inaccurate or unfavorable research about its business, its stock price would likely decline. If one or more of these analysts cease coverage of our Company or fail to publish reports on our Company, demand for its ordinary shares could decrease, which might cause its ordinary share price and trading volume to decline.

***We are a “controlled company” within the meaning of the Nasdaq Stock Market Rules and, as a result, may rely on exemptions from certain corporate governance requirements that provide protection to shareholders of other companies.***

We are a “controlled company” as defined under Rule 5615(c)(1) of the Nasdaq Marketplace Rules because Mr. Gang Lai holds more than 50% of our voting power, and we expect we will continue to be a controlled company. For so long as we remain a controlled company under that definition, we are permitted to elect to rely, and may rely, on certain exemptions from the obligation to comply with certain corporate governance requirements, including:

- the requirement that our director nominees must be selected or recommended solely by independent directors; and
- the requirement that we have a corporate governance and nominating committee that is composed entirely of independent directors with a written charter addressing the committee’s purpose and responsibilities.

As a result, you will not have the same protections afforded to shareholders of companies that are subject to all of the corporate governance requirements of the Nasdaq Stock Market Rules, if we utilize such exemptions. We currently do not intend to utilize the controlled company exemptions.

***A sale or perceived sale of a substantial number of our ordinary shares may cause the price of our ordinary shares to decline.***

If our shareholders sell substantial amounts of our ordinary shares in the public market, the market price of our ordinary shares could fall. Moreover, the perceived risk of this potential dilution could cause shareholders to attempt to sell their shares and investors to short our ordinary shares. These sales also make it more difficult for us to sell equity-related securities in the future at a time and price that we deem reasonable or appropriate.

***We incur substantial increased costs being a public company.***

We incur significant legal, accounting and other expenses as a public company that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and Nasdaq, impose various requirements on the corporate governance practices of public companies.

Compliance with these rules and regulations increases our legal and financial compliance costs and makes some corporate activities more time-consuming and costlier. We have incurred additional costs in obtaining director and officer liability insurance. In addition, we incur additional costs associated with our public company reporting requirements. It may also be more difficult for us to find qualified persons to serve on our board of directors or as executive officers.

We are an “emerging growth company,” as defined in the JOBS Act and will remain an emerging growth company until the earlier of (1) the last day of the fiscal year (a) following the fifth anniversary of the completion of our initial public offering, (b) in which we have total annual gross revenue of at least \$1.235 billion, or (c) in which we are deemed to be a large accelerated filer, which means the market value of our ordinary shares that is held by non-affiliates exceeds \$700 million as of the prior March 31, and (2) the date on which we have issued more than \$1.0 billion in non-convertible debt during the prior three-year period. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. These provisions include exemption from the auditor attestation requirement under Section 404 in the assessment of the emerging growth company’s internal control over financial reporting and permission to delay adopting new or revised accounting standards until such time as those standards apply to private companies.

After we are no longer an “emerging growth company,” or until five years following the completion of our initial public offering, whichever is earlier, we expect to incur significant additional expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 and the other rules and

regulations of the SEC. For example, as a public company, we have been required to increase the number of independent directors and adopt policies regarding internal controls and disclosure controls and procedures.

We are currently evaluating and monitoring developments with respect to these rules and regulations, and we cannot predict or estimate with any degree of certainty the amount of additional costs we may incur or the timing of such costs.

***There can be no assurance that we will not be a passive foreign investment company (“PFIC”) for United States federal income tax purposes for any taxable year, which could subject United States holders of our ordinary shares could be subject to adverse United States federal income tax consequences.***

A non-United States corporation will be a PFIC for United States federal income tax purposes for any taxable year if either (i) at least 75% of its gross income for such taxable year is passive income or (ii) at least 50% of the value of its assets (based on average of the quarterly values of the assets) during such year is attributable to assets that produce or are held for the production of passive income. Based on the current and anticipated value of our assets and the composition of our income assets, we are not currently a PFIC under the current PFIC rules for United States federal income tax purposes. However, the determination of whether or not we are a PFIC according to the PFIC rules is made on an annual basis and depends on the composition of our income and assets and the value of our assets from time to time. Therefore, changes in the composition of our income or assets or value of our assets may cause us to become a PFIC. The determination of the value of our assets (including goodwill not reflected on our balance sheet) may be based, in part, on the quarterly market value of ordinary shares, which is subject to change and may be volatile.

The classification of certain of our income as active or passive, and certain of our assets as producing active or passive income, and hence whether we are or will become a PFIC, depends on the interpretation of certain United States Treasury Regulations as well as certain IRS guidance relating to the classification of assets as producing active or passive income. Such regulations guidance is potentially subject to different interpretations. If due to different interpretations of such regulations and guidance the percentage of our passive income or the percentage of our assets treated as producing passive income increases, we may be a PFIC in one or more taxable years.

If we are a PFIC for any taxable year during which a United States person holds ordinary shares, certain adverse United States federal income tax consequences could apply to such United States person. See “Item 10. Additional Information—E. Taxation—United States Federal Income Taxation—PFIC.”

***For as long as we are an emerging growth company, we will not be required to comply with certain reporting requirements, including those relating to accounting standards and disclosure about our executive compensation, that apply to other public companies.***

We are classified as an “emerging growth company” under the JOBS Act. For as long as we are an emerging growth company, unlike other public companies, we will not be required to, among other things, (i) provide an auditor’s attestation report on management’s assessment of the effectiveness of our system of internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act, (ii) comply with any new requirements adopted by the Public Company Accounting Oversight Board, or the PCAOB, requiring mandatory audit firm rotation or a supplement to the auditor’s report in which the auditor would be required to provide additional information about the audit and the financial statements of the issuer, (iii) provide certain disclosure regarding executive compensation required of larger public companies, or (iv) hold nonbinding advisory votes on executive compensation. We will remain an emerging growth company for up to five years, although we will lose that status sooner if we have more than \$1.235 billion of revenues in a fiscal year, have more than \$700 million in market value of our ordinary shares held by non-affiliates, or issue more than \$1.0 billion of non-convertible debt over a three-year period.



To the extent that we rely on any of the exemptions available to emerging growth companies, you will receive less information about our executive compensation and internal control over financial reporting than issuers that are not emerging growth companies. If some investors find our ordinary shares to be less attractive as a result, there may be a less active trading market for our ordinary shares and our share price may be more volatile.

***Our ability to produce accurate financial statements have been materially adversely affected by our failure to establish proper internal financial reporting controls. If we fail to establish and maintain proper internal financial reporting controls in a reasonably timely manner, our ability to produce accurate financial statements or comply with applicable regulations may continue to be impaired.***

Our independent registered public accounting firm has not conducted an audit of our internal control over financial reporting. In the course of auditing our consolidated financial statements for the year ended September 30, 2022, we identified material weaknesses in our internal control over financial reporting and other control deficiencies as of September 30, 2022. A “material weakness” is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness identified to date relates to a lack of accounting staff and resources with appropriate knowledge of generally accepted accounting principles in the United States (“U.S. GAAP”) and SEC reporting and compliance requirements.

Following the identification of the material weaknesses and control deficiencies, we have undertaken certain remedial steps and plan to continue taking remedial measures, including:

- (i) recruiting qualified accounting personnel with relevant U.S. GAAP and SEC reporting experience and qualifications to strengthen the financial reporting function and to set up a financial and system control framework. Since very few companies in Ji’an, Jiangxi Province, the area in which our main PRC operating subsidiaries are located, have sought public listing on a U.S. exchange, we have difficulty identifying qualified accounting candidates with U.S. GAAP experience and expertise. We plan to search for qualified personnel in other regions of China;
- (ii) implementing regular and continuous U.S. GAAP accounting and financial reporting training programs for our accounting and financial reporting personnel; and
- (iii) setting up an internal audit function as well as engaging an external consulting firm to assist us with assessment of Sarbanes-Oxley compliance requirements and improvement of overall internal control.

The implementation of these measures may not fully address the material weaknesses in our internal control over financial reporting, and we cannot conclude that they have been fully remedied. Our failure to correct these material weaknesses or our failure to discover and address any other material weaknesses could result in inaccuracies in our financial statements and could also impair our ability to comply with applicable financial reporting requirements and related regulatory filings on a timely basis. As a result, our business, financial condition, results of operations and prospects, as well as the trading price of our ordinary shares, may be materially and adversely affected. Moreover, ineffective internal control over financial reporting significantly hinders our ability to prevent fraud.

As a public company, we will be subject to Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley Act. Since we qualify as an “emerging growth company” pursuant to the JOBS Act with less than US\$1.235 billion in revenue for our last fiscal year. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. These provisions include exemption from the auditor attestation requirement under Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, in the assessment of the

emerging growth company's internal control over financial reporting. Moreover, even if management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm, after conducting its own independent testing, may issue a report that is qualified if it is not satisfied with our internal controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us.

During the course of documenting and testing our internal control procedures, we may identify other weaknesses and deficiencies in its internal control over financial reporting. In addition, if we fail to maintain the adequacy of our internal control over financial reporting, as these standards are modified, supplemented or amended from time to time, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. Generally speaking, if we fail to achieve and maintain an effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. This could in turn limit our access to capital markets, harm our results of operations, and lead to a decline in the trading price of our securities. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list, regulatory investigations and civil or criminal sanctions.

***As a foreign private issuer, we are not subject to certain U.S. securities law disclosure requirements that apply to a domestic U.S. issuer, which may limit the information publicly available to our shareholders.***

As a foreign private issuer, we are not required to comply with all of the periodic disclosure and current reporting requirements of the Exchange Act and therefore there may be less publicly available information about us than if we were a U.S. domestic issuer. We are exempt from certain provisions of the securities rules and regulations in the United States that are applicable to U.S. domestic issuers, including:

- the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q or current reports on Form 8-K;
- the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act;
- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and the selective disclosure rules by issuers of material non-public information under Regulation FD.

We are required to file an annual report on Form 20-F within four months of the end of each fiscal year. However, the information we are required to file with or furnish to the SEC will be less extensive and less timely compared to that required to be filed with the SEC by U.S. domestic issuers. As a result, you may not be afforded the same protections or information that would be made available to you were you investing in a U.S. domestic issuer.

***As a foreign private issuer, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the Nasdaq listing standards. These practices may afford less protection to shareholders than they would enjoy if we complied fully with corporate governance listing standards.***

As a foreign private issuer, we are permitted to take advantage of certain provisions in the Nasdaq listing standards that allow us to follow Cayman Islands law for certain governance matters. Certain corporate governance practices in the Cayman Islands may differ significantly from corporate governance listing standards as, except for general fiduciary duties and duties of care, Cayman Islands law has no corporate governance regime which prescribes specific corporate governance standards. Currently, we do not intend to rely on home country practice with respect to our

corporate governance. However, if we choose to follow home country practice in the future, our shareholders may be afforded less protection than they otherwise would have under corporate governance listing standards applicable to U.S. domestic issuers.

***We may lose our foreign private issuer status in the future, which could result in significant additional costs and expenses.***

As discussed above, we are a foreign private issuer, and therefore, we are not required to comply with all of the periodic disclosure and current reporting requirements of the Exchange Act. The determination of foreign private issuer status is made annually on the last business day of an issuer's most recently completed second fiscal quarter. We would lose our foreign private issuer status if, for example, more than 50% of our ordinary shares are directly or indirectly held by residents of the U.S. and we fail to meet additional requirements necessary to maintain our foreign private issuer status. If we lose our foreign private issuer status on this date, we will be required to file with the SEC periodic reports and registration statements on U.S. domestic issuer forms, which are more detailed and extensive than the forms available to a foreign private issuer. We will also have to mandatorily comply with U.S. federal proxy requirements, and our officers, directors and principal shareholders will become subject to the short-swing profit disclosure and recovery provisions of Section 16 of the Exchange Act. In addition, we will lose our ability to rely upon exemptions from certain corporate governance requirements under the Nasdaq listing standards. As a U.S. listed public company that is not a foreign private issuer, we will incur significant additional legal, accounting and other expenses that we will not incur as a foreign private issuer, and accounting, reporting and other expenses in order to maintain a listing on a U.S. securities exchange.

***The laws of the Cayman Islands may not provide our shareholders with benefits comparable to those provided to shareholders of corporations incorporated in the United States.***

Our corporate affairs are governed by our amended and restated memorandum and articles of association, by the Companies Act (Revised) of the Cayman Islands and by the common law of the Cayman Islands. The rights of shareholders to take action against our directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law in the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands and from English common law. Decisions of the Privy Council (which is the final Court of Appeal for British overseas territories such as the Cayman Islands) are binding on a court in the Cayman Islands. Decisions of the English courts, and particularly the Supreme Court and the Court of Appeal are generally of persuasive authority but are not binding in the courts of the Cayman Islands. Decisions of courts in other Commonwealth jurisdictions are similarly of persuasive but not binding authority. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in the United States. In particular, the Cayman Islands has a less developed body of securities laws relative to the United States. Therefore, our public shareholders may have more difficulty protecting their interests in the face of actions by our management, directors or controlling shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States.

***You may be unable to present proposals before annual general meetings or extraordinary general meetings not called by shareholders.***

Cayman Islands law provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. These rights, however, may be provided in a company's amended and restated articles of association. Our amended and restated articles of association allow our shareholders holding shares representing in aggregate not less than 10% of our voting share capital in issue, to requisition a general meeting of our shareholders, in which case our directors are obliged to call such meeting.

Advance notice of at least 21 clear days is required for the convening of our annual general shareholders' meeting and at least 14 days' notice any other general meeting of our shareholders. A quorum required for a meeting of shareholders consists of at least one shareholder present or by proxy, representing not less than one-third of the total issued shares carrying the right to vote at a general meeting of the Company.

*The obligation to disclose information publicly may put us at a disadvantage to competitors that are private companies.*

We are a public company in the United States. As a public company, we will be required to file periodic reports with the SEC upon the occurrence of matters that are material to our Company and shareholders. Although we may be able to attain confidential treatment of some of our developments, in some cases, we will need to disclose material agreements or results of financial operations that we would not be required to disclose if we were a private company. Our competitors may have access to this information, which would otherwise be confidential. This may give them advantages in competing with our Company. Similarly, as a U.S. public company, we will be governed by U.S. laws that our competitors, which are mostly private Chinese companies, are not required to follow. To the extent compliance with U.S. laws increases our expenses or decreases our competitiveness against such companies, our public company status could affect our results of operations.

#### **Item 4. INFORMATION ON THE COMPANY**

##### **A. History and Development of the Company**

This annual report refers to (i) Universe Pharmaceuticals INC, the Cayman Islands holding company, as “we”, “our”, “us”, or the “Company”, (ii) the Company’s subsidiaries, as “our subsidiaries,” (iii) Jiangxi Universe Pharmaceuticals Co., Ltd., the Company’s indirect wholly owned subsidiary in China (“Jiangxi Universe”) and its subsidiaries, which are domiciled in China and conducting business operations in China, as the “operating entities.” The Company does not conduct any operations.

We are a Cayman Islands holding company with no operations of our own and not a PRC operating company. Our operations are conducted in China by our PRC subsidiaries. Investors in our securities are not purchasing equity interests in our subsidiaries but instead are purchasing equity interests in the ultimate Cayman Islands holding company. Therefore, you will not directly hold any equity interests in our operating companies. The Chinese regulatory authorities could disallow this structure, which would likely result in a material change in our operations and/or a material change in the value of the securities we are registering for sale, including that it could cause the value of such securities to significantly decline or become worthless. For risks facing our Company and this offering as a result of our organizational structure, see “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China.” We directly hold 100% equity interests in our subsidiaries, and we do not currently use a variable interest entity (“VIE”) structure.

We face legal and operational risks associated with having the majority of our operations in China, which could significantly limit or completely hinder our ability to offer securities to investors and cause the value of our securities to significantly decline or be worthless. The Chinese government has significant authority to exert influence on the ability of a China-based company, such as us, to conduct its business. Therefore, investors of our company and our business face potential uncertainty from the PRC government. Changes in China’s economic, political or social conditions or government policies could materially adversely affect our business and results of operations. These risks could result in a material change in our operations and/or the value of our ordinary shares or could significantly limit or completely hinder our ability to offer or continue to offer securities to investors and cause the value of such securities to significantly decline or be worthless. In particular, recent statements and regulatory actions by China’s government, such as those related to the use of variable interest entities and data security or anti-monopoly concerns, as well as the PCAOB’s ability to inspect our auditors, may impact our Company’s ability to conduct our business,

accept foreign investments, or be listed on a U.S. or other foreign stock exchange. See “Item 3. Key Information — D. Risk Factors — Risks Related to Doing Business in China — The PRC government has significant authority to intervene or influence the China operations of an offshore holding company, such as ours, at any time. The PRC government may exert more control over offerings conducted overseas and/or foreign investment in China-based issuers. If the PRC government exerts more oversight and control over offerings that are conducted overseas and/or foreign investment in China-based issuers and we were to be subject to such oversight and control, it may result in a material adverse change to our business operations, significantly limit or completely hinder our ability to offer or continue to offer securities to investors, and cause the ordinary shares to significantly decline in value or become worthless” and “Item 3. Key Information — D. Risk Factors — Risks Related to Doing Business in China — Uncertainties arising from the legal system in China, including uncertainties regarding the interpretation and enforcement of PRC laws and the possibility that regulations and rules can change quickly with little advance notice, could hinder our ability to offer or continue to offer the ordinary shares, result in a material adverse change to our business operations, and damage our reputation, which would materially and adversely affect our financial condition and results of operations and cause the ordinary shares to significantly decline in value or become worthless.”

As of the date of this annual report, we and our subsidiaries have not been involved in any investigations on cybersecurity review initiated by any PRC regulatory authority, nor have any of them received any inquiry, notice, or sanction. As confirmed by our PRC counsel, AllBright Law Offices (Fuzhou), we are not subject to cybersecurity review by the CAC, since we currently do not possess any personal information of users in our business operations. It is unlikely for us to have over one million users’ personal information and we do not anticipate that we will be collecting over one million users’ personal information in the foreseeable future, which we understand might otherwise subject us to the Cybersecurity Review Measures. We are not subject to network data security review by the CAC if the Security Administration Draft are enacted as proposed, because we currently do not have over one million users’ personal information, we do not collect data that affect or may affect national security and we do not anticipate that we will be collecting over one million users’ personal information or data that affect or may affect national security in the foreseeable future, which we understand might otherwise subject us to the Security Administration Draft. According to our PRC counsel, AllBright Law Offices (Fuzhou), no relevant laws or regulations in the PRC explicitly require us to seek approval from the China Securities Regulatory Commission for our overseas listing. As of the date of this annual report, we and our subsidiaries have not received any inquiry, notice, warning, or sanction regarding our overseas listing from the CSRC or any other PRC governmental authorities. We believe that we and our subsidiaries have obtained all material licenses and approvals necessary to operate in China and are not required to obtain approval from any PRC government authorities, including the CSRC or the CAC, or any other government entity, to issue our ordinary shares to foreign investors. Since the recent regulatory actions are new, however, it is highly uncertain how soon legislative or administrative regulation making bodies will respond and what existing or new laws or regulations or detailed implementations and interpretations will be modified or promulgated, if any, and the potential impact such modified or new laws and regulations will have on our daily business operation, ability to accept foreign investments, and listing on the Nasdaq Stock Market. If we do not receive or maintain the approvals, or we inadvertently conclude that such approvals are not required, or applicable laws, regulations, or interpretations change such that we are required to obtain approval in the future, we may be subject to an investigation by competent regulators, fines or penalties, ordered to suspend our relevant business and rectify, prohibited from engaging in relevant business, or subject to an order prohibiting us from conducting an offering, and these risks could result in a material adverse change in our operations, significantly limit or completely hinder our ability to continue to offer securities to investors, or cause such securities to significantly decline in value or become worthless. See “Item 3. Key Information—Risk Factors—Risks Relating to Doing Business in China—Failure to comply with cybersecurity, data privacy, data protection, or any other laws and regulations related to data may materially and adversely affect our business, financial condition, and results of operations.”

In addition, trading in our securities may be prohibited under the HFCA Act if the PCAOB determines that it cannot inspect the workpapers prepared by our auditor, and that as a result an exchange may determine to delist our securities. On June 22, 2021, the U.S. Senate passed the Accelerating Holding Foreign Companies Accountable Act, which, if

passed by the U.S. House of Representatives and signed into law, would reduce the period of time for foreign companies to comply with PCAOB audits to two consecutive years instead of three, thus reducing the time period for triggering the prohibition on trading. On December 16, 2021, the PCAOB issued a report on its determination that it is unable to inspect or investigate completely PCAOB-registered public accounting firms headquartered in China and in Hong Kong because of positions taken by PRC and Hong Kong authorities in those jurisdictions. Our auditor, the independent registered public accounting firm that issues the audit report included elsewhere in this annual report, as an auditor of companies that are traded publicly in the U.S. and a firm registered with the PCAOB, is subject to laws in the U.S., pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. Our auditor is headquartered in California and has not been inspected by the PCAOB, but according to our auditor, it will be inspected by the PCAOB on a regular basis. Our auditor is not subject to the determination issued by the PCAOB on December 16, 2021. On August 26, 2022, the CSRC, the Ministry of Finance of the PRC, and the PCAOB signed a Statement of Protocol (the “Protocol”), governing inspections and investigations of audit firms based in China and Hong Kong. The Protocol remains unpublished and is subject to further explanation and implementation. Pursuant to the fact sheet with respect to the Protocol disclosed by the SEC, the PCAOB shall have independent discretion to select any issuer audits for inspection or investigation and has the unfettered ability to transfer information to the SEC. On December 15, 2022, the PCAOB Board determined that the PCAOB was able to secure complete access to inspect and investigate registered public accounting firms headquartered in mainland China and Hong Kong and voted to vacate its previous determinations to the contrary. However, should PRC authorities obstruct or otherwise fail to facilitate the PCAOB’s access in the future, the PCAOB Board will consider the need to issue a new determination. See “Item 3. Key Information — D. Risk Factors — Risks Related to Doing Business in China — Our ordinary shares may be delisted or prohibited from being traded over-the-counter under the Holding Foreign Companies Accountable Act, if the U.S. Public Company Accounting Oversight Board, or the PCAOB, is unable to inspect our auditors. The delisting or the cessation of trading of our ordinary shares, or the threat of their being delisted or prohibited from being traded, may materially and adversely affect the value of your investment. Additionally, the inability of the PCAOB to conduct inspections would deprive our investors with the benefits of such inspections. Our auditor has not been inspected by the PCAOB, but according to our auditor, it will be inspected by the PCAOB on a regular basis.”

Our Cayman Islands holding company has not declared or paid dividends or made any distributions to our shareholders in the past, nor were any dividends or distributions made by a subsidiary to the Cayman Islands holding company. Our board of directors has complete discretion on whether to distribute dividends, subject to applicable laws. We intend to keep any future earnings to finance the expansion of our business, and we do not have any current plan to declare or pay any cash dividends on our ordinary shares in the foreseeable future. See “Item 3. Key Information — D. Risk Factors — Risks Related to Our Ordinary Shares—We currently do not expect to pay dividends on our ordinary shares in the foreseeable future.” If we determine to pay dividends on any of our ordinary shares in the future, as a holding company, we will rely on payments from subsidiaries of Jiangxi Universe to Jiangxi Universe, and from Jiangxi Universe to Universe Technology, and the distribution of such payments to Universe HK, and then to our Company.

Subject to certain contractual, legal and regulatory restrictions, and our internal cash management policy, cash and capital contributions may be transferred among our Cayman Islands holding company and our subsidiaries. If needed, our Cayman Islands holding company can transfer cash to our PRC subsidiaries through loans and/or capital contributions, and our PRC subsidiaries can transfer cash to our Cayman Islands holding company through issuing dividends or other distributions. Our finance department supervises cash management, following the instructions of our management. Our finance department is responsible for establishing our cash operation plan and coordinating cash management matters among our subsidiaries and departments. Each subsidiary and department initiate a cash request by putting forward a cash demand plan, which explains the specific amount and timing of cash requested, and submitting it to our finance department. The finance department reviews the cash demand plan and prepares a summary for the management of our Company. Management examines and approves the allocation of cash based on the sources of cash and the priorities of the needs. Other than the above, we currently do not have other cash

management policies or procedures that dictate how funds are transferred. Cash flows have occurred between our Cayman Islands holding company and our subsidiaries. For the year ended September 30, 2022, the Cayman Islands holding company received cash in the amount of \$303,746 from its subsidiary in Hong Kong for the payment of directors' compensation and professional service fees. The Cayman Islands holding company has not received cash transfer from its subsidiaries for the years ended September 30, 2020 and 2021, and from October 1, 2022 to the date of this annual report. There was no distribution of earnings by our PRC subsidiaries to the Cayman Islands holding company during the years ended September 30, 2020, 2021 and 2022, and from October 1, 2022 to the date of this annual report. In the fiscal year ended September 30, 2021, our Company transferred the net proceeds from its initial public offering, through Universe HK and Universe Technology, to Jiangxi Universe and its subsidiaries, in the amount of \$6,807,507, to be used for general corporate purposes. In the year ended September 30, 2020 and 2022, there was no cash transferred from the Cayman Islands holding company to its PRC subsidiaries. See also "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Dividend Policy" and our audited consolidated financial statements for the fiscal years ended September 30, 2022, 2021, and 2020.

Cash transfers from our Cayman Islands holding company are subject to applicable PRC laws and regulations on loans and direct investment. We may rely on dividends from our subsidiaries in China for our cash requirements, including any payment of dividends to our shareholders. PRC regulations may restrict the ability of our PRC subsidiaries to pay dividends to us, and as a holding company, we will be dependent on receipt of funds from our Hong Kong subsidiary, Universe HK.

Current PRC regulations permit our indirect PRC subsidiaries to pay dividends to Universe HK only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, each of our subsidiaries in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory reserve until such reserve reaches 50% of its registered capital. Each of such entity in China is also required to further set aside a portion of its after-tax profits to fund the employee welfare fund, although the amount to be set aside, if any, is determined at the discretion of its board of directors. Although the statutory reserves can be used, among other ways, to increase the registered capital and eliminate future losses in excess of retained earnings of the respective companies, the reserve funds are not distributable as cash dividends except in the event of liquidation.

The PRC government also imposes controls on the conversion of RMB into foreign currencies and the remittance of currencies out of the PRC. Therefore, we may experience difficulties in complying with the administrative requirements necessary to obtain and remit foreign currency for the payment of dividends from our profits, if any. Furthermore, if our subsidiaries and affiliates in the PRC incur debt on their own in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments. If we or our subsidiaries are unable to receive all of the revenue from our operations, we may be unable to pay dividends on our ordinary shares.

Cash dividends, if any, on our ordinary shares will be paid in U.S. dollars. Universe HK may be considered a non-resident enterprise for tax purposes, so that any dividends our PRC subsidiaries pay to Universe HK may be regarded as China-sourced income and as a result may be subject to PRC withholding tax at a rate of up to 10%. See "Item 10. Additional Information—E. Taxation—People's Republic of China Taxation."

In order for us to pay dividends to our shareholders, we will rely on payments made from Universe Technology's subsidiary, Jiangxi Universe, to Universe Technology and from Universe Technology to Universe HK and then to our Company. According to the EIT Law, such payments from subsidiaries to parent companies in China are subject to the PRC enterprise income tax at a rate of 25%. In addition, if Jiangxi Universe or its subsidiary or branches incur debt on their own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us.

automatically apply and certain requirements must be satisfied, including without limitation that (a) the Hong Kong project must be the beneficial owner of the relevant dividends; and (b) the Hong Kong project must directly hold no less than 25% share ownership in the PRC project during the 12 consecutive months preceding its receipt of the dividends. In current practice, a Hong Kong project must obtain a tax resident certificate from the Hong Kong tax authority to apply for the 5% lower PRC withholding tax rate. As the Hong Kong tax authority will issue such a tax resident certificate on a case-by-case basis, we cannot assure you that we will be able to obtain the tax resident certificate from the relevant Hong Kong tax authority and enjoy the preferential withholding tax rate of 5% under the Double Taxation Arrangement with respect to any dividends paid by our PRC subsidiaries to its immediate holding company, Universe HK. As of the date of this annual report, we have not applied for the tax resident certificate from the relevant Hong Kong tax authority. Universe HK intends to apply for the tax resident certificate if and when Universe Technology plans to declare and pay dividends to Universe HK. See “Item 3. Key Information—D. Risk Factors— There are significant uncertainties under the Enterprise Income Tax Law, or the EIT Law, relating to the withholding tax liabilities of our PRC subsidiaries, and dividends payable by our PRC subsidiaries to our offshore subsidiaries may not qualify to enjoy certain treaty benefits.”

To the extent cash is located in the PRC or within a PRC domiciled entity and may need to be used to fund operations outside of the PRC, the funds may not be available due to limitations placed on us and our subsidiaries by the PRC government. To the extent cash in and assets of the business is in the PRC or a PRC entity, the funds and assets may not be available to fund operations or for other use outside of the PRC due to interventions in or the imposition of restrictions and limitations on the ability of us or our subsidiaries by the PRC government to transfer cash and assets. See “Item 3. Key Information—D. Risk Factors — Risks Related to Doing Business in China — To the extent cash and assets of in the business is in the PRC or a PRC entity, the funds may not be available to fund operations or for other use outside of the PRC due to interventions in or the imposition of restrictions and limitations on the ability of our Company or our subsidiaries by the PRC government to transfer cash and assets.”

## **Our Corporate History and Structure**

We initially conducted our business through Jiangxi Universe, a PRC company formed in 1998 and Universe Trade, a PRC company formed in 2010, a wholly-owned subsidiary of Jiangxi Universe.

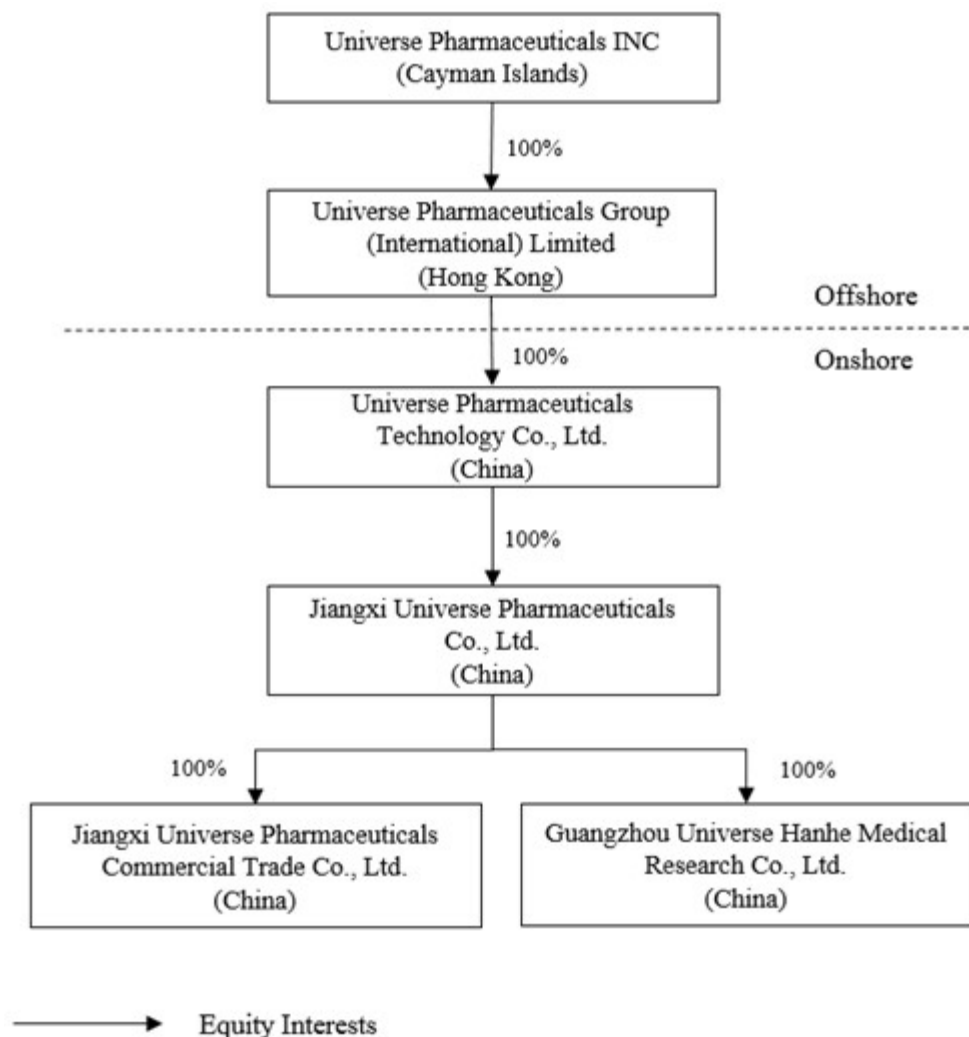
With the growth of our business and in order to facilitate international capital investment in our Company, we underwent an offshore reorganization in 2019 and 2020. On December 11, 2019, our holding company, Universe Pharmaceuticals INC, was incorporated under the laws of the Cayman Islands as an exempted company with limited liability. Our wholly owned subsidiary Universe HK was formed in Hong Kong on May 21, 2014 as an intermediate holding company. Universe HK in turn holds all the capital stocks of Universe Technology, a wholly foreign owned enterprise incorporated in China on April 8, 2019. Universe Technology holds all the capital stocks and controls Jiangxi Universe. Jiangxi Universe holds 100% of the equity interests in Universe Trade.

Our holding company has no business operation other than holding the shares in Universe HK. Universe HK is a pass-through entity with no business operation. Universe Technology is exclusively engaged in the business of managing the operation of Jiangxi Universe. Jiangxi Universe specializes in manufacturing our own TCMD products. Universe Trade specializes in the distribution and sales of our own TCMD products and third-party pharmaceutical products.

Foshan Shangyu Investment Holding Co., Ltd. (“Foshan Shangyu”) is our affiliated entity, 90% owned by and controlled by Mr. Gang Lai, our controlling shareholder. Foshan Shangyu was formed in 2004 in China as a holding company of Mr. Gang Lai. Foshan Shangyu has no business operations.

The following diagram illustrates our corporate structure as of the date of this annual report:





## Corporate Information

Our principal executive offices are located at 265 Jingjiu Avenue, Jinggangshan Economic and Technological Development Zone, Ji'an, Jiangxi Province, People's Republic of China, and our phone number is +86-0796-8403309. Our registered office in the Cayman Islands is located at Vistra (Cayman) Limited, P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KYI – 1205 Cayman Islands, and the phone number of our registered office is +1-(345)769-9372. We maintain a corporate website at <http://www.universe-pharmacy.com>. The information contained in, or accessible from, our website or any other website does not constitute a part of this annual report. Our agent for service of process in the United States is Cogency Global Inc., located at 122 East 42nd Street, 18th Floor, New York, NY 10168.

The SEC maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxies, and information statements, and other information regarding issuers that file electronically with the SEC using its EDGAR system.

For information regarding our principal capital expenditures, see "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Capital Expenditures."

## **B. Business Overview**

### **Overview**

TCM is a comprehensive form of healthcare that has been widely adopted in China for more than 23 centuries. TCM rests upon the assumption that the human body is an ecosystem, embodying the fusion of Shen (psyche), Essence (soma), Qi, Moisture (body fluids), and Blood (tissue). Health in the context of TCM is more than just the absence of diseases, but to identify imbalance in human body and restore harmony. TCM is not only intended to cure diseases but to enhance the capacity for fulfillment, happiness and general well-being of people.

We are a pharmaceutical company based in Jiangxi, China, specializing in the manufacturing, marketing, sales and distribution of TCMD products targeting the elderly with the goal of addressing their physical conditions in the aging process and to promote their general well-being. We have registered and obtained approval for 26 varieties of TCMD products from the National Medical Products Administration (the “NMPA”), and we currently produce 13 varieties of TCMD products, which are sold in approximately 261 cities of 30 provinces in China. In addition, through our subsidiary Universe Trade, we sell not only our own TCMD products, but also biomedical drugs medical instruments, Traditional Chinese Medicine Pieces (“TCMPs”), and dietary supplements manufactured by third-party pharmaceutical companies.

*Products manufactured by us.* The 13 TCMD products currently manufactured by us fall into two categories: (1) treatment and relief for common chronic health conditions in the elderly designed to achieve physical wellness and longevity (“chronic condition treatments”), and (2) cold and flu medications.

- **Chronic condition treatments:** Guben Yanling Pill, Shenrong Weisheng Pill, Quanlu Pill, Yangxue Danggui Syrup, Wuzi Yanzong Oral Liquid, Fengtong Medicinal Liquor, Shenrong Medicinal Liquor, Qishe Medicinal Liquor, Fengshitong Medicinal Liquor, and Shiquan Dabu Medicinal Liquor.
- **Cold and flu medicines:** Paracetamol Granule for Children, Isatis Root Granule and Qiangli Pipa Syrup.

As people age, they have an increasing risk of developing chronic health conditions. According to a report published by the Chinese Center for Disease Control and Prevention in March 2019, 75.8% of seniors have at least one chronic health condition, and 35.1% of them have two or more. According to the “Blue Book of Elderly Health (2020-2021)” released in December 2021 by the Chinese Academy of Medical Sciences, the School of Public Health of Peking Union Medical College and the Social Sciences Literature Publishing House, the prevalence of hypertension, diabetes and hypercholesterolemia in Chinese residents aged 60 and above is 58.3%, 19.4% and 10.5%, respectively, and more than 3/4 of the residents have multiple disease coexistence, and with the increase of age, the prevalence of chronic diseases increases. Some of the most common chronic diseases in the elderly include arthritis, chronic kidney disease, fatigue, and low back pain. The operating entities’ products under the category of chronic condition treatments are designed to address some of the aforementioned diseases. The operating entities’ cold and flu medicines, on the other hand, include products designed to treat and relieve symptoms of respiratory illnesses caused by bacteria and viruses.

*The operating entities’ third-party products.* Through our subsidiary, Universe Trade, we also distribute and sell products manufactured by third-party producers, including biomedical drugs, medical instruments, TCMPs and dietary supplements. For the years ended September 30, 2022, 2021 and 2020, we distributed around 2,785, 2766 and 3,183 types of third-party products, respectively.

*The operating entities’ Customers.* The operating entities’ major customers are pharmaceutical distributors, hospitals, clinics and drugstore chains, primarily located in Jiangxi Province, Jiangsu Province, Guangdong Province, Hubei Province, Fujian Province, Guangxi Province and Shandong Province, and 23 other provinces in China.

We believe the operating entities have implemented a successful business model, and their business has grown substantially since inception. The operating entities’ business operations gradually recovered from the negative impact of COVID-19, and the customer base increased from a total of 2,209 customers as of September 30, 2020 to 2,708 as of September 30, 2021, and decreased slightly to 2,651 as of September 30, 2022 as we were unable to timely deliver products to our customers in 2022 due to the resurgence of COVID-19 cases in China. The revenues from selling the

operating entities' own products increased from \$18,374,751 for the fiscal year ended September 30, 2020 to \$29,559,286 for the fiscal year ended September 30, 2021, and decreased to \$23,988,177 for the fiscal year ended September 30, 2022 due to our inability to timely fulfill the orders of our customer in 2022 due to the resurgence of COVID-19 cases in China. The revenues from distributing and selling third-party products increased from \$12,329,209 for the year ended September 30, 2020 to \$18,422,745 for the fiscal year ended September 30, 2021, and decreased to \$16,154,974 in the fiscal year ended September 30, 2022 due to a decrease in the weighted average selling price caused by a change in product mix. Our net income was \$7,558,222 for the fiscal year ended September 30, 2020, \$11,319,952 for the fiscal year ended September 30, 2021, and net loss was \$8,736,566 for the fiscal year ended September 30, 2022 due to a decrease in our revenue and increase in our selling expense.

## **Our Competitive Strengths**

We believe we have the following competitive strengths:

### ***A recognized manufacturer of TCMD products in China's rapidly growing health and wellness market***

We are a recognized manufacturer of TCMD products in China's rapidly growing health and wellness market. We own a number of famous brands in the industry, which are also our registered trademarks in China. For instance, our brand "Hu Zhuo Ren (胡卓仁)" is especially well-recognized in Jiangxi Province. Further, our brand "Bai Nian Dan (百年丹)" is famous for specializing in products targeted at the physical wellness of older population. Our other recognized brands include "Long Zhong (龙种)", "Yi Ke Ting (益克停)", "Xue Li (血力)", "Duo Lai Mei (朵来美)", "Shu Er Kang (舒儿康)", "Hu Zhuo Ren (胡卓仁)", "Ai Bi Xin (爱必欣)", and "Yong He Shuang Feng (永和双凤)".

The Chinese patent medicine industry is growing rapidly and steadily in China. The primary growth drivers of China's Chinese patent medicine industry include the increasing disposable income and healthcare awareness in China, growing aging population and the prevalence of chronic diseases, and favorable governmental policies and regulations.

We attribute our success to our recognized brand names, strong relationships with our suppliers, loyal and stable customer base, and proven capability to develop and manufacture TCMD products aligned with the preferences of end consumers.

### ***Rigorous quality control standards and manufacturing protocols***

We believe that the quality of our products is crucial to our success as a pharmaceutical company, and we have implemented an overall quality control system, as well as strict manufacturing protocols specifically designed for each product. Our quality control system starts from procurement. The raw materials we source from our suppliers must first be examined and certified for quality. We review the performance of our suppliers based on the quality of their products and adjust future orders from them accordingly. Further, an average of three inspections are made by our personnel throughout the manufacturing process to ensure that the manufacturing protocols are strictly followed, and that the quality of semi-products are at or above standard. After completion of manufacturing, our personnel will perform an overall quality examination. Through the implementation of a quality control system, we are able to identify the weakness in our production process and improve our operations over time. We believe our quality control standards and manufacturing protocols have contributed to the high quality and consistency of our products.

### ***Visionary management team with substantial industry experience***

Our visionary management team is the bedrock of our success. Many members of our leadership possess extensive experience in the pharmaceutical, biomedical, chemical and related industries. For instance, our chief executive

officer, Mr. Gang Lai, has about 30 years of corporate management experiences. Mr. Xiaojun Deng, the deputy manufacturing manager of Jiangxi Universe, holds a degree in Traditional Chinese Medicine Manufacturing from Jiangxi Medical School with over 25 years of working experience in the Chinese patent medicine industry. Ms. Lin Yang, our chief financial officer, has over 14 years of finance and management experience working in pharmaceutical companies. Mr. Yajun Hu, the general manager of Jiangxi Universe, has over five years of experiences in managing a pharmaceutical company. Mr. Baochang Liu, our chief operating officer, has over 17 years of experience in pharmaceutical marketing and had previously held marketing and management positions at a number of listed pharmaceutical companies in China. Moreover, many members of the team have worked together for an extended period of time and helped build the Company from the ground up. The rapport that the team has built extends beyond the talent and skills of individual team members and contributes to a collective sense of mission.

## **Our Growth Strategy**

### ***Build a Strong Brand Image to Achieve National Recognition***

We believe that broader recognition and favorable perception of our brand by consumers in our target markets are crucial to our future success. Our brand has gained a solid reputation in Southern China, especially Jiangxi Province, and we plan to increase the awareness of our brand among consumers in other parts of China. Specifically, we plan to build a strong brand image that we are a TCMD producer specializing in the development and manufacture of products designed to address the physical conditions of the elderly during the aging process and to promote their general well-being. To achieve our goal, we plan to spend most of our efforts on the development and marketing of our brand “Bai Nian Dan (百年丹)” as the brand to be associated with our ideal brand image because “Bai Nian” (百年) signifies longevity in the Chinese language, and “Dan” (丹) alludes to our signature product, Guben Yanling Pill. In the fiscal year ended September 30, 2021, we started to advertise our products through television advertisement. We also intend to advertise targeting older customers, including transmitting our advertisements through additional traditional media platforms such as live radio stations, newspapers, as well as in-person marketing at drug stores and clinics. In the fiscal year ended September 30, 2022, our marketing department explored direct selling strategy and increased its efforts to market products directly to customers in Liaoning Province. If this marketing strategy proves successful, we intend to implement it in other provinces where our products are sold.

### ***Enhance Our Distribution Network to Increase Market Penetration and Customer Stickiness***

Currently, our products are sold in 30 provinces in China. We plan to enter the markets in other parts of China. To achieve this goal, we have made efforts to further strengthen and expand our distribution network through connecting with more local distributors, chain drugstores, malls and supermarkets in other parts of China. Currently, our strategic focus is to attract more marketing talents and build a stronger sales and marketing team to keep us on top of the latest information of local markets, customer preferences and industry trends. We also plan to create an online store to reach a wider consumer demographic. In the future, we plan to start our own retail chain stores and further diversify our distribution channels to increase our market penetration and customer base.

### ***Integrate Our Internal Manufacturing Capability to Ensure Productivity, Supply, and Selection of Products***

We plan to further optimize our production facilities to increase the productivity, supply and selection of our products, so that we may gain competitive edges over our competitors. Specifically, we intend to increase productivity and supply by expanding the existing production lines and converting them into automated production lines. To increase the selection of our products, we plan to build additional production facilities for our licensed TCMD products to be launched in the future.

### ***Further Grow Our Research and Development Capacities***

The size of the Chinese patent medicine market has been growing steadily. To respond to increasing market demand, we will continue to provide financial and operational resources to focus on the research and development of TCMD products and dietary supplements designed to address the physical conditions of the elderly during the aging process and promote their general well-being.

## Our Manufactured Products

We manufacture, market and sell 13 different TCMD products to customers in 30 different provinces in China. Our TCMD products fall under two categories: chronic condition treatments and cold and flu medications. The following list outlines our current products:

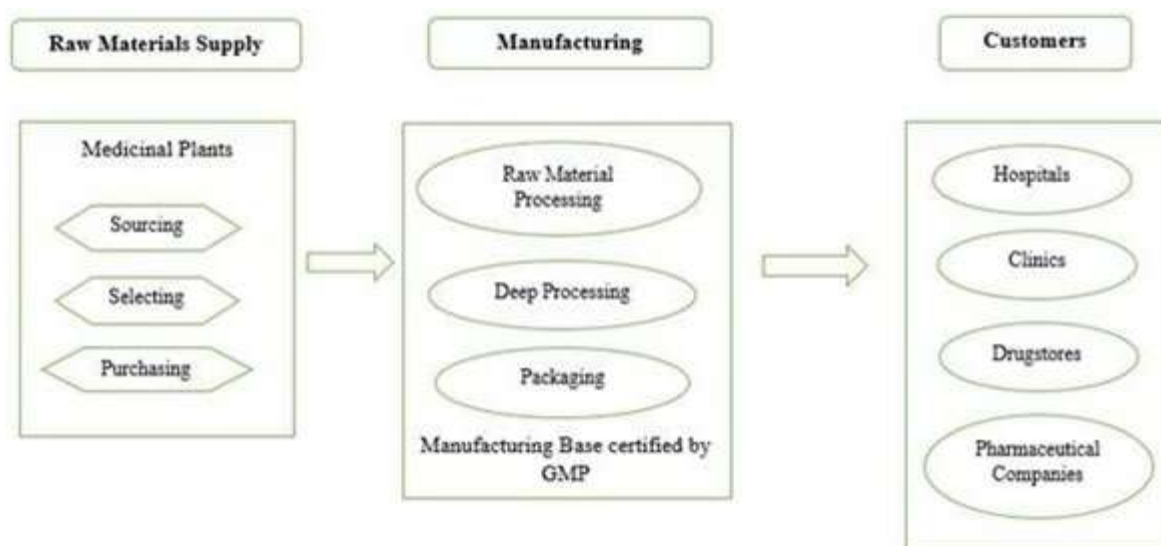
Product Category	Product Name	Posology	Percentage of Gross Sales			Intended Uses
			2022	2021	2020	
Chronic Condition Treatments	Guben Yanling Pill	Pills	42.5%	40.3%	38.2%	To relieve fatigue, palpitation, low back pain, and generalized weakness and soreness.
	Shenrong Weisheng Pill	Pills	2.5%	4.7%	4.6%	To relieve fatigue, dizziness, excessive sweating, and pain in the waist and the knees.
	Quanlu Pill	Pills	1.7%	1.5%	0.8%	To improve kidney functions and spleen functions, and relieve fatigue, low back pain, and knee pain.
	Wuzi Yanzong Oral Liquid	Oral liquid	0.5%	0.4%	0.6%	To improve kidney functions.
	Yangxue Danggui Syrup	Syrup	0.4%	0.9%	1.6%	To improve blood circulation and treating dizziness, headaches and menstrual pains.
	Fengshitong Medicinal Liquor	Medicinal liquor	0.6%	1.4%	1.6%	To treat low back pain and numbness in the feet and hands, and relieve rheumatoid arthritis pain.
	Shiquan Dabu Medicinal Liquor	Medicinal liquor	1.0%	1.3%	1.8%	To treat dizziness, palpitation, fatigue, and weakness, and ease menstrual flow.
	Fengtong Medicinal Liquor	Medicinal liquor	0.2%	0.3%	0.2%	To treat low back pain and numbness in the feet and hands, and relieve symptoms of arthritis.
	Shenrong Medicinal Liquor	Medicinal liquor	0.5%	0.7%	1.4%	To improve blood circulation and relieve symptoms of fatigue, low back pain and leg pain.
	Qishe Medicinal Liquor	Medicinal liquor	0.5%	0.4%	0.3%	To treat blood stasis, arthritis, and numbness in the feet and hands.
Cold and Flu Medicines Medicinal Liquor	Qiangli Pipa Syrup	Syrup	5.9%	4.6%	3.3%	Relieve cough and reduce mucus and phlegm.

Paracetamol Granule for Children	Granules	1.9%	2.7%	1.9%	To relieve children’s headaches, muscle aches, toothaches, colds and fevers.
Isatis Root Granule	Granules	1.6%	2.4%	3.6%	To treat common colds and other infections of the upper respiratory tract.

Among the 13 TCMD products we manufacture, Guben Yanling Pill is our signature product. For the fiscal years ended September 30, 2022, 2021, and 2020, the revenue derived from the sale of Guben Yanling Pill represented 42.5%, 40.3%, and 38.2% of our total revenue.

### *Our Manufacturing Process*

The following chart illustrates our main manufacturing process from raw material purchase to marketing:



### *Our Raw Materials and Suppliers*

We select our raw materials for the manufacturing of our products strictly in accordance with the guidance in Pharmacopoeia of the People’s Republic of China (《中华药典》) (the “PPRC”), an official compendium of drugs covering both TCM and western medications complied by the Pharmacopoeia Commission of the Ministry of Health of People’s Republic of China. The PPRC specifies the standards of description, dosage, purity, storage, and other material information for each drug. In the manufacturing of our TCMD products, a total of more than 110 raw materials are regularly used, among which angelica, codonopsis, poria mushroom, isatis root, loquat leaves, safflower, and Baijiu liquor represent our main raw materials.

Currently, we have stable access to all the raw materials necessary for our production. There are many suppliers in the industry for the regularly used raw materials, and therefore we are not relying on a single supplier for any of our raw materials. If we are unable to purchase any of the raw materials from one supplier, we do not expect to face material difficulties in locating another supplier at substantially the same price. While the prices of such raw materials may vary greatly from time to time due to market forces beyond our control, we believe we can hedge such risk by adjusting our price, or absorbing higher costs if and when necessary.

To source the raw materials required for our products, we regularly contract with our suppliers by placing bulk orders with them at below market prices. Our raw material suppliers include mostly traditional Chinese medicine manufacturers and pharmaceutical trading companies. After years of business cooperation, we believe that our relationships with our current suppliers are strong and stable.

We consider our raw materials suppliers whose sales to us accounted for more than 10% of our overall purchases in any given period to be our major suppliers for such period. For the fiscal year ended September 30, 2022, one supplier, Jiangxi Hongjing Pharmaceutical Co., Ltd., accounted for approximately 10.3% of our total purchases. For the fiscal year ended September 30, 2021, no supplier accounted for more than 10% of our total purchases. We had two such supplier during the fiscal year ended September 30, 2020, Jiangxi Hongjing Pharmaceutical Co., Ltd. and Jiangxi Kangxin Pharmaceutical Packaging Co., Ltd., whose sales to us accounted for approximately 19.6% and 13.6% of our overall purchases in the fiscal year, respectively.

### *Manufacturing Process*

The following is a brief description of the manufacturing process of the TCMD products we currently produce by dosage forms.

#### Pill Products

To make our pill products, the raw materials first go through a preparation process, during which such materials are dried, roughly ground and sterilized. Processed raw materials are then finely ground, mixed with honey, and made into pills before they are finally packaged.

#### Granule Products

The raw materials of our granule products typically go through a purifying process, during which such materials are stewed, filtered, condensed, and let stand. Processed raw materials are then mixed with supplemental ingredients before they are made into granules, dried, and finally packaged.

#### Syrup Products

The raw materials of our syrup products are first stewed together and condensed. Condensed liquid is then filtered and mixed with supplemental ingredients before it is bottled and packaged.

#### Oral Liquid Products

The raw materials of our oral liquid products are first filtered, condensed, and fixed with other supplemental ingredients. The processed materials are then further filtered and sterilized before being bottled and packaged.

#### Medicinal Liquor Products

The raw materials of our medicinal liquor products first go through a purifying process, during which such materials are selected, cut, rinsed, stewed, and refrigerated. Processed raw materials then go through an extraction process that involves mixing with solvents and filtering. Then, the liquor products are bottled and packaged.

### *Quality Control and Assurance*

We seek to ensure the high quality of our products through our quality control system and by conducting product testing and review. Our entire manufacturing process is strictly supervised pursuant to internal quality control standards that have been set up in strict adherence to the guidelines provided in PPRC. We conduct our quality testing by examining the quality of each and every type of raw materials. If the raw materials meet our quality standards, we start the manufacturing process, during which we continue our quality testing for every substantial procedure, including filtering, grinding, mixing, and pill making. After our products are packaged, we will examine various features of our final products thoroughly, including appearance, weight, taste, water content, and microorganism content.

### **Third-party Product Distribution**

In addition to manufacturing our own products, we also distribute and sell, through our subsidiary Universe Trade, biomedical drugs, medical instruments, TCMPs and dietary supplements manufactured by third-party pharmaceutical companies. For the fiscal year ended September 30, 2022, we had distributed roughly 2,785 third-party products, of which approximately 85.0% are biochemical drugs, such as liquid glucose, prednisolone, and citicoline, approximately 14.8% are medical instruments, such as drug-eluting stents, surgical tubes and syringes, approximately 0.2% are TCMPs, such as red sage tables, Longdan Xiegan pills, and Chinese skullcap capsules. For the fiscal year ended September 30, 2021, we had distributed roughly 2,766 third-party products, of which approximately 87.30% are biochemical drugs, such as liquid glucose, prednisolone, and citicoline, approximately 12.58% are medical instruments, such as drug-eluting stents, surgical tubes and syringes, approximately 0.11% are TCMPs, such as red sage tables, Longdan Xiegan pills, and Chinese skullcap capsules and approximately 0.01% are dietary supplements, such as vitamins, probiotic powder, and calcium tablets. For the fiscal year ended September 30, 2020, we had distributed roughly 2,785 third-party products, of which approximately 83.75% are biochemical drugs, such as liquid glucose, prednisolone, and citicoline, approximately 15.82% are medical instruments, such as drug-eluting stents, surgical tubes and syringes, approximately 0.38% are TCMPs, such as red sage tables, Longdan Xiegan pills, and Chinese skullcap capsules and approximately 0.05% are dietary supplements, such as vitamins, probiotic powder, and calcium tablets.

### ***Our Suppliers of Third-party Products***

We source third-party pharmaceutical products from their manufacturers in China. Our third-party product suppliers include mostly medical instrument manufacturers, pharmaceutical product manufacturers and dietary supplement manufacturers. For all of the products that we source and sell, we can generally find similar replacements in the market from the competitors of our current suppliers. Accordingly, we do not have any continuous or long-term supply agreements with any of these suppliers. We purchase third-party medical products from our suppliers on a per purchase order basis.

For the fiscal year ended September 30, 2022, 2021 and 2020, we purchased products from over 658, 665, and 728 suppliers, respectively. For the fiscal years ended September 30, 2022, 2021 and 2020, we did not have any supplier of third-party products whose sales to us accounted for more than 10% of our overall purchases of that fiscal year.

### **Our Customers**

Our customers are mostly pharmaceutical distributors, hospitals, clinics and drugstore chains with pharmaceutical business qualification certificates, awarded and authorized by the NMPA and are authorized to sell and deliver our products to end consumers. As of the date of this annual report, our customers are scattered over 261 cities of 30 provinces in China. We determine whether to establish long-term business relationships with our customers primarily based on two factors, their ability to promote our products and their ability to make payments on time.



As of September 30, 2022, we had total of 2,651 customers, of which 1,351 were pharmaceutical distributors, 430 were clinics, 389 were drug stores, and 481 were hospitals. As of September 30, 2021, we had total of 2,708 customers, of which 1,422 were pharmaceutical distributors, 542 were clinics, 489 were drug stores, and 255 were hospitals.

For the fiscal year ended September 30, 2022, our revenues generated from sales to pharmaceutical distributors, hospitals, clinics and drugstore chains represented 49.3%, 10.9%, 8.6%, and 31.2% of our total revenues, respectively. For the fiscal year ended September 30, 2021, our revenues generated from sales to pharmaceutical distributors, hospitals, clinics and drugstore chains represented 59.78%, 29.63%, 10.24% and 0.35% of our total revenues, respectively. For the fiscal year ended September 30, 2020, our revenues generated from sales to pharmaceutical distributors, hospitals, clinics and drugstore chains represented 63.8%, 22.4%, 13.3% and 0.5% of our total revenues, respectively.

None of our customers generated more than 10% of our revenue for the fiscal years ended September 30, 2022, 2021 and 2020. However, our top 10 customers aggregately accounted for 32.2%, 30.4%, and 33.3% of our total revenue for the fiscal years ended September 30, 2022, 2021 and 2020, respectively.

## **Marketing and Sales**

We believe that marketing activities are crucial to our success in the competitive Chinese patent medicine industry. As of September 30, 2022, we had a total of 57 employees in our marketing department. Employees in our marketing department are mainly responsible for performing various marketing activities, including researching the most updated industry and market information, analyzing market trends and consumer preferences, setting up marketing strategies, executing sales contracts, communicating with existing customers and networking with potential customers.

Our marketing and sales initiatives for the next several years will focus on three objectives: developing a strong brand image, building a successful marketing team, and expanding retail channels. To develop our brand image as a producer of TCMD products aiming at addressing the physical conditions of the elderly during the aging process and promoting their general well-being, we seek to promote our brand “Bai Nian Dan (百年丹)” utilizing both online marketing channels such as WeChat official account and other social media and traditional platforms such as television, newspapers, and live radio stations. As part of the efforts to build a successful marketing team, we intend to hire additional sales talents and provide monetary and equity incentives to sales employees. For the purpose of expanding our retail channels, we plan to open an online retail store, and according to the preferences of online shoppers, we may adjust the sizes, packaging, or prices of our products.

## **Research and Development**

We established a research and development department in 1998. Our research and development team has been focusing on the upgrade of current products and the development of production techniques to increase productivity. After years of continued development, our research and development department has become the core of our technological innovation efforts. As of September 30, 2022, we had 19 employees dedicated to research and development.

### ***Research and Development (“R&D”) Achievements***

Our research and development team has invented patented technologies to enhance the quality of our products and our manufacturing efficiency. For instance, our patented TCM mixer is able to mix powders more evenly and thoroughly compared to a traditional mixing machine, thereby increasing the quality of the mixed medicine powder. The special design of our patented TCM concentration device is able to increase the contact area of the liquid medicine as compared to a regular concentration device, thereby increasing the manufacturing efficiency of our products in liquid dosage form.

As a result of our efforts, our subsidiary, Jiangxi Universe, became certified as a National High-Tech Enterprise by the Science and Technology Department of Jiangxi Province in December 2013, with a term of three years. We successfully renewed the certificate in December 2019 and November 2022. This certification entitles Jiangxi Universe to a favorable corporate income tax of 15%, rather than the unified tax rate of 25% it would pay if it were not certified.

### ***R&D Development Plan***

To further our strong brand image, we plan to develop products designed to address the physical conditions of the elderly during the aging process and promoting their general well-being, including TCMD products and dietary supplements. In the upcoming years, we intend to focus on the development of immunity boost products and sleep aids.

In addition to our own efforts, our research and development team also intends to collaborate with other industry professionals and TCM experts with respect to the development of products we plan to launch in the future.

### **Competition**

We compete with pharmaceutical companies in China that manufacture and sell products similar to ours. Furthermore, many of these companies are more established than we are, and have significantly greater financial, technical, and other resources than we presently possess. Some of our competitors may be able to respond more quickly to new opportunities, market changes or changes of customer preferences, and may be able to undertake more extensive promotional activities, offer more attractive terms to distributors, and adopt more aggressive pricing strategies than we are. Despite that, we believe we are well-positioned to compete in this market with our diversified product portfolio, recognized brand name, established sales and marketing network and experienced management team with a proven track record.

### ***Competitors of our products***

The following table sets forth the competitors of our products.

<b>Products</b>	<b>Competitors</b>
Guben Yanling Pill	Taiyuan Daningtang Pharmaceuticals Co., Ltd.; Shenyang Dongxin Pharmaceutical Industry Co., Ltd.
Shenrong Weisheng Pill	China Beijing Tong Ren Tang Group Co., Ltd.; Jiangxi Zhongyuan Pharmaceutical Co., Ltd.
Quanlu Pill	Renhe Pharmaceuticals Co.; Guangzhou Pharmaceutical Co., Ltd.
Fuzi Lizhong Pill	China Beijing Tong Ren Tang Group Co., Ltd.
Yangxue Danggui Syrup	Sichuan Tiancheng Pharmaceuticals Co., Ltd.
Qiangli Pipa Syrup	Jiangzhong Pharmaceuticals Co., Ltd.; China Resources Sanjiu Medical & Pharmaceuticals Co., Ltd.; Jiangxi Tengwangge Pharmaceuticals Co., Ltd.

Paracetamol and Chlorpheniramine Maleate Granules for Children	China Resources Sanjiu Medical & Pharmaceuticals Co., Ltd.; Sunflower Pharmaceutical Group Co., Ltd.
Isatis Root Granules	Guangzhou Pharmaceuticals Co., Ltd.; China Resources Sanjiu Medicine & Pharmaceuticals Co., Ltd.; China Beijing Tong Ren Tang Group Co., Ltd.
Wuzi Yanzong Oral Liquid	China Beijing Tong Ren Tang Group Co., Ltd.
Shuquan Dabu Medicinal Liquor	Jiangxi Puzheng Pharmaceuticals Co., Ltd.
Shenrong Medicinal Liquor	Jiangxi Puzheng Pharmaceuticals Co., Ltd.
Qishe Medicinal Liquor	Jiangxi Zhongyuan Pharmaceuticals Co., Ltd.
Fengtong Medicinal Liquor	Jiangxi Zhongyuan Pharmaceuticals Co., Ltd.

### ***Competitors of Third-party Products***

Our competitors of pharmaceutical products, including biochemical drugs and TCMPs, are many internationally and nationally well-known manufacturers and distributors, including China Beijing Tong Ren Tang Group Co., Ltd., Yunnan Baiyao Group, China Resources Sanjiu Medicine & Pharmaceuticals Co., Ltd., and Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd.

Our competitors in the medical instrument market include many well-known manufacturers and distributors of medical instruments, including Shinva Medical Instrument Co., Ltd., Jiangsu Yuyue Medical Equipment & Supply Co., Ltd., Lepu Medical Technology (Beijing) Co., Ltd., and Shanghai Runda Medical Technology Co., Ltd.

Our competitors in the dietary supplement market include internationally and nationally well-known manufacturers and distributors of dietary supplements, such as By-health Co., Ltd., Amway (China) Co., Ltd., and Perfect (China) Co., Ltd.

We intend to compete with these larger companies by appealing to the specific needs and preferences of our customers and offering competitive prices.

### **Employees**

As of September 30, 2022, 2021, and 2020, we had a total of 224, 263, and 169 employees, all of whom are located in China. The following table sets forth the number of our employees by function as of September 30, 2022.

<b>Function</b>	<b>Number of Employees</b>	<b>% of Total</b>
Purchasing Department	9	4%
Warehouse Department	14	6%
Manufacturing Department	85	38%
Quality Control Department	16	7%
Research and Development Department	19	9%
Marketing Department	57	25%

Finance Department	6	3%
Administration Department	18	8%
<b>Total</b>	<b>224</b>	<b>100%</b>

Our success depends on our ability to attract, retain and motivate qualified personnel. As part of our human resources strategy, we offer employees competitive salaries and other bonuses and incentives.

We primarily recruit our employees in China through direct hiring. We provide training to new employees that we hire. We also conduct regular and specialized internal training to meet the needs of our employees in different departments. We believe that such training is effective in equipping our employees with the skill set and work ethics we require.

As required under PRC regulations, we participate in various employee social security plans that are organized by applicable local municipal and provincial governments, including housing, pension, medical, work-related injury, maternity and unemployment benefit plans.

We enter into standard contracts and agreements regarding confidentiality, intellectual property, employment, ethic policies and non-competition with most of our executive officers, managers and employees. These contracts typically include a non-competition provision effective during and up to one year after termination of their employment with us and a confidentiality provision effective during and up to one year after their employment with us.

Our employees have not formed any employee union or association. We believe that we maintain a good working relationship with our employees and we have not experienced any difficulty in recruiting staff for our operations as of the date of this annual report.

## Properties and Facilities

Our corporate headquarters are located in Jinggangshan, Jiangxi Province, China. We own properties in Jinggangshan as office spaces, storage facilities and manufacturing facilities with an aggregate gross floor area of approximately 825,563 square feet. We believe that our existing facilities are generally adequate to meet our current needs, but we expect to seek additional space as needed to accommodate future growth. Following is a list of our properties all of which we own the land use rights to:

No.	Land Use Right Holder	Property Address	Use of Property	Area in Square Feet	Terms of Use
1	Jiangxi Universe	265 Jingjiu Avenue, Economy and Technology Development District, Jinggangshan, Ji'an, Jiangxi, China	Manufacturing	173,467	October 2053
2	Jiangxi Universe	265 Jingjiu Avenue, Economy and Technology Development District, Jinggangshan, Ji'an, Jiangxi, China	Manufacturing	470,921	October 2053
3	Jiangxi Universe	265 Jingjiu Avenue, Economy and Technology Development District, Jinggangshan, Ji'an, Jiangxi, China	Manufacturing	57,010	October 2053
4	Jiangxi Universe	265 Jingjiu Avenue, Economy and Technology Development District, Jinggangshan, Ji'an, Jiangxi, China	Storage	27,426	October 2053

5	Jiangxi Universe	265 Jingjiu Avenue, Economy and Technology Development District, Jingtangshan, Ji'an, Jiangxi, China	Manufacturing	29,276	October 2053
6	Jiangxi Universe	265 Jingjiu Avenue, Economy and Technology Development District, Jingtangshan, Ji'an, Jiangxi, China	Storage	57,083	October 2053
7	Jiangxi Universe	265 Jingjiu Avenue, Economy and Technology Development District, Jingtangshan, Ji'an, Jiangxi, China	Manufacturing	10,380	October 2053

We manufacture all of our products at the properties listed above. Currently, we are capable of producing a maximum of approximately 12 million bottles of liquid products, 13 million boxes of pill products, and 10 million boxes of solid products annually.

### Intellectual Property

We regard our patents, trademarks, domain names and other intellectual property critical to our business operations. We rely on laws and regulations on patents, trademarks and domain names to protect our intellectual property. As of the date of this annual report, we have registered 46 patents in China, including 26 utility model patents, 16 design patents, and four invention patents, and 99 trademarks in China, including our well-recognized brands “Bai Nian Dan (百年丹)”, “Hu Zhuo Ren (胡卓仁)” and “Long Zhong (龙种).”

We implement a set of comprehensive measures to protect our intellectual property, in addition to making trademark and patent registration application. Key measures include: (i) timely registration, filing and application for ownership of our intellectual property, (ii) actively tracking the registration and authorization status of our intellectual property and take action in a timely manner if any potential conflicts with our intellectual property are identified, and (iii) clearly stating all rights and obligations regarding the ownership and protection of our intellectual property in all employment contracts and commercial contracts we enter into.

As of the date of this annual report, we have not been subject to any material dispute or claims for infringement upon third parties’ trademarks, licenses and other intellectual property rights in China.

### Seasonality

We currently do not experience seasonality in our business.

### Environmental Matters

We comply with the Environmental Protection Law of China as well as applicable local regulations. In addition to statutory and regulatory compliance, we actively ensure the environmental sustainability of our operations. Parties may be levied upon us if we fail to adhere to and maintain certain standards. Such failure has not occurred in the past, and we generally do not anticipate that it will occur in the future, but no assurance can be given in this regard.

### Insurance

We maintain certain insurance policies to safeguard us against risks and unexpected events. For example, we provide social security insurance including pension insurance, unemployment insurance, work-related injury insurance and medical insurance for our employees in compliance with applicable PRC laws. We also maintain directors and officers liability insurance. We do not maintain business interruption insurance or product liability insurance, which are not mandatory under PRC laws. We do not maintain key man insurance, insurance policies covering damages to our network infrastructures or information technology systems nor any insurance policies for our properties. During the fiscal years ended September 30, 2022, 2021 and 2020, we did not make any material insurance claims in relation to our business.

## **Legal Proceedings**

We may from time to time become a party to various legal administrative proceedings arising in our ordinary course of our business. As of the date of this annual report, neither we nor any of our subsidiaries is a party of any material legal proceeding.

## **Regulations**

This section sets forth a summary of the principal PRC laws, regulations, and rules relevant to our PRC operating entities' business and operations in China.

We are a pharmaceutical manufacturer in China. This section sets forth a summary of applicable laws, rules, regulations, government and industry policies and requirement that have a significant impact on our operations and business in China. This summary does not purport to be a complete description of all laws and regulations, which apply to our business and operations. Investors should note that the following summary is based on relevant laws and regulations in force as of the date of this annual report, which may be subject to change.

## **Major Regulatory Authorities**

The pharmaceutical industry in the PRC is mainly administered by four governmental agencies: (i) the NMPA, a department under the State Administration for Market Regulation (the "SAMR") (国家市场监督管理总局), (ii) the National Health Commission (the "NHC") (国家卫生健康委员会), (iii) the National Administration of Traditional Chinese Medicine (the "NATCM") (国家中医药管理局), and (iv) the National Healthcare Bureau (the "NHB") (国家医疗保障局).

The NMPA, whose predecessor is the China Food and Drug Administration, or the CFDA, is the primary regulator of almost all key stages of the life-cycle of pharmaceutical products, including non-clinical researches, clinical trials, marketing approvals, manufacturing, advertising and promotion, distribution and pharmacovigilance.

The NHC, formerly known as the National Health and Family Planning Commission, is the principal regulator of healthcare in China. It is primarily responsible for drafting national healthcare policies and regulating public health, medical services and health contingency system, coordinating the healthcare reform and overseeing the operation of medical institutions and professional practice of medical personnel. The NHC is responsible for (1) the research, production, circulation and use of Chinese medicines, including traditional Chinese medicine; (2) the preparation and publication of the Chinese Pharmacopoeia; and (3) the supervision of the selection, approval, distribution and revision of the National OTC Drug Catalogue. In addition, the CFDA and its local administrative authorities may take a number of enforcement actions to enforce their regulations.

The NATCM is an agency under the NHC that oversees China's traditional Chinese medicine industry.

The NHB, a new authority established in May 2018, is responsible for (1) drafting and implementing policies, plans and standards on medical insurance, maternity insurance and medical assistance; (2) administering healthcare fund; (3) formulating a uniform medical insurance catalogue and payment standards on drugs, medical disposables and healthcare services; and (4) formulating and administering the bidding and tendering policies for drugs and medical disposables.

## **Regulations Related to Pharmaceutical Manufacture**

### ***Manufacturing License***

Pursuant to the Pharmaceutical Administration Law of the People's Republic of China (《中华人民共和国药品管理法》), which was promulgated in 1984 by the SCNPC and last amended in August 2019, a pharmaceutical

manufacturer is required to obtain its manufacturing license from the NMPA before it starts to manufacture pharmaceutical products. Prior to granting such permit, the relevant government authority will inspect the applicant's production facilities, and assess whether the sanitary conditions, quality assurance system, management structure and equipment at the production facilities have met the required standards. A manufacturing license is valid for a period of five years and the manufacturer is required to apply for renewal within six months prior to its expiration date. The manufacturer will be subject to reassessment by the authority in accordance with then prevailing legal and regulatory requirements for the purposes of such renewal. Currently, our subsidiary Jiangxi Universe holds a valid manufacturing license from the NMPA issued on December 21, 2020 and valid until December 20, 2025.

### ***Contract Manufacturing of Drugs***

Pursuant to the Administrative Regulations for the Contract Manufacturing of Drugs (《药品委托生产监督管理规定》) (the “Contract Manufacturing Regulations”) issued by the NMPA in August 2014, in the event that a drug manufacturer in China with drug marketing authorization temporarily lacks manufacturing capability as a result of technology upgrade or is unable to meet market demand due to insufficient manufacturing capacity, it may use contract manufacturer for its drug manufacturing. Contract manufacturing arrangements need to be approved by the provincial branch of the NMPA. The Contract Manufacturing Regulations prohibit contract manufacturing arrangements for certain special drugs, including narcotic drugs, psychoactive drugs, biochemical drugs and active pharmaceutical ingredients.

### **Other Regulations in relation to the Pharmaceutical Industry**

#### ***“Two-vote system” for drug sales***

The NHC and other six ministries and commissions issued the Notice on the Opinions on the Implementation of the “Two-Invoice System” in Drug Procurement by Public Medical Institutions (for Trial Implementation) (《关于在公立医疗机构药品采购中推行“两票制”的实施意见(试行)的通知》) (the “Notice on Two-Invoice System”) on January 11, 2017. “Two-invoice system” means that one invoice shall be issued by a pharmaceutical manufacturer to a distributor, and another invoice shall be issued by the distributor to a hospital. An internal transfer of drugs from a group pharmaceutical distributor to its wholly owned or controlled subsidiary or a transfer of drugs between such wholly owned subsidiaries may not be deemed as “one invoice” however, the invoicing for the whole group can be done only once. Pharmaceutical manufacturers and distributors shall reasonably determine the markup level in the spirit of fairness, legality, legitimacy and integrity. Public medical institutions is encouraged to settle the payment for drugs directly with pharmaceutical manufacturers, and pharmaceutical manufacturers and are encouraged to settle the delivery cost with distributors.

In the sale of drugs, drug manufacturers and distributors shall issue value-added tax (“VAT”) special invoices or normal VAT invoices in accordance with the regulations regarding invoice control. The sold drug shall also be delivered in a way that confirms to the requirements of the Good Supply Practice for Pharmaceutical Products (2016 version) (《药品经营质量管理规范(2016修订)》), and the names of the purchaser and seller on the invoices shall be consistent with the delivery form, payment flow and amount.

#### ***Drug Advertisements***

Pursuant to the Interim Administrative Measures for the Review of Advertisements for Drugs, Medical Devices, Health Food and Formula Food for Special Medical Purposes (《药品、医疗器械、保健食品、特殊医学用途配方食品广告审查管理暂行办法》) promulgated on December 24, 2019 and effective on March 1, 2020, an enterprise seeking to advertise its drugs must apply for an advertising approval code. An advertising approval code shall expire on the earlier of the expiration dates of the product's registration certificate, filing certificate or production license. If

an expiration date is not prescribed in the product's registration certificate, filing certificate or production license, the advertising approval code shall be valid for two years. The contents of an approved advertisement shall not be altered without prior approval. Where an advertisement needs to be edited, the enterprise shall submit an application for a new advertisement approval code.

### ***Insert Sheet, Labels and Packaging of Pharmaceutical Products***

According to the Measures for the Administration of the Insert Sheets and Labels of Drugs (《药品说明书和标签管理规定》) effective on June 1, 2006, the insert sheets and labels of a pharmaceutical product shall be reviewed and approved by the NMPA. A drug insert sheet should include the scientific data, conclusions and information concerning drug safety and efficacy in order to direct the safe and reasonable use of pharmaceutical products. The inner label of a pharmaceutical product shall indicate the product name, indication or function, strength, dose and usage, production date, batch number, expiration date and drug manufacturer, and the outer label of a pharmaceutical product shall indicate the product name, ingredients, description, indication or function, strength, dose and usage and adverse reactions.

According to the Measures for the Administration of Pharmaceutical Packaging (《药品包装管理办法》) effective on September 1, 1988, pharmaceutical packaging must comply with national and professional standards. If no national or professional standards are available, a manufacturer can formulate and implement its own standards after it receives approval from the provincial food and drug administration or bureau of standards. The company shall reapply for approval if it were to change its own packaging standards. Pharmaceutical products with no approved packing standards shall not be sold or traded in the PRC, except for drugs for military use.

### ***Drug Technology Transfer***

On August 19, 2009, the NMPA promulgated the Administrative Regulations for Technology Transfer Registration of Drugs (《药品技术转让注册管理规定》) (the "Technology Transfer Regulations") to regulate the drug technology transfer process, including the application, evaluation, examination, approval and monitoring of, drug technology transfer. Drug technology transfer means that the owner transfers its pharmaceutical manufacturing technology to a pharmaceutical manufacturer and that the transferee applies for drug registration pursuant to the Technology Transfer Regulations. Drug technology transfer includes the transfer of new drug technology and drug manufacturing technology.

Applications for drug technology transfer shall be submitted to the provincial drug regulatory authority where the transferee is located. The drug regulatory authority examines application materials and conducts on-site inspections of the transferee's manufacturing facilities. If the transferor and the transferee are located in different provinces, the provincial drug regulatory authority where the transferor is located shall issue examination opinions as well. The Center for Drug Evaluation (the "CDE"), a branch of the NMPA, shall further review the application materials, provide technical evaluation opinions and form a comprehensive evaluation opinion based on the on-site inspection reports and the testing results of the samples. The NMPA shall determine whether to approve the application according to the comprehensive evaluation opinion of the CDE. An approval letter of supplementary application and a drug approval number will be issued for qualified applications.

### ***Price of drugs***

Pursuant to the Drug Administration Law (《药品管理法》), for those drugs whose prices are determined by market, manufacturers and distributors of pharmaceutical products and medical institutions shall set the prices in accordance with the principles of fairness, rationality, and good faith, and provide consumers with drugs at reasonable prices. Pharmaceutical product manufacturers, distributors and medical institutions shall determine and indicate their



products' retail prices in accordance with the regulations over drug prices promulgated by the pricing department of the State Council of the People's Republic of China (the "State Council").

On May 4, 2015, the National Development and Reform Commission, the National Health and Family Planning Commission, the Ministry of Human Resources and Social Security, the Ministry of Industry and Information Technology, the Ministry of Finance, the MOFCOM and the NMPA jointly issued the Notice Regarding Reforms to the Price of Medical Products (《关于印发推进药品价格改革意见的通知》), pursuant to which, since June 1, 2015, other than anesthetics and Class I psychotropic drugs, the actual price of pharmaceutical products shall be decided by market instead of by the government. As of the date of this annual report, the actual price of all products we sell, including TCMD products and third-party products, are determined by market.

### **Regulation in relation to medical device registration**

Pursuant to the Regulations on Supervision and Administration of Medical Devices (《医疗器械监督管理条例》) promulgated by the State Council of China with the last amendment effective on June 1, 2021, medical devices are classified based on the invasiveness of, and risks associated with, each medical device. Class I medical devices have relatively low risks, whose safety and effectiveness can be guaranteed through routine administration. Class II medical devices have moderate risks and require strict control and administration to ensure their safety and effectiveness. Class III medical devices have relatively high risks and require especially strict control and administration measures to ensure their safety and effectiveness. Pursuant to the Administrative Measures for the Medical Devices Registration and Record (《医疗器械注册与备案管理办法》), which became effective on October 1, 2021, manufacturers of Class I medical devices are required to file with the local food and drug administrative authority at the city level. Manufacturers of Class II medical devices shall obtain product registration certificates from and be subject to the inspection and approval of the drug administrative authority at the provincial level. Manufacturers of Class III medical devices shall obtain product registration certificates from the NMPA and be subject to its inspection and approval.

As of the date of this annual report, we are engaged in the business of selling medical devices. We sell medical devices categorized as Class I, Class II and Class III under the Regulation on Supervision and Administration of Medical Devices in the PRC, and we obtained our medical device selling license in April 2020 in compliance with the applicable PRC laws and regulations.

### **Regulation relating to Company Establishment and Foreign Investment**

The PRC Company Law applies to the establishment, operation and management of both PRC domestic companies and foreign-invested enterprises. Foreign investment in the PRC corporate entities are also regulated by the Foreign-Owned Enterprise Law of the PRC (《中华人民共和国外资企业法》) (the "Foreign-Owned Enterprise Law") promulgated on April 12, 1986 and amended on October 31, 2000 and September 3, 2016, the Implementing Rules for the Foreign-Owned Enterprise Law of the PRC (《中华人民共和国外资企业法实施细则》) promulgated on December 12, 1990 and amended on April 12, 2001 and February 19, 2014, and the Interim Administrative Measures for the Record-filing of the Incorporation and Change of Foreign-invested Enterprises (《外商投资企业设立及变更备案管理暂行办法》) (the "Record-filing Measures") promulgated on October 8, 2016 and amended on July 30, 2017 and June 29, 2018. Under these laws and regulations, the establishment of a wholly foreign-owned enterprise is subject to the approval of, or the filing with the MOFCOM or its local counterpart, and such wholly foreign-owned enterprises must register and file with the appropriate administrative bureau of industry and commerce.

The Foreign Investment Law of the People's Republic of China (《中华人民共和国外商投资法》) (the "Foreign Investment Law"), which was promulgated by the National People's Congress On March 15, 2019, and came into effect on January 1, 2020, provides that foreign investment refers to the investment activities in China carried out directly or indirectly by foreign natural persons, enterprises or other organizations (the "Foreign Investors"), including

the following: (1) Foreign Investors establishing foreign-invested enterprises in China alone or collectively with other investors; (2) Foreign Investors acquiring shares, equities, properties or other similar rights of Chinese domestic enterprises; (3) Foreign Investors investing in new projects in China alone or collectively with other investors; and (4) Foreign Investors investing through other ways prescribed by laws and regulations or the State Council. The State adopts the management system of pre-establishment national treatment and negative list for foreign investment. The pre-entry national treatment means the treatment given to Foreign Investors and their investments at the stage of investment access is not lower than that of domestic investors and their investments. The negative list management system means that the state implements special administrative measures for access of foreign investment in specific fields. Foreign investors shall not invest in any forbidden fields stipulated in the negative list and shall mean the conditions stipulated in the negative list before investing in any restricted fields. The negative list is released upon approval of the State Council. After the Foreign Investment Law came into effect, it replaced the Foreign-Owned Enterprise Law.

The Implementation Regulations for the Foreign Investment Law of the PRC (《中华人民共和国外商投资法实施条例》) (the “Implementation Regulations for the FIL”) was adopted at the 74th executive meeting of the State Council on December 12, 2019 and came into effect on January 1, 2020. The purpose of the Implementation Regulations for the FIL is to encourage and promote foreign investment, protect the legitimate rights and interests of investors, regulate the administration of foreign investment, and continuously optimize the foreign investment environment. For those foreign-invested enterprises established prior to the implementation of the Foreign Investment Law and established in accordance with the Law of the People’s Republic of China on Sino-foreign Joint Ventures (《中华人民共和国中外合资经营企业法》), the Law of the People’s Republic of China on Foreign-invested Enterprises, and the Law of the People’s Republic of China on Sino-Foreign Cooperative Enterprises, they can modify or retain their organizational forms and organizational structures in accordance with the PRC Company Law, Partnership Law of the People’s Republic of China and other applicable laws within 5 years since the implementation of the Foreign Investment Law.

Foreign investment in China shall comply with the Catalogue for the Guidance of Foreign Investment Industries (2017 Revision) (《外商投资产业指导目录(2017年修订)》) (the “2017 Catalogue”), which was promulgated on June 28, 2017 and became effective on July 28, 2017, and the Special Administrative Measures for the Access of Foreign Investment (Negative List) (Edition 2018) (《外商投资准入特别管理措施(负面清单) (2018年版)》) (the “2018 Negative List”) which were promulgated on June 28, 2018 and became effective on July 28, 2018. The Catalogue classifies foreign-invested industries into two categories, (1) encouraged foreign-invested industries; and (2) foreign-invested industries that are subject to the 2018 Negative List. The 2018 Negative List set out restrictions such as shareholding requirements and qualifications of the senior management. According to the Record-filing Measures, foreign investments that are not subject to special access administrative measures are only required to complete an online filing with the MOFCOM or its local counterpart. The Catalogue for Encouraged Foreign Investment (2020 Revision) (《鼓励外商投资产业目录(2020年版)》), or the 2020 Catalogue, and the Special Administrative Measures for the Access of Foreign Investment (Negative List) (Edition 2021) (《外商投资准入特别管理措施(负面清单) (2021年版)》), or the 2021 Negative List, which were issued on September 18, 2021 and came into effect on December 27, 2021, further reduced restrictions on foreign investment. The 2020 Catalogue and the 2021 Negative List replaced the 2017 Catalogue and the 2018 Negative List. The scope of our business as approved by the licensing authority and the actual scope of our business are not subject to the restrictions set forth in the 2021 Negative List.

The M&A Rules were jointly promulgated by the MOFCOM, the State-Owned Assets Supervision and Administration Commission of the State Council, the SAT, the SAIC, the CSRC, and the SAFE on August 8, 2006 and was amended by MOFCOM on June 22, 2009. The M&A Rules provides that a foreign investor is required to obtain necessary approvals when it: (1) acquires equity interests in a domestic enterprise or subscribes to additional shares in a domestic enterprise; (2) purchases the assets of a domestic enterprise through establishment of a foreign-invested enterprise; or (3) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates

these assets. In particular, any PRC company, enterprise or individual is required to obtain approval from the MOFCOM and comply with applicable laws and regulations if it establishes an offshore company and attempts to acquire a domestic enterprise related to such offshore company.

### **Regulation in relation to Intellectual Property Rights**

In terms of international conventions, China has entered into (including but not limited to) the Agreement on Trade-Related Aspects of Intellectual Property Rights (《与贸易有关的知识产权协定》), the Paris Convention for the Protection of Industrial Property (《保护工业产权巴黎公约》), the Madrid Agreement Concerning the International Registration of Marks (《商标国际注册马德里协定》) and the Patent Cooperation Treaty (《专利合作协定》).

#### ***Patents***

Pursuant to the Patent Law of the PRC (《中华人民共和国专利法》), or the Patent Law, promulgated by the SCNPC on March 12, 1984 and last amended on October 17, 2020 and effective from June 1, 2021 and the Implementation Rules of the Patent Law of the PRC (《中华人民共和国专利法实施细则》), promulgated by the State Council on June 15, 2001 and amended on December 28, 2002 and January 9, 2010, respectively, patents in China fall into three categories: invention patents, utility model patents and design patents. The term of patent protection starts from the date of application and lasts 20 years for invention patents and 10 years for utility model patents and design patents. Any individual or entity that utilizes a patent or conducts any other activity that infringes a patent without the patent holder's authorization shall pay compensation to the patent holder and be subject to a fine imposed by regulatory authorities and, if such behavior constitutes a crime, shall be held criminally liable in accordance with applicable laws. According to the Patent Law, for public health purposes, the State Intellectual Property Office of the PRC, or SIPO, may grant a compulsory license for manufacturing patented drugs and exporting them to countries or regions covered under relevant international treaties to which PRC has acceded. In addition, under the Patent Law, any organization or individual that applies for a patent in a foreign country for an invention or utility model patent established in China is required to report to the SIPO for confidentiality examination. Patent holders may apply for extending the terms of patented drugs to compensate for commercialization delays due to regulatory review, and may seek punitive damages for willful patent infringement under severe circumstances.

#### ***Trade Secrets***

Pursuant to the PRC Anti-Unfair Competition Law (《中华人民共和国反不正当竞争法》) promulgated by the SCNPC in September 1993, as amended on November 4, 2017 and April 23, 2019 respectively, the term "trade secrets" refers to technical and business information that is unknown to the public, has utility, may create business interests or profits for its legal owners or holders, and is maintained as a secret by its legal owners or holders. Under the PRC Anti-Unfair Competition Law, business persons are prohibited from infringing others' trade secrets by: (1) obtaining trade secrets from the legal owners or holders by any unfair methods, such as theft, bribery, fraud, coercion, electronic intrusion, or any other illicit means; (2) disclosing, using or permitting others to use the trade secrets obtained illegally under item (1) above; or (3) disclosing, using or permitting others to use the trade secrets, in violation of any contractual agreements or any requirements of the legal owners or holders to keep such trade secrets in confidence. If a third party knows or should have known of the above- mentioned illegal conduct but nevertheless obtains, uses or discloses trade secrets of others, the third party may be deemed to have committed a misappropriation of the others' trade secrets. The parties whose trade secrets are being misappropriated may petition for administrative corrections, and regulatory authorities may stop any illegal activities and impose fines on the infringing parties.

#### ***Trademarks***

In accordance with the Trademark Law of the PRC (《中华人民共和国商标法》) (the “Trademark Law”), which was promulgated by the SCNPC on August 23, 1982, and was last amended on April 23, 2019 and came into effect on November 1, 2019, any trademark which is registered with the approval of the Trademark Office is a registered trademark, including commodity trademark, service trademark, collective trademark, certification trademark, and the trademark registrant has the exclusive right to use a registered trademark and such right is protected by law. A registered trademark is valid for a period of 10 years commencing from the date on which the registration is approved. Upon expiration of the trademark, the registrant shall apply for renewal within twelve months prior to the expiration date if it intends to maintain exclusive use of the trademark. If the registrant fails to apply for renewal, a grace period of six months may be granted. In the absence of a renewal upon the expiration of a trademark registration, the registered trademark shall be canceled. Use of a trademark that is identical with or similar to a registered trademark, for the same kind of or similar commodities, without authorization of the trademark registrant, constitutes infringement of the exclusive right to use a registered trademark. Industrial and commercial administrative authorities have the authority to investigate any behavior that may constitute an infringement of the exclusive right under a registered trademark.

### ***Domain names***

Domain names are protected under the Administrative Measures on the Internet Domain Names (《互联网域名管理办法》), which was promulgated by the Ministry of Industry and Information Technology, or the MIIT, on August 24, 2017 and came into effect on November 1, 2017, and the Implementing Rules of China Internet Network Information Center on the Registration of Domain Names (《中国互联网络信息中心域名注册实施细则》) issued by China Internet Network Information Center (the “CNNIC”) on May 28, 2012 and came into effect on May 29, 2012. Domain name registrations are handled through domain name service agencies established under the relevant regulations, and the applicant becomes domain name holder upon successful registration. Domain name disputes shall be submitted to an organization authorized by CNNIC for resolution.

### **Other laws**

#### ***Product Liability***

The Product Quality Law of the PRC (《中华人民共和国产品质量法》), promulgated by the SCNPC on February 22, 1993 and last amended on December 29, 2018, governs the supervision and administration of product quality and specifies the liabilities of manufacturers and sellers. A manufacturer shall be liable for compensating for any bodily injuries or property damages, other than the defective product itself, resulting from the defects in the product, unless the manufacturer is able to prove that: (1) the product has never been distributed; (2) the defects causing injuries or damage did not exist at the time when the product was distributed; or (3) the science and technology at the time when the product was distributed was at a level incapable of detecting the defects. A seller shall pay compensation if it fails to indicate either the manufacturer or the supplier of the defective product. A person who is injured or whose property is damaged by the defects in the product may claim for compensation from the manufacturer or the seller.

Pursuant to the Civil Code of the People’s Republic of China (《中华人民共和国民法典》), promulgated by the SCNPC on May 28, 2020 and became effective on January 1, 2021, manufacturers shall assume tort liabilities where the defects in products cause damage to others. Sellers shall assume tort liability where the defects in products that have caused damage to others are attributable to the sellers. The aggrieved party may claim for compensation from the manufacturer or the seller of the defected product that has caused damage.

#### ***Environmental Protection***

Pursuant to the Environmental Protection Law of the PRC (《中华人民共和国环境保护法》) promulgated by the SCNPC on December 26, 1989 and amended on April 24, 2014, the Environmental Impact Assessment Law of the PRC (《中华人民共和国环境影响评价法》), promulgated by the SCNPC on October 28, 2002 and amended on July 2, 2016 and December 29, 2018 respectively, the Administrative Regulations on the Environmental Protection of Construction Project (《建设项目环境保护管理条例》) promulgated by the State Council on November 29, 1998 and amended on July 16, 2017, and other applicable environmental laws and regulations, an enterprise with a project construction plan shall submit an environmental impact assessment report, stating the environmental impacts the project is likely to have, to the administrative authority of environmental protection for approval. Enterprises shall engage qualified institutions to issue the environmental impact assessment reports.

According to the Law of the PRC on the Prevention and Control of Water Pollution (《中华人民共和国水污染防治法》) promulgated by the SCNPC on May 11, 1984 and last amended on June 27, 2017, and effective on January 1, 2018, the Law of the PRC on the Prevention and Control of Atmospheric Pollution (《中华人民共和国大气污染防治法》) promulgated by the SCNPC on September 5, 1987 and last amended on October 26, 2018, the Law of the PRC on the Prevention and Control of Pollution from Environmental Noise (《中华人民共和国环境噪声污染防治法》) promulgated by the SCNPC on October 29, 1996 and amended on December 29, 2018, and the Law of the PRC on the Prevention and Control of Environmental Pollution of Solid Waste (《中华人民共和国固体废物污染环境防治法》), promulgated by the SCNPC on October 30, 1995 and last amended on April 29, 2020, all the enterprises that may cause environmental pollution in the course of their business operation shall implement preventive and curative environmental protection measures in their plants and establish a reliable environmental protection system.

We strictly complied with the applicable environmental laws and regulations in constructing our factory. On December 8, 2004, the environmental protection bureau of local government determined that the environmental protection facilities we constructed for our factory satisfied the relevant standards. According to the certificate issued by the ecological environment bureau of local government (the “Bureau”), our factory has not been assessed on its environmental impacts since its establishment in 2004. Although there were certain procedural defects in the original construction process, we constructed our environmental protection facilities for our factory in strict compliance with the requirements of applicable PRC environmental laws and regulations. Our environmental protection facilities were approved by the Bureau in December 2004 and have since been under normal operations. As of the date of the date of this annual report, we have not been found in violation of applicable environmental laws or regulations, or imposed of administrative penalties by environmental protection authorities in the past three years. No environmental pollution incident has occurred on our manufacturing facility.

### ***Foreign Exchange Control***

Pursuant to the Foreign Exchange Administration Regulations of the PRC (《中华人民共和国外汇管理条例》), as amended on August 5, 2008, and the Regulation on the Administration of the Foreign Exchange Settlement, Sales and Payment (《结汇、售汇及付汇管理规定》), or the Settlement Regulations, promulgated by the People’s Bank of China on June 20, 1996 and came into effect on July 1, 1996, foreign exchanges required for profit distributions and dividend payments may be purchased from designated foreign exchange banks in the PRC upon presentation of a board resolution authorizing distribution of profits or payment of dividends.

According to the Notice of SAFE on Further Improving and Adjusting Foreign Exchange Administration Policies on Direct Investment (《国家外汇管理局关于进一步改进和调整直接投资外汇管理政策的通知》) (the “Circular No. 59”), promulgated on November 19, 2012 and last amended on December 30, 2019 by the State Administration of Exchange Control, or the SAFE, (1) the opening of and payment into foreign exchange accounts under direct investment accounts are no longer subject to approval by the SAFE; (2) reinvestment with legal income of foreign investors in China is no longer subject to approval by SAFE; (3) the procedures for capital verification and

confirmation that foreign-funded enterprises need to go through are simplified; (4) purchase and external payment of foreign exchange under direct investment accounts are no longer subject to approval by SAFE; (5) domestic transfer of foreign exchange under direct investment account is no longer subject to approval by SAFE; and (6) the administration over the conversion of foreign exchange capital of foreign-invested enterprises is improved.

Pursuant to the Circular on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《关于进一步简化和改进直接投资外汇管理政策的通知》) (the “SAFE Circular No. 13”), which was promulgated on February 13, 2015 and became effective on June 1, 2015, the foreign exchange registration under domestic direct investment and the foreign exchange registration under foreign direct investment is directly reviewed and handled by banks in accordance with the Circular No. 13, and the SAFE and its branches shall perform indirect regulation over the foreign exchange registration via banks.

Pursuant to the Circular on the Reform of the Management Method for the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (《国家外汇管理局关于改革外商投资企业外汇资本金结汇管理方式的通知》) promulgated by the SAFE on March 30, 2015 and became effective on June 1, 2015, and the Circular on the Reform and Standardization of the Management Policy of the Settlement of Capital Projects (《国家外汇管理局关于改革和规范资本项目结汇管理政策的通知》) promulgated by the SAFE on June 9, 2016, the settlement of foreign exchange by foreign invested enterprises shall be governed by the policy of foreign exchange settlement on a discretionary basis. However, the settlement of foreign exchange shall only be used for its own operation purposes within the business scope of the foreign invested enterprises in accordance with the principle of authenticity.

Pursuant to the Circular 37, a PRC resident shall register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (“Overseas SPV”), that is directly established or controlled by the PRC Resident for the purpose of conducting investment for financing. Failure to comply with the SAFE registration requirements could result in penalties for evasion of foreign exchange controls. The Circular No. 13 provides that banks can directly handle the initial foreign exchange registration and amendment registration under the Circular 37. Mr. Gang Lai completed the initial foreign registration on June 3, 2019.

### ***Labor and Social Insurance***

Pursuant to the Labor Contract Law (《中华人民共和国劳动合同法》), which was promulgated by the SCNPC on June 29, 2007 and became effective on January 1, 2008, and amended on December 28, 2012 and became effective on July 1, 2013, and the Implementing Regulations of the Labor Contracts Law of the PRC (《中华人民共和国劳动合同法实施条例》), which was promulgated by the State Council on September 18, 2008, labor contracts shall be concluded in writing if employment relationships are to be or have been established between employers and employees. In addition, employee wages cannot be lower than local standards on minimum wages.

Pursuant to the Labor Law of the PRC (《中华人民共和国劳动法》), which was promulgated by the SCNPC on July 5, 1994 and last amended and came into effect on December 29, 2018, employers shall establish and improve their system of workplace safety and sanitation, strictly abide by state rules and standards on workplace safety, educate employees in occupational safety and sanitation in the PRC. Occupational safety and sanitation facilities shall comply with state-fixed standards. Enterprises and institutions shall provide employees whose work involves occupational hazards with health examinations on a regular basis.

According to the Social Insurance Law, the Interim Regulations on the Collection and Payment of Social Security Funds (《社会保险费征缴暂行条例》), which was promulgated by the State Council on January 22, 1999 and amended on March 24, 2019, and the Administrative Regulations on the Housing Provident Funds (《住房公积金管理条例》), which was promulgated by the State Council on April 3, 1999 and last amended on March 24, 2019, employers are required to make contributions, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity insurance and to housing provident funds. Any employer who fails to make contributions may be fined and ordered to make good the deficit within a stipulated time limit.

Prior to April 2020, we only contributed to the social insurance and housing provident funds for some, but not all, of our employees. There is a risk that the labor security administration authority may take enforcement action to collect from us all the outstanding contributions of the social insurance and housing provident funds required to be made for the employees in the past, and we may be subject to a late charge at the rate of 0.2% per day on the total outstanding contribution. We started to contribute to the social insurance and housing provident funds for all of our employees since April 2020.

Since April 2020, we have been contributing to the social insurance and housing provident funds for our employees in accordance with the minimum contribution requirements. Pursuant to the aforementioned applicable laws and regulations, the government or an employee has the right to demand us to contribute to the employee's social insurance and housing provident funds calculated based on his or her actual salary, and an employee who has not received contributions from us has the right to demand us to contribute to his or her social insurance and housing provident funds. As confirmed in writing by the local government, our contributions of the social insurance and housing provident funds are in compliance with the PRC laws and the local regulations and policies, and therefore the local government is very unlikely to impose any penalty on us for our contributions since April 2020.

### ***Enterprise Income Tax***

According to the EIT Law, promulgated by the National People's Congress on March 16, 2007, effective on January 1, 2008 and last amended on December 29, 2018, and the Implementation Regulations for the Enterprise Income Tax Law of the PRC (《中华人民共和国企业所得税法实施条例》) promulgated by the State Council on December 6, 2007 and amended on April 23, 2019, other than a few exceptions, the income tax rate for both domestic enterprises and foreign-invested enterprises is 25%. Enterprise taxpayers are classified as either resident enterprises or non-resident enterprises. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto management bodies are located in China. Non-resident enterprise refers to an entity established under foreign law whose de facto management bodies are not within the PRC but which have an establishment or place of business in the PRC, or which do not have an establishment or place of business in the PRC but have income sourced within the PRC. An income tax rate of 10% will normally be applicable to dividends declared to non-PRC resident enterprise investors that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC.

Pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Incomes (《内地和香港特别行政区关于对所得避免双重征税和防止偷漏税的安排》), or the Double Tax Avoidance Arrangement, and other applicable PRC laws, 5% withholding tax rate shall apply to the dividends paid by a PRC company to a Hong Kong resident, provided that such Hong Kong resident directly holds at least 25% of the equity interests in the PRC company, and 10% of withholding tax rate shall apply if the Hong Kong resident holds less than 25% of the equity interests in the PRC company. However, pursuant to the Circular on Certain Issues Relating to the Implementation of Dividend Provisions in Tax Treaties (《关于执行税收协定股息条款有关问题的通知》) issued on February 20, 2009 by the SAT, if a PRC tax authority determines, in its discretion, that a company benefits from such reduced income tax rate as a result of an arrangement that is primarily tax-driven, such PRC tax authority may adjust the preferential tax treatment of the company. Based on the Announcement on Certain Issues with Respect to the Beneficial Owner in Tax Treaties (《国家税务总局关于税收协定中受益所有人有关问题的公告》) issued by the SAT on February 3, 2018 and effective on April 1, 2018, if an applicant's business activities do not constitute substantive business activities, it could result in the negative determination of the applicant's status as a beneficial owner, and consequently, the applicant could be precluded from enjoying the above-mentioned reduced income tax rate of 5% under the Double Tax Avoidance Arrangement.

### **C. Organizational Structure**

See “—A. History and Development of the Company.”

### **D. Property, Plants and Equipment**

See “—B. Business Overview—Properties and Facilities.”

#### **Item 4A. UNRESOLVED STAFF COMMENTS**

Not applicable.

#### **Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

The following discussion of our financial condition and results of operations is based upon and should be read in conjunction with our consolidated financial statements and their related notes included in this annual report. This report contains forward-looking statements. In evaluating our business, you should carefully consider the information provided under the caption “Item 3. Key Information—D. Risk Factors” in this annual report. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

### **A. Operating Results**

#### **Overview**

Through the PRC operating entities, we are a pharmaceutical company specializing in the development, manufacturing, marketing and sale of TCMD products targeted to the elderly to address their physical conditions in the aging process and to promote their general well-being. We have registered and obtained approval for 26 varieties of TCMD products from the NMPA, and we currently produce 13 varieties of TCMD products and sell them in 261 cities in 30 provinces in China as of the date of this annual report. In addition, we also sell biomedical drugs, medical instruments, TCMPs and dietary supplements manufactured by third-party pharmaceutical companies (collectively referred to as “third-party products”).

Our major customers are pharmaceutical companies, hospitals, clinics and drugstore chains, primarily located in Jiangxi Province, Jiangsu Province, Guangdong Province, Hubei Province, Fujian Province, Guangxi Province and Shandong Province, and 23 other provinces in China.

#### **Recent Development**

##### *Entry Into a Strategic Cooperation Agreement with a Japanese Pharmaceutical Company*

On December 1, 2021, we entered into definitive agreements (the “Agreements”) with Kitanihon Pharmaceutical Co., Ltd. (“Kitanihon”), a Japanese pharmaceutical company, pursuant to which (i) both parties will build a manufacturing facility in Ji’an, Jiangxi, China, for the manufacturing and research and development of traditional Chinese medicine derivatives products, with an aggregate area of over 430,000 square feet, and we will bear the costs associated with building the facility, and (ii) we will purchase 464 shares of Kitanihon for an aggregate of JPY176.32 million (approximately US\$1.56 million). As the date of this annual report, the building of manufacturing facility has not started, and we have not acquired the 464 shares of Kitanihon.

In relation to the Agreements, Sununion Holding Group Limited (“Sununion”), the controlling shareholder of the Company wholly owned by Mr. Gang Lai, the chief executive officer and chairman of the board of directors of the Company, entered into an agreement with Mr. Gang Lai and Kitanihon on December 1, 2021, pursuant to which



Kitanihon authorized the Company to use certain of its intangible assets, including technologies and certain intellectual properties, in exchange for which Mr. Gang Lai transferred 1,073,280 ordinary shares of Sununion owned by him and valued at US\$2.5 million to Kitanihon.

### *COVID-19 Impact*

Our business operations have been affected and may continue to be affected by the ongoing COVID-19 pandemic. In the fiscal year ended September 30, 2022, due to resurgence of COVID-19 pandemic in China and related restrictive measures, including travel restrictions, the PRC operating entities experienced delays in the receipt of purchased raw materials from suppliers and in delivering products to customers. The prices of the raw materials increased by about 5% as compared to the fiscal year ended September 30, 2021. In addition, we granted some customers extended payment terms of 30 days to 120 days. However, based on our present relationship with these customers and our evaluation of their financial conditions, we do not anticipate any material collectability problems. Although the Chinese government removed its zero-COVID policy in December 2022, China is now facing a sudden surge in COVID cases after easing the lockdown restrictions nationwide. WHO officials had expressed hope that COVID-19 might be entering an endemic phase by early 2023, but the continued uncertainties associated with the COVID-19 pandemic worldwide may cause our revenue and cash flows to underperform in the next 12 months from the date of this annual report. The extent of the future impact of the COVID-19 pandemic on our business and the results of operations is still uncertain.

### **Key Factors that Affect Our Results of Operations**

We believe the following key factors may affect our financial condition and results of operations:

#### ***Our Ability to Attract Additional Customers and Increase the Spending Per Customer***

Our major customers are pharmaceutical distributors, hospitals, clinics and drugstore chains. We currently sell our products to these customers in 261 cities in 30 provinces in China, with significant customers located in Jiangxi Province, Jiangsu Province, Guangdong Province, Hubei Province, Fujian Province, Guangxi Province and Shandong Province in China. For the years ended September 30, 2022, 2021 and 2020, we had a total of 2,651, 2,708, and 2,209 customers, respectively, and no single customer accounted for more than 10% of our total revenue of any of these fiscal years. However, our top 10 customers in the aggregate accounted for 32.2%, 30.4% and 33.3% of our total revenues for the years ended September 30, 2022, 2021 and 2020, respectively. Our dependence on a small number of larger customers could expose us to the risk of substantial losses if a single large customer stops purchasing our products, purchases fewer of our products or goes out of business and we cannot find substitute customers on equivalent terms. If any of our significant customers reduces the quantity of the products they purchase from us or stops purchasing from us, our net revenues would be materially and adversely affected. Therefore, the success of our business in the future depends on our effective marketing efforts to expand our distribution network including additional cities and rural areas in the PRC in an effort to increase our geographic appearance. The success of expansion will depend upon many factors, including our ability to form relationships with, and manage an increasing number of, customers base and optimize our distribution network. If our marketing efforts fail to convince customers to accept our products, we may find it difficult to maintain the existing level of sales or to increase such sales. Should this happen, our net revenues would decline and our growth prospectus would be severely impaired.

#### ***Our Ability to Increase Awareness of Our Brand and Develop Customer Loyalty***

Our brands, such as “Bai Nian Dan (百年丹)” and “Hu Zhuo Ren (胡卓仁)”, are well-recognized among our clients and other Chinese medicine industry players. Our brand is integral to our sales and marketing efforts. We believe that maintaining and enhancing our brand name recognition in a cost-effective manner is critical to achieving widespread acceptance of our current and future products and is an important element in our effort to increase our customer base.

Successful promotion of our brand name will depend largely on our marketing efforts and ability to provide reliable and quality products at competitive prices. Brand promotion activities may not necessarily yield increased revenue, and even if they do, any increased revenue may not offset the expenses we will incur in marketing activities. If we fail to successfully promote and maintain our brand, if we incur substantial expenses in an unsuccessful attempt to promote and maintain our brand, or if we fail to generate the desired level of brand recognition and awareness through our recent television advertising efforts, or at all, we may fail to attract new customers or retain our existing customers, in which case our business, operating results and financial condition, would be materially adversely affected.

#### ***Our Ability to Control Costs and Expenses and Improve Our Operating Efficiency***

Our business growth is dependent on our ability to attract and retain qualified and productive employees, identify business opportunities, secure new contracts with customers and our ability to control costs and expenses to improve our operating efficiency. Our inventory costs (including raw materials, labor, packaging cost, depreciation and amortization, freight costs, overhead and third-party products purchase costs) have a direct impact on our profitability. The raw materials used in manufacturing of our TCMD products are subject to price volatility and inflationary pressures. Our success is dependent, in part, on our ability to reduce our exposure to increase in those costs through a variety of ways, while maintaining and improving margins and market share. We also rely on third-party manufacturers as a source for a portion of components for a portion of components for our products. These manufacturers are also subject to price volatility and labor cost and other inflationary pressures, which may, in turn, result in an increase in the amount we pay for sourced products. Raw materials and sourced product price increases may offset our productivity gains and price increases and may adversely impact our financial results. In addition, our staffing costs (including payroll and employee benefit expense) and administrative expenses also have a direct impact on our profitability. Our ability to drive the productivity of our staff and enhance our operating efficiency affects our profitability. To the extent that the costs we are required to pay to our suppliers and our staffs exceed our estimates, our profit may be impaired. If we fail to implement initiatives to control costs and improve our operating efficiency over time, our profitability will be negatively impacted.

#### ***Our Ability to Compete Successfully***

The Chinese patent medicine industry we are in is highly competitive and evolving in China. The development and commercialization of new pharmaceutical products is highly competitive, and the industry currently is characterized by rapidly changing technologies, significant competition and a strong emphasis on intellectual property. We will face competition with respect to our current and future pharmaceutical product candidates from major pharmaceutical companies in China. Potential competitors also include academic institutions, government agencies and other public and private research organizations that conduct research, seek patent protection and establish collaborative arrangements for research, development, manufacturing and commercialization of pharmaceutical products. Some of our current or potential competitors may have significantly greater financial resources and expertise in research and development, manufacturing, product testing, obtaining regulatory approvals and marketing approved products than we do, and in the event that any of these happens, our competitors may be able to establish a strong market position before our new products are able to enter the market. Additionally, technologies developed by our competitors may render our product candidates uneconomical or obsolete. If we do not compete effectively, our operating results could be harmed.

#### ***A Severe or Prolonged Slowdown in the Global or Chinese Economy Could Materially and Adversely Affect Our Business and Our Financial Condition***

The rapid growth of the Chinese economy has slowed down since 2012 and this slowdown may continue in the future. There is considerable uncertainty over trade conflicts between the United States and China and 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. The withdrawal of these expansionary monetary

and fiscal policies could lead to a contraction. There continue to be concerns over unrest and terrorist threats in the Middle East, Europe, and Africa, which have resulted in volatility in oil and other markets. There are also concerns about the relationships between China and other Asian countries, which may result in or intensify potential conflicts in relation to territorial disputes. The eruption of armed conflict could adversely affect global or Chinese discretionary spending, either of which could have a material and adverse effect on our business, results of operation in financial condition. 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 would likely materially and adversely affect our business, results of operations and financial condition. In addition, continued turbulence in the international markets may adversely affect our ability to access capital markets to meet liquidity needs.

### ***COVID-19 Impact***

Our business operations have been affected and may continue to be affected by the ongoing COVID-19 pandemic. In the fiscal year ended September 30, 2022, due to resurgence of COVID-19 pandemic in China and related restrictive measures, including travel restrictions, the PRC operating entities experienced delays in the receipt of purchased raw materials from suppliers and in delivering products to customers. The prices of the raw materials increased by about 5% as compared to the fiscal year ended September 30, 2021. In addition, we granted some customers extended payment terms of 30 days to 120 days. However, based on our present relationship with these customers and our evaluation of their financial conditions, we do not anticipate any material collectability problems. Although the Chinese government removed its zero-COVID policy in December 2022, China is now facing a sudden surge in COVID cases after easing the lockdown restrictions nationwide. WHO officials had expressed hope that COVID-19 might be entering an endemic phase by early 2023, but the continued uncertainties associated with the COVID-19 pandemic worldwide may cause our revenue and cash flows to underperform in the next 12 months from the date of this annual report. The extent of the future impact of the COVID-19 pandemic on our business and the results of operations is still uncertain.

## **Key Financial Performance Indicators**

In assessing our financial performance, we consider a variety of financial performance measures, including principal growth in net revenue and gross profit, our ability to control costs and operating expenses to improve our operating efficiency and net income. Our review of these indicators facilitates timely evaluation of the performance of our business and effective communication of results and key decisions, allowing our business to respond promptly to competitive market conditions and different demands and preferences from our customers. The key measures that we use to evaluate the performance of our business are set forth below and are discussed in greater details under “— Results of Operations”:

### ***Net Revenue***

Our revenue is reported net of all value added taxes (“VAT”). Our products are sold with no right of return and we do not provide other credits or sales incentives to customers. Our revenue is driven by changes in the number of customers, sales volume, selling price, and mix of products sold.

	<b>For the Years Ended September 30,</b>			<b>Variance comparing 2022 to 2021</b>	<b>Variance comparing 2021 to 2020</b>
	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>%</b>	<b>%</b>
Revenue from sales of self-manufactured TCMD products	59.8%	61.6%	59.8%	(1.8)%	1.8%

Revenue from sales of third-party products	40.2%	38.4%	40.2%	1.8%	(1.8)%
Total revenue	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>		
Number of customers	<u>2,651</u>	<u>2,708</u>	<u>2,209</u>	<u>(2.1)%</u>	<u>22.6%</u>
Sales volume by unit- TCMD products	10,799,254	17,206,150	15,652,999	(37.2)%	9.9%
Sales volume by unit- third party products	9,226,027	8,364,391	8,763,577	10.3%	(4.6)%
Total sales volume	<u>20,025,281</u>	<u>25,570,541</u>	<u>24,416,576</u>	<u>(21.7)%</u>	<u>4.7%</u>
Average selling price per unit- TCMD products	\$ 2.22	\$ 1.72	\$ 1.17	29.1%	46.3%
Average selling price per unit- Third-party products	\$ 1.75	\$ 2.20	\$ 1.41	(20.5)%	79.6%

Revenues from sales of TCMD products manufactured by us accounted for 59.8%, 61.6% and 59.8% of our total revenues for the fiscal years ended September 30, 2022, 2021 and 2020, respectively. The 13 TCMD products manufactured by us fall into two categories: chronic condition treatments and cold and flu medications. Our chronic condition treatments primarily include Guben Yanling Pill, Shenrong Weisheng Pill, Quanlu Pill, Yangxue Danggui Syrup, Wuzi Yanzong Oral Liquid, Fengtong Medicinal Liquor, Shenrong Medicinal Liquor, Qishe Medicinal Liquor, Fengshitong Medicinal Liquor, and Shiquan Dabu Medicinal Liquor, and our cold and flu medications primarily include Paracetamol Granule for Children, Isatis Root Granule and Qiangli Pipa Syrup.

Sales volume of our TCMD products decreased by 6,406,896 units, or 37.2%, from 17,206,150 units sold in fiscal year 2021 to 10,799,254 units sold in fiscal year 2022. The decrease in our sales volume was due to our inability to timely fulfill the orders of our customer in 2022 due to the resurgence of COVID-19 cases in China, and accordingly our sales volume was negatively impacted in fiscal year 2022, which was lower than that of fiscal year 2021. The number of customers purchasing our products decreased by 2.1%, from 2,708 customers in the fiscal year 2021 to 2,651 customers in the fiscal year 2022. As affected by the inflation and increased costs of raw materials, we adjusted the selling prices of TCMD products accordingly. The average selling price of our TCMD products increased by 29.1%, from \$1.72 per unit in fiscal year 2021 to \$2.22 per unit in fiscal year 2022. These combined factors led to an 18.8% decrease in our revenue from sales of our TCMD products from fiscal year 2021 to fiscal year 2022.

Sales volume of our TCMD products increased by 1,553,151 units, or 9.9%, from 15,652,999 units sold in the fiscal year 2020 to 17,206,150 units sold in the fiscal year 2021. The number of customers purchasing our products increased by 22.6%, from 2,209 customers in the fiscal year 2020 to 2,708 customers in the fiscal year 2021. The increase in the number of customers in the fiscal year 2021 led to an increased number of customer orders for our products, resulting in increased sales volume of our TCMD products. Among the increase in total sales volume of 1,553,151 units, most of such increase related to our cold and flu medications because of strong market demand. The average selling price of our TCMD products increased by 46.3%, from \$1.17 per unit in the fiscal year 2020 to \$1.72 per unit in the fiscal year 2021, because we increased selling prices of our TCMD products in response to increased raw material costs and general inflation. These factors led to an increase in our revenue from sales of our TCMD products from the fiscal year 2020 to the fiscal year 2021.

In order to diversify our product offerings and product mix, in addition to selling self-manufactured TCMD products, we also sell products manufactured by third-party pharmaceutical companies, including (i) biomedical drugs, such as liquid glucose, prednisolone, and citicoline, (ii) medical instruments, such as drug-eluting stents, surgical tubes and

syringes, (iii) TCMPs, such as red sage tables, Longdan Xiegan pills, and Chinese skullcap capsules, and (iv) dietary supplements, such as vitamins, probiotic powder, and calcium tablets.

Revenues from sales of third-party products accounted for 40.2%, 38.4% and 40.2% of our total revenues for the fiscal years ended September 30, 2022, 2021 and 2020, respectively.

Sales volume of third-party products increased by 861,636 units or 10.3%, from 8,364,391 units sold in the fiscal year 2021 to 9,226,027 units sold in the fiscal year 2022, while the average selling price of third-party products decreased by 20.5% from \$2.20 per unit in the fiscal year 2021 to \$1.75 per unit in the fiscal year 2022 as affected by changes in product mix based on customer orders.

Sales volume of third-party products decreased by 399,186 units, or 4.6%, from 8,763,577 units sold in fiscal year 2020 to 8,364,391 units sold in fiscal year 2021, because we put more efforts in promoting the sales of our TCMD products in fiscal year 2021. The average selling price of third-party products increased by 79.6%, from \$1.41 per unit in fiscal year 2020 to \$2.20 per unit in fiscal year 2021, due to increased purchase costs of third-party products, as affected by the COVID-19 pandemic and general inflation, and the changes in product mix based on customer orders.

For future third-party product sales, our strategy is to select and distribute certain high-quality products with higher margin. We do not expect that the sales of third-party products will outpace the sales of our own TCMD products going forward.

### ***Gross Profit***

Gross profit is equal to net revenue minus cost of goods sold. Cost of goods sold primarily includes inventory costs (raw materials, labor, packaging cost, depreciation and amortization, third-party products purchase price, freight costs and overhead). Cost of goods sold generally changes as our production costs change, which are affected by factors including the market price of raw materials, labor productivity, or the purchase price of third-party products, and as the customer and product mix changes. Our cost of revenues accounted for 45.5%, 47.2% and 54.1% of our total revenue for the fiscal years 2022, 2021 and 2020, respectively. We expect our cost of revenues to increase as we further expand our operations in the foreseeable future.

Our gross margin was 54.5%, 52.8% and 45.9% for the years ended September 30, 2022, 2021 and 2020, respectively. Our gross profit and gross margin are affected by the different product mix of those products sold during each reporting period. Our gross margin increases when more products with lower costs and higher margin are sold, while our gross margin decreases when more products with higher costs and lower margin are sold. See detailed discussion under “– Results of Operation”.

### ***Operating Expenses***

Our operating expenses consist of selling expenses, general and administrative expenses and research and development expenses.

Our selling expenses primarily include salary and welfare benefit expenses paid to our sales personnel, advertising expenses to increase the awareness of our brand, shipping and delivery expenses, expenses incurred for our business travel, meals and other sales promotion and marketing activities related expenses. Our selling expenses accounted for 47.5%, 6.2% and 5.1% of our total revenue for the years ended September 30, 2022, 2021 and 2020, respectively. We expect our overall selling expenses, including but not limited to, advertising expenses, brand promotion expenses and salaries, to increase in the foreseeable future and facilitate the growth of our business, especially when we continue to expand our business and promote our products to customers located at extended geographic areas.

Our general and administrative expenses primarily consist of employee salaries, welfare and insurance expenses, depreciation, bad debt reserve expenses, inspection and maintenance expenses, office supply and utility expenses, business travel and meals expenses, land and property taxes and professional service expenses. General and administrative expenses were 6.5%, 6.9% and 5.5% of our revenue for the years ended September 30, 2022, 2021 and 2020, respectively. We expect our general and administrative expenses, including, but not limited to, salaries and

business consulting expenses, to continue to increase in the foreseeable future, as we plan to hire additional personnel and incur additional expenses in connection with the expansion of our business operations.

The Chinese patent medicine industry is characterized by rapid and frequent changes in customer demand and launches of new products. If we do not launch new products or improve our existing products to meet the changing demands of our customers in a timely manner, some of our products could become uncompetitive in the market, thereby adversely affecting on our revenues and operating results. Our research and development expenses primarily consist of salaries, welfare and insurance expenses paid to our employees involved in the research and development activities, materials and supplies used in the development and testing of new TCMD products, depreciation, and other miscellaneous expenses. Research and development expenses were 19.0%, 11.4% and 1.9% of our revenue for the years ended September 30, 2022, 2021 and 2020, respectively. As we continue to develop new products and diversify our product offerings to satisfy customer demand, we expect our research and development expenses to continue to increase in the foreseeable future.

### Results of Operations

The following table sets forth a summary of our consolidated results of operations for the periods presented, both in absolute amount and as a percentage of our total operating revenue for the years presented. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report. The results of operations in any period are not necessarily indicative of our future trends.

#### *Year ended September 30, 2022 compared to year ended September 30, 2021*

The following table summarizes the results of our operations during years ended September 30, 2022 and 2021, respectively, and provides information regarding the dollar and percentage increase or (decrease) during such periods.

	For the years ended September 30,					
	2022		2021		Variance	
	Amount	% of revenue	Amount	% of revenue	Amount	%
REVENUE	\$40,143,151	100.0%	\$47,982,031	100.0%	\$ (7,838,880)	(16.3)%
COST OF REVENUE	18,251,815	45.5%	22,655,854	47.2%	(4,404,039)	(19.4)%
GROSS PROFIT	21,891,336	54.5%	25,326,177	52.8%	(3,434,841)	(13.6)%
<b>OPERATING EXPENSES</b>						
Selling expenses	19,083,135	47.5%	2,973,531	6.2%	16,109,604	541.8%
General and administrative expenses	2,602,624	6.5%	3,296,844	6.9%	(694,220)	(21.1)%
Research and development expenses	7,644,375	19.0%	5,465,662	11.4%	2,178,713	39.9%
Total operating expenses	29,330,134	73.0%	11,736,037	24.5%	17,594,097	149.9%
<b>INCOME FROM OPERATIONS</b>						
	(7,438,798)	(18.5)%	13,590,140	28.3%	(21,028,938)	(154.7)%
<b>OTHER INCOME (EXPENSE)</b>						
Interest expense, net	(162,400)	(0.4)%	(101,604)	(0.2)%	(60,796)	59.8%
Other income (expense), net	48,940	0.1%	(80,434)	(0.1)%	129,374	(160.8)%

Income (loss) from short-term investments	(470,477)	(1.2)%	239,549	0.5%	(710,026)	(296.4)%
Equity investment income	<u>38,588</u>	<u>0.1%</u>	<u>30,827</u>	<u>0.1%</u>	<u>7,761</u>	<u>25.2%</u>
Total other income (expense), net	<u>(545,349)</u>	<u>(1.4)%</u>	<u>88,338</u>	<u>0.2%</u>	<u>(633,687)</u>	<u>(717.3)%</u>
INCOME (LOSS) BEFORE INCOME TAX	(7,984,147)	(19.9)%	13,678,478	28.5%	(21,662,625)	(158.4)%
PROVISION FOR INCOME TAXES	<u>752,419</u>	<u>1.9%</u>	<u>2,358,526</u>	<u>4.9%</u>	<u>(1,606,107)</u>	<u>(68.1)%</u>
NET INCOME (LOSS)	<u><u>\$ (8,736,566)</u></u>	<u><u>(21.8)%</u></u>	<u><u>\$11,319,952</u></u>	<u><u>23.6%</u></u>	<u><u>\$(20,056,518)</u></u>	<u><u>(177.2)%</u></u>

**Revenues:** Our total revenues decreased by \$7,838,880, or 16.3%, to \$40,143,151 for the year ended September 30, 2022 from \$47,982,031 for the year ended September 30, 2021. The decrease in our revenues was attributable to (i) a decreased number of customers by 2.1%, from 2,708 customers in the fiscal year 2021 to 2,651 customers in the fiscal year 2022; (ii) decreased sales volume of our TCMD products by 37.2%, from 17,206,150 units sold in the fiscal year 2021 to 10,799,254 units sold in the fiscal year 2022 due to our inability to timely fulfill the orders of our customer in 2022 due to the resurgence of COVID-19 cases in China; and (iii) decreased average selling price of our third-party products by 20.5% as affected by changes in product mix based on customer orders.

	For the Years Ended September 30,			
	2022	2021	Change	
	Amount	Amount	Amount	%
Revenue from sales of self-manufactured TCMD products	\$23,988,177	\$29,559,286	\$(5,571,109)	(18.8)%
Revenue from sales of third-party products	<u>16,154,974</u>	<u>18,422,745</u>	<u>(2,267,771)</u>	<u>(12.3)%</u>
Total revenue	<u><u>\$40,143,151</u></u>	<u><u>\$47,982,031</u></u>	<u><u>\$(7,838,880)</u></u>	<u><u>(16.3)%</u></u>

***Revenue from sales of our TCMD products***

Sales of our TCMD products decreased by \$5,571,109, or 18.8%, from \$29,559,286 in the fiscal year 2021 to \$23,988,177 in the fiscal year 2022. The decrease in the sales of our TCMD products was due to the following reasons:

- Due to the resurgence in the number of COVID cases in China recently, which disrupted the normal functioning of logistics in the country, we experienced difficulties shipping and delivering our products to customers located in certain remote geographic areas. This led to lower sales volume of our TCMD products by 37.2% in the fiscal year 2022 as compared to the fiscal year 2021. The sales volume of our TCMD products decreased by 6,406,896 units from 17,206,150 units in the fiscal year 2021 to 10,799,254 units in the fiscal year 2022.
- The COVID-19 pandemic led to disruptions of supply chain and transportation and an overall increase in the market prices of raw materials used in manufacturing of our TCMD products. Accordingly, we adjusted the selling prices of our TCMD products in response to the increase in raw material purchase costs and general inflation. The weighted average unit selling price of our TCMD products increased by \$0.50 per unit, or 29.1%, from \$1.72 per unit in the fiscal year 2021 to \$2.22 per unit in the fiscal year 2022.

***Revenue from sales of third-party products***

Sales of third-party products decreased by \$2,267,771, or 12.3%, from \$18,422,745 in the fiscal year 2021 to \$16,154,974 in the fiscal year 2022. Sales volume of third-party products increased by 10.3%, from 8,364,391 units sold in the fiscal year 2021 to 9,226,027 units sold in the fiscal year 2022. In addition, due to change in product mix, the weighted average selling price of third-party products decreased by \$0.45 per unit, or 20.5%, from \$2.20 per unit in the fiscal year 2021 to \$1.75 per unit in the fiscal year 2022.

**Cost of Revenues.** Our cost of revenues primarily consists of inventory costs (raw materials, labor, packaging cost, depreciation and amortization, third-party products purchase price, freight costs and overhead) and business tax. Cost of revenues generally changes as our production costs change, which are affected by factors including the market price of raw materials, labor productivity, or the purchase price of third-party products, and as the customer and product mix changes.

	For the years ended September 30,			
	2022	2021	Change	
	Amount	Amount	Amount	%
Cost of revenue- TCMD products	\$ 8,187,182	\$11,162,847	\$(2,975,665)	(26.7)%
Cost of revenue- third-party products	10,064,633	11,493,007	(1,428,374)	(12.4)%
Total cost of revenue	<u>\$18,251,815</u>	<u>\$22,655,854</u>	<u>\$(4,404,039)</u>	<u>(19.4)%</u>

Our cost of revenues decreased by \$4,404,039, or 19.4%, from \$22,655,854 in the fiscal year 2021 to \$18,251,815 in the fiscal year 2022. The decrease in our cost of revenues was primarily due to decreased sales volume and increased raw material and third-party product purchase costs.

#### **Cost of revenues of TCMD products**

Cost of revenues of TCMD products accounted for 44.9% and 49.3% of our total costs of revenues for fiscal year 2022 and 2021, respectively. Cost of revenues of TCMD products decreased by \$2,975,665, or 26.7%, from \$11,162,847 in the fiscal year 2021 to \$8,187,182 in the fiscal year 2022. The decrease in cost of revenues of our TCMD products was due to the following reasons:

- (1) Sales volume of TCMD products decreased by 37.2%, from 17,206,150 units sold in the fiscal year 2021 to 10,799,254 units sold in the fiscal year 2022. Due to recent resurgence of the COVID-19 pandemic and related transportation and travel restrictions, we experienced difficulties shipping and delivering our products to customers located in certain remote geographic areas. These factors led to lower sales volume of our TCMD products in the fiscal year 2022 as compared to the fiscal year 2021. As sales volume decreased in the fiscal year 2022, raw materials, labor, packaging, freight and overhead costs associated with our TCMD product sales also decreased.

- (2) As a result of inflation and increased market prices of raw materials, the average per unit cost of our TCMD products increased by \$0.11, or 16.9%, from \$0.65 per unit in the fiscal year 2021 to \$0.76 per unit in the fiscal year 2022. Among the 13 varieties of TCMD products, cost of revenues of Guben Yanling Pill, one of our key products, accounted for 20.0% and 23.3% of our total cost of revenues in fiscal year 2022 and 2021, respectively. Unit production costs of Guben Yanling Pill increased by \$0.30 per unit or 25.7% from \$1.15 per unit in the fiscal year 2021 to \$1.45 per unit in the fiscal year 2022.

The decrease in the cost of revenues of our TCMD products in the fiscal year 2022 as compared to the fiscal year 2021 reflected the above-mentioned factors combined.



### *Cost of revenues of third-party products*

Cost of revenues of third-party products accounted for 55.1% and 50.7% of our total costs of revenues for the fiscal years 2022 and 2021, respectively. Cost of revenues of third-party products decreased by \$1,428,374, or 12.4%, from \$11,493,007 in the fiscal year 2021 to \$10,064,633 in the fiscal year 2022, because of a decrease in the average unit cost of third-party products by \$0.29 per unit, or 21.0%, from \$1.38 per unit in the fiscal year 2021 to \$1.09 per unit in the fiscal year 2022. Sales volume of third-party products increased by 10.3%, from 8,364,391 units sold in the fiscal year 2021 to 9,226,027 units sold in the fiscal year 2022.

These factors led to the decrease in cost of revenues associated with third-party product sales in the fiscal year 2022 as compared to the fiscal year 2021.

### *Gross profit*

Our gross profit decreased by \$3,434,841, from \$25,326,177 in the fiscal year 2021 to \$21,891,336 in the fiscal year 2022. Our gross margin increased by 1.7% from 52.8% in the fiscal year 2021 to 54.5% in the fiscal year 2022.

	For the years ended September 30,			
	2022	2021	Change	
	Amount	Amount	Amount	%
Gross profit- TCMD products	\$15,800,995	\$18,396,439	\$(2,595,444)	(14.1)%
Gross profit- third-party products	6,090,341	6,929,738	(839,397)	(12.1)%
Total gross profit	<u>\$21,891,336</u>	<u>\$25,326,177</u>	<u>\$(3,434,841)</u>	<u>(13.6)%</u>
Gross margin- TCMD products	65.9%	62.2%		3.7%
Gross margin- third party products	37.7%	37.6%		0.1%
Total gross margin	<u>54.5%</u>	<u>52.8%</u>		<u>1.7%</u>
Average selling price per unit- TCMD products	\$ 2.22	\$ 1.72	\$ 0.50	29.1%
Average cost per unit- TCMD products	\$ 0.76	\$ 0.65	\$ 0.11	16.9%
Average selling price per unit- third party products	\$ 1.75	\$ 2.20	\$ (0.45)	(20.5)%
Average cost per unit - third party products	\$ 1.09	\$ 1.38	\$ (0.29)	(21.0)%

Gross profit from the sales of our TCMD products decreased by \$2,595,444, or 14.1%, from \$18,396,439 in the fiscal year 2021 to \$15,800,995 in the fiscal year 2022, and the gross margin of our TCMD products increased by 3.7%, from 62.2% in the fiscal year 2021 to 65.9% in the fiscal year 2022. The decrease in our gross profit from the sales of TCMD products was due to the following reasons: (i) as discussed above, sales volume of TCMD products decreased by 37.2%, from 17,206,150 units sold in the fiscal year 2021 to 10,799,254 units sold in the fiscal year 2022, because we experienced difficulties shipping and delivering our products to our customers in a timely manner due to recent resurgence of the COVID-19 pandemic and related transportation and travel restrictions; and partially offset by (ii) an increase in the weighted average unit selling price of our TCMD products by \$0.50 per unit, or 29.1%, from \$1.72 per unit in the fiscal year 2021 to \$2.22 per unit in the fiscal year 2022, while the average per unit cost of our TCMD products increased by \$0.11, or 16.9%, from \$0.65 per unit in the fiscal year 2021 to \$0.76 per unit in the fiscal year 2022. During the fiscal year 2022, as a result of the decrease in sales volume, our gross profit associated with the sales of Guben Yanling Pill and Shengrong Weisheng Pill decreased by \$633,436 and \$709,133 respectively, as compared to the fiscal year 2021.

Gross profit from third-party product sales decreased by \$839,397, or 12.1%, from \$6,929,738 in the fiscal year 2021 to \$6,090,341 in the fiscal year 2022, while the gross margin of third-party product sales slightly increased by 0.1%, from 37.6% in the fiscal year 2021 to 37.7% in the fiscal year 2022. The average unit selling price of third-party products decreased by 20.5%, or \$0.45 per unit, while the average unit cost of third-party products also decreased by 21.0%, or \$0.29 per unit. The decrease in the average selling price outpaced the decrease in average unit cost of third-party products by \$0.16 per unit. The decrease in our gross profit from third-party products was affected by changes

in sales of different product mix in the fiscal year 2022 as compared to the fiscal year 2021. For example, the largest portion of decrease in gross profit of third-party products was associated with sales of biochemical drugs products, which decreased by \$779,342 when sales volume decreased by 10.3%. For future third-party product sales, our strategy is to select and distribute certain high-quality products with higher margin. We do not expect that the sales of third party products will outpace the sales of our own TCMD products going forward.

### *Operating expenses*

The following table sets forth the breakdown of our operating expenses for the fiscal years ended September 30, 2022 and 2021:

	For the years ended September 30,					
	2022		2021		Variance	
	Amount	% of revenue	Amount	% of revenue	Amount	%
<b>Total revenue</b>	<b>\$40,143,151</b>	<b>100.0%</b>	<b>\$47,982,031</b>	<b>100.0%</b>	<b>\$ (7,838,880)</b>	<b>(16.3)%</b>
Operating expenses:						
Selling expenses	19,083,135	47.5%	2,973,531	6.2%	16,109,604	541.8%
General and administrative expenses	2,602,624	6.5%	3,296,844	6.9%	(694,220)	(21.1)%
Research and development expenses	7,644,375	19.0%	5,465,662	11.4%	2,178,713	39.9%
<b>Total operating expenses</b>	<b>\$29,330,134</b>	<b>73.1%</b>	<b>\$11,736,037</b>	<b>24.5%</b>	<b>\$17,594,097</b>	<b>149.9%</b>

### *Selling expenses*

Our selling expenses primarily include salaries and welfare benefit expenses paid to our sales personnel, advertising expenses to increase our brand awareness, shipping and delivery expenses, expenses incurred for our business travel and meals, and other sales promotion and marketing activities related expenses.

	For the years ended September 30,					
	2022		2021		Variance	
	Amount	%	Amount	%	Amount	%
Salary and employee benefit expenses	\$ 778,656	4.1%	\$ 859,436	28.9%	\$ (80,780)	(9.4)%
Advertising expenses	17,527,318	91.8%	1,316,654	44.3%	16,210,664	1231.2%
Shipping and delivery expenses	638,286	3.3%	701,997	23.6%	(63,711)	(9.1)%
Business travel and meals expenses	125,553	0.7%	78,565	2.6%	46,988	59.8%
Other sales promotion related expenses	13,322	0.1%	16,879	0.6%	(3,557)	(21.1)%
<b>Total selling expenses</b>	<b>\$19,083,135</b>	<b>100.0%</b>	<b>\$2,973,531</b>	<b>100.0%</b>	<b>\$16,109,604</b>	<b>541.8%</b>

Our selling expenses increased by \$16,109,604, or 541.8%, from \$2,973,531 in the fiscal year 2021 to \$19,083,135 in the fiscal year 2022, primarily attributable to (i) an increase in advertising expenses by \$16,210,664, or 1,231.2%, from \$1,316,654 in the fiscal year 2021 to \$17,527,318 in the fiscal year 2022. In September 2021, we entered into an advertising service agreement with a third party, Guangdong Fengyang Legend Consulting Co., Ltd. (“Fengyang Legend”), pursuant to which, Fengyang Legend agreed to assist us in developing and producing a TV advertisement

for promoting the sales of our major TCMD products, Bai Nian Dan and Guben Yanling Pill, and coordinating with a TV channel to broadcast the advertisement to targeted geographic market areas. In March 2022, we entered into an advertising service agreement with a third-party, Health Headline, pursuant to which, Health Headline provided media advertising services to promote our brand on the Health Headline website and mobile app, with a service period of ten months from March 1, 2022 to December 31, 2022. The advertising form, release cycle and monthly payment depended on the Company's monthly budget. We recognized \$17,501,148 in advertising expense related to these advertising service agreements during the fiscal year 2022; (ii) business travel and meals expense increased by \$46,988 or 59.8%, from \$78,565 in the fiscal year 2021 to \$125,553 in the fiscal year 2022, primarily due to our increased sales activities during the fiscal year 2022; partially offset by (iii) salary and employee benefit expenses decreased by \$80,780, or 9.4% due to decreased sale commission during the fiscal year 2022; and (iv) shipping and delivery expenses decreased by \$63,711, or 9.1% due to our decreased sales volume during the fiscal year 2022. These above-mentioned factors combined led to the increase in our selling expenses in the fiscal year 2022 as compared to the fiscal year 2021. As a percentage of revenues, our selling expenses accounted for 47.5% and 6.2% of our total revenue for the fiscal years 2022 and 2021, respectively.

### *General and Administrative Expenses*

Our general and administrative expenses primarily consist of employee salaries, welfare and insurance expenses, depreciation, bad debt reserve expenses, inspection and maintenance expenses, office supply and utility expenses, business travel and meals expenses, land and property taxes and professional service expenses.

	For the years ended September 30,					
	2022		2021		Variance	
	Amount	%	Amount	%	Amount	%
Salary and employee benefit expense	\$ 641,622	24.7%	\$ 657,543	19.9%	\$ (15,921)	(2.4)%
Depreciation and amortization	185,169	7.1%	172,453	5.2%	12,716	7.4%
Bad debt reserve expenses (recovery)	419,353	16.1%	(230,175)	(7.0)%	649,528	(282.2)%
Land and property tax	103,769	4.0%	104,451	3.2%	(682)	(0.7)%
Office supply and utility expense	307,883	11.8%	376,204	11.4%	(68,321)	(18.2)%
Transportation, business travel and meals expense	83,029	3.2%	68,047	2.1%	14,982	22.0%
Consulting fee	720,430	27.7%	1,967,858	59.7%	(1,247,428)	(63.4)%
Inspection and maintenance fee	39,555	1.5%	60,939	1.8%	(21,384)	(35.1)%
Stamp tax and other expenses	101,814	3.9%	119,524	3.6%	(17,710)	(14.8)%
Total general and administrative expenses	<u>\$2,602,624</u>	<u>100.0%</u>	<u>\$3,296,844</u>	<u>100.0%</u>	<u>\$ (694,220)</u>	<u>(21.1)%</u>

Our general and administrative expenses decreased by \$694,220, or 21.1%, from \$3,296,844 in the fiscal year 2021 to \$2,602,624 in the fiscal year 2022, primarily attributable to (i) a decrease in consulting fees by \$1,247,428 because we incurred higher amount of consulting services fees such as legal and audit expenses in the fiscal year 2021 when we completed our initial public offering (the "IPO"); partially offset by (ii) an increase in bad debt expense by \$649,528 or 282.2% because we accrued more bad debt expenses based on our assessment of the collectability of the accounts receivable and advance to suppliers. The overall decrease in our general and administrative expenses in the fiscal year 2022 as compared to the fiscal year 2021 reflected the above-mentioned factors combined. As a percentage of revenues, general and administrative expenses were 6.5% and 6.9% of our revenue for the fiscal years 2022 and 2021, respectively.

### ***Research and development expenses***

Our research and development expenses primarily consist of salaries, welfare and insurance expenses paid to our employees involved in the research and development activities, materials and supplies used in the development and testing new TCMD products, depreciation and other miscellaneous expenses.

	For the years ended September 30,					
	2022		2021		Variance	
	Amount	%	Amount	%	Amount	%
Salary and employee benefit expenses to R&D staff	\$ 159,924	2.1%	\$ 155,940	2.9%	\$ 3,984	2.6%
Materials used in R&D activities	489,692	6.4%	836,710	15.3%	(347,018)	(41.5)%
Expenditure on new product development	6,973,683	91.2%	4,454,400	81.5%	2,519,283	56.6%
Depreciation and others	21,076	0.3%	18,612	0.3%	2,464	13.2%
Total R&D expenses	<u>\$7,644,375</u>	<u>100.0%</u>	<u>\$5,465,662</u>	<u>100.0%</u>	<u>\$2,178,713</u>	<u>39.9%</u>

Research and development expenses increased by \$2,178,713, or 39.9%, from \$5,465,662 for the fiscal year 2021 to \$7,644,375 for the fiscal year 2022, primarily attributable to (i) an increase in research and development expense of \$2,519,283 in order to develop and test eight new Chinese medicine products in order to diversify our future product portfolio. In the fiscal year 2021, we entered into several cooperative agreements with external academic and research institutions to jointly conduct the new product development and accordingly incurred significant amount of R&D expense in connection with such efforts; and partially offset by (ii) a decrease in the materials used in the R&D activities by \$347,018 as we outsourced part of our R&D activities to external academic and research institutions. As a percentage of revenues, research and development expenses were 19.0% and 11.4% of our revenue in the fiscal years 2022 and 2021, respectively.

### ***Other income (expenses), net***

Total other expenses, net, was \$545,349 in the fiscal year 2022, compared to a net other income of \$88,338 in the fiscal year 2021, due to the following reasons:

- (i) our short-term investment loss was \$470,477 in the fiscal year 2022, compared to short-term investment income of \$239,549 in the fiscal year 2021. We had short-term investments of \$13.1 million in wealth management financial products from financial institutions to generate investment income, which suffered temporary loss due to fluctuations of the bond market. Such short-term investment can be redeemed anytime at our discretion and is highly liquid.
- (ii) interest expenses increased by \$60,796, or 59.8%, from \$101,604 in the fiscal year 2021 to \$162,400 in the fiscal year 2022. The increase in our interest expenses was due to higher weighted average amount of outstanding loans we carried during the fiscal year 2022 as compared to the fiscal year 2021.

### ***Provision for Income Taxes***

Our provision for income taxes was \$752,419 in the fiscal year 2022, a decrease of \$1,606,107, or 68.1%, from \$2,358,526 in the fiscal year 2021 due to our decreased taxable income. Under the EIT Law, domestic enterprises and foreign investment enterprises are usually subject to a unified 25% enterprise income tax rate while preferential tax rates, tax holidays and even tax exemption may be granted on a case-by-case basis. The EIT Law grants preferential tax treatment to HNTEs. Under this preferential tax treatment, HNTEs are entitled to an income tax rate of 15%,

subject to a requirement that they re-apply for their HNTE status every three years. Jiangxi Universe, one of our main operating subsidiaries in the PRC, was approved as an HNTE and was entitled to a reduced income tax rate of 15% beginning November 2016 with an initial term of three years. Jiangxi Universe's HNTE status was successfully renewed in December 2019 and November 2022 for a term of three additional years. Universe Trade, the wholly owned subsidiary of Jiangxi Universe, was approved as an HNTE and was entitled to a reduced income tax rate of 15% beginning December 2020 with an initial term of three years. The EIT Law is typically enforced by the local tax authorities in the PRC. Each local tax authority has the discretion to grant tax holidays to local enterprises as a way to encourage entrepreneurship and stimulate local economy. The corporate income taxes for the fiscal years 2022 and 2021 were reported at a blended reduced rate since Jiangxi Universe and Universe Trade enjoy a 15% reduced income tax rate due to their HNTE status, and Universe Hanhe, the wholly owned subsidiary of Jiangxi Universe, is subject to a standard 25% income tax rate. The impact of the tax holidays noted above decreased PRC corporate income taxes by \$694,955 and \$1,518,979 for the years ended September 30, 2022, and 2021, respectively. The benefit of the tax holidays on net income per share (basic and diluted) \$0.03 and \$0.09 for the years ended September 30, 2022 and 2021, respectively.

### *Net Income*

As a result of the foregoing, we reported a net loss of \$8,736,566 for the fiscal year ended September 30, 2022, representing a decrease of \$20,056,518 from a net income of \$11,319,952 for the fiscal year ended September 30, 2021.

### *Year ended September 30, 2021 compared to year ended September 30, 2020*

	For the years ended September 30,					
	2021		2020		Variance	
	Amount	% of revenue	Amount	% of revenue	Amount	%
REVENUE	\$47,982,031	100.0%	\$30,703,960	100.0%	\$17,278,071	56.3%
COST OF REVENUE	22,655,854	47.2%	16,610,140	54.1%	6,045,714	36.4%
GROSS PROFIT	25,326,177	52.8%	14,093,820	45.9%	11,232,357	79.7%
<b>OPERATING EXPENSES</b>						
Selling expenses	2,973,531	6.2%	1,555,546	5.1%	1,417,985	91.2%
General and administrative expenses	3,296,844	6.9%	1,703,424	5.5%	1,593,420	93.5%
Research and development expenses	5,465,662	11.4%	583,125	1.9%	4,882,538	837.3%
Total operating expenses	11,736,037	24.5%	3,842,095	12.5%	7,893,942	205.5%
INCOME FROM OPERATIONS	13,590,140	28.3%	10,251,725	33.4%	3,338,415	32.6%
<b>OTHER INCOME (EXPENSE)</b>						
Interest expense, net	(101,604)	(0.2)%	(123,760)	(0.4)%	22,156	(17.9)%
Other income, net	(80,434)	(0.1)%	(49,352)	(0.2)%	(9,594)	19.4%
Income from short-term investments	239,549	0.5%	-	0.0%	239,549	100.0%
Equity investment income	30,827	0.1%	21,820	0.1%	9,007	41.3%
Total other expense, net	88,338	0.2%	(151,292)	(0.5)%	239,630	(158.4)%
INCOME BEFORE INCOME TAX	13,678,478	28.5%	10,100,433	32.9%	3,578,045	35.4%

PROVISION FOR INCOME						
TAXES	<u>2,358,526</u>	<u>4.9%</u>	<u>2,542,211</u>	<u>8.3%</u>	<u>(183,685)</u>	<u>(7.2)%</u>
NET INCOME	<u>\$11,319,952</u>	<u>23.6%</u>	<u>\$ 7,558,222</u>	<u>24.6%</u>	<u>\$ 3,761,730</u>	<u>49.8%</u>

**Revenue:** Our total revenues increased by \$17,278,071, or 56.3%, to \$47,982,031 for the year ended September 30, 2021 from \$30,703,960 for the year ended September 30, 2020. The increase in our revenues was attributable to (i) an increased number of customers by 22.6%, from 2,209 customers in fiscal year 2020 to 2,708 customers in fiscal year 2021; (ii) increased sales volume of our TCMD products by 9.9%, from 15,652,999 units sold in fiscal year 2020 to 17,206,150 units sold in fiscal year 2021; (iii) increased average selling price of our TCMD products by 46.3% and increased average selling price of third-party products by 79.6%, in response to increased raw material costs and third-party products purchase costs as affected by the COVID-19 pandemic and general inflation; and (vi) an appreciation of RMB against U.S. dollars in fiscal year 2021, with the average exchange rate between RMB and US\$ being US\$1.00 to RMB 7.0077 in fiscal year 2020, as compared to that of US\$1.00 to RMB 6.5104 in fiscal year 2021. The appreciation of RMB against US\$ had a 7.1% positive impact on our reported total revenues.

	For the Years Ended September 30,			
	2021	2020	Change	
	Amount	Amount	Amount	%
Revenue from sales of self-manufactured TCMD products	\$29,559,286	\$18,374,751	\$11,184,535	60.9%
Revenue from sales of third-party products	18,422,745	12,329,209	6,093,536	49.4%
Total revenue	<u>\$47,982,031</u>	<u>\$30,703,960</u>	<u>\$17,278,071</u>	<u>56.3%</u>

#### ***Revenue from sales of our TCMD products***

Sales of our TCMD products increased by \$11,184,535, or 60.9%, from \$18,374,751 in fiscal year 2020 to \$29,559,286 in fiscal year 2021, because the sales volume of our TCMD products increased by 9.9% from 15,652,999 units sold in fiscal year 2020 to 17,206,150 units sold in fiscal year 2021, and the average selling price of our TCMD products increased by 46.3% from \$1.17 per unit in fiscal year 2020 to \$1.72 per unit in fiscal year 2021. The increase in the sales of our TCMD product was due to the following specific reasons:

- Among the 13 varieties of TCMD products we manufacture, the sales of Guben Yanling Pill, one of our key Chronic Condition Treatment products, accounted for 40.3% and 38.2% of our total revenue in fiscal year 2021 and 2020, respectively. The sales of Guben Yanling Pill increased by \$6,702,397, or 494,932 units from fiscal year 2020 to fiscal year 2021.
- The number of customers purchasing our products increased by 22.6%, from 2,209 customers in fiscal year 2020 to 2,708 customers in fiscal year 2021. The increase in the number of customers led to an increase in the number of customer orders for our products, resulting increased sales volume of our TCMD products.
- Sales of our flu and cold medication products (including Qiangli Pipa Syrup and Paracetamol Granule For Children) increased in fiscal year 2021 due to strong market demand. Sales volume of our Qiangli Pipa Syrup and Paracetamol Granule For Children increased by 964,266 units and 1,297,349 units, respectively, in fiscal year 2021 as compared to fiscal year 2020. On the other hand, as affected by inflation and increased market prices of raw materials, we adjusted our selling prices and the average selling price of our Qiangli Pipa Syrup, Isatis Root Granule and Paracetamol Granule For Children increased by \$0.20 per unit, \$0.22 per unit and \$0.09 per unit, or 41.5%, 34.8% and 32.5%, respectively, in fiscal year 2021 compared to fiscal year 2020.



- d) The average exchange rate between RMB and US\$ was US\$1.00 to RMB 7.0077 in fiscal year 2020 as compared to an average rate of US\$1.00 to RMB 6.5104 in fiscal year 2021. The appreciation of RMB against US\$ had a 7.1% positive impact on our reported total revenues.

### ***Revenue from sales of third-party products***

Sales of third-party products increased by \$6,093,536, or 49.4%, from \$12,329,209 in fiscal year 2020 to \$18,422,745 in fiscal year 2021. Sales volume of third-party products slightly decreased by 4.6%, from 8,763,577 units sold in 2020 to 8,364,391 units sold in 2021. In 2021, due to an overall increase in the market prices of raw materials used in the manufacturing of third-party products, we paid higher purchase prices for products from third-party pharmaceutical companies and accordingly, our average selling price of third-party products in fiscal year 2021 was higher than in fiscal year 2020. Our average selling price of third-party products increased by 79.6%, from \$1.41 per unit in fiscal year 2020 to \$2.20 per unit in fiscal year 2021. Among the total sales of third-party products, sales of biochemical drugs increased by 44.7%, or \$4,968,438, from \$10,325,411 in fiscal year 2020 to \$16,082,546 in fiscal year 2021, because of a 51.7% increase in average selling price, while changes in sales of traditional Chinese medicine pieces, medical instruments, and dietary supplements from fiscal year 2020 to fiscal year 2021 were relatively immaterial. In addition, the average exchange rate between RMB and US\$ was US\$1.00 to RMB 7.0077 in fiscal year 2020, as compared to an average rate of US\$1.00 to RMB 6.5095 in fiscal year 2021. The appreciation of RMB against US\$ had a 7.1% positive impact on our reported revenue from sales of third-party products.

***Cost of Revenues.*** Our cost of revenues primarily consists of inventory costs (raw materials, labor, packaging cost, depreciation and amortization, third-party products purchase price, freight costs and overhead) and business tax. Cost of revenues generally changes as our production costs change, which are affected by factors including the market price of raw materials, labor productivity, or the purchase price of third-party products, and as the customer and product mix changes.

	<b>For the years ended September 30,</b>			
	<b>2021</b>	<b>2020</b>	<b>Change</b>	
	<b>Amount</b>	<b>Amount</b>	<b>Amount</b>	<b>%</b>
Cost of revenue- TCMD products	\$11,162,847	\$ 8,581,939	\$2,580,908	30.1%
Cost of revenue- third-party products	11,493,007	8,028,200	3,464,807	43.2%
<b>Total cost of revenue</b>	<b>\$22,655,854</b>	<b>\$16,610,140</b>	<b>\$6,045,714</b>	<b>36.4%</b>

Our cost of revenues increased by \$6,045,714, or 36.4%, from \$16,610,140 in fiscal year 2020 to \$22,655,854 in fiscal year 2021. The increase in our cost of revenues was primarily due to increased sales volume, increased raw material and third-party product purchase costs, and a 7.1% exchange rate impact as discussed in more details below.

### ***Cost of revenues of TCMD products***

Cost of revenues of TCMD products accounted for 49.3% and 51.7% of our total costs of revenues for the years ended September 30, 2021 and 2020, respectively. Cost of revenues of TCMD products increased by \$2,580,908, or 30.1%, from \$8,581,939 in fiscal year 2020 to \$11,162,847 in fiscal year 2021. The increase in cost of revenues of our TCMD products was due to the following reasons:

- (1) The sales volume of TCMD products increased by 9.9%, from 15,652,999 units sold in fiscal year 2020 to 17,206,150 units sold in fiscal year 2021. As sales volume increased in fiscal year 2021, raw materials, labor, packaging, freight and overhead costs associated with our TCMD product sales also increased.

- (2) As a result of inflation and increased market prices of raw materials, the average per unit cost of our TCMD products increased by \$0.10, or 9.9%, from \$0.55 per unit in fiscal year 2020 to \$0.65 per unit in fiscal year 2021. Among the 13 varieties of TCMD products, cost of revenues of Guben Yanling Pill, one of our key products, accounted for 23.3% and 22.7% of our total cost of revenues in fiscal years 2021 and 2020, respectively. Costs of Guben Yanling Pill increased by \$1,229,987 in fiscal year 2021 as compared to fiscal year 2020, when sales volume of Guben Yanling Pill increased by 12.1%. In addition, unit production cost of Qiangli Pipa Syrup and Paracetamol Granule for Children increased by 43.2% and 51.4%, respectively, in fiscal year 2021 as compared to fiscal year 2020, due to increased raw material costs, which led to corresponding increases in cost of revenues associated with these TCMD products, by \$610,916 and \$451,504, respectively.
- (3) The average exchange rate between RMB and US\$ was US\$1.00 to RMB 7.0077 in fiscal year 2020 as compared to an average rate of US\$1.00 to RMB 6.5104 in fiscal year 2021.

The appreciation of RMB against US\$ had a 7.1% positive impact on our cost of revenues from sales of TCMD products. The increase in our cost of revenues of our TCMD products in fiscal year 2021 as compared to fiscal year 2020 reflected the above-mentioned factors combined.

### *Cost of revenues of third-party products*

Cost of revenues of third-party products accounted for 50.7% and 48.2% of our total costs of revenues for the years ended September 30, 2021 and 2020, respectively. Cost of revenues of third-party products increased by \$3,464,807, or 43.2%, from \$8,028,200 in fiscal year 2020 to \$11,493,007 in 2021, because of an increase in average unit cost of third-party products by \$0.79 per unit, or 79.6%, from \$1.41 per unit in 2020 to \$2.20 per unit in fiscal year 2021, offset by a decrease in sales volume of third-party products by 4.6%. In fiscal year 2021, due to an overall increase in the market prices of raw materials used in the manufacturing of third-party products, we sourced third-party products at higher prices from third-party pharmaceutical companies. In addition, the average exchange rate between RMB and US\$ was US\$1.00 to RMB 7.0077 in fiscal year 2020 as compared to an average rate of US\$1.00 to RMB 6.5104 in fiscal year 2021. The appreciation of RMB against US\$ had a 7.1% positive impact on our cost of revenues from sales of third-party products. These factors led to the increase in cost of revenues associated with third-party product sales in fiscal year 2021 as compared to fiscal year 2020.

### *Gross profit*

Our gross profit increased by \$11,232,356, from \$14,093,821 in the fiscal year 2020 to \$25,326,177 in the fiscal year 2021. Our gross margin increased by 6.9% from 45.9% in fiscal year 2020 to 52.8% in the fiscal year 2021.

	<b>For the years ended September 30,</b>			
	<b>2021</b>	<b>2020</b>	<b>Change</b>	
	<b>Amount</b>	<b>Amount</b>	<b>Amount</b>	<b>%</b>
Gross profit- TCMD products	\$18,396,439	\$ 9,792,811	\$ 8,603,627	87.9%
Gross profit- third-party products	6,929,738	4,301,009	2,628,729	61.1%
<b>Total gross profit</b>	<b>\$25,326,177</b>	<b>\$14,093,820</b>	<b>\$11,232,356</b>	<b>79.7%</b>
Gross margin- TCMD products	62.2%	53.3%		8.9%
Gross margin- third party products	37.6%	34.9%		2.7%
<b>Total gross margin</b>	<b>52.8%</b>	<b>45.9%</b>		<b>6.9%</b>



Average selling price per unit- TCMD products	\$ 1.72	\$ 1.17	\$ 0.54	46.3%
Average cost per unit- TCMD products	\$ 0.65	\$ 0.55	\$ 0.10	18.6%
Average selling price per unit- third party products	\$ 2.20	\$ 1.41	\$ 0.80	56.6%
Average cost per unit - third party products	\$ 1.38	\$ 0.92	\$ 0.46	50.6%

Gross profit from the sales of our TCMD products increased by \$8,603,627, or 87.9%, from \$9,792,811 in 2020 to \$18,396,439 in 2021, and the gross margin of our TCMD products increased by 8.9%, from 53.3% in 2020 to 62.2% in 2021. The increase in our gross profit from the sales of TCMD products was due to the following reasons: (i) as discussed above, the sales volume of our TCMD products increased by 9.9%, from 15,652,999 units sold in fiscal year 2020 to 17,206,150 units sold in fiscal year 2021, and the average selling price of our TCMD products increased by 46.3% from \$1.17 per unit in fiscal year 2020 to \$1.72 per unit in fiscal year 2021. Although inflation and increased market prices of raw materials led to an increase in the average cost of our TCMD products by 18.6%, the increase in the average selling price outpaced the increase in average unit costs of our TCMD products by \$0.44 per unit, which increased our profitability from sales of TCMD products; (ii) our gross profit and gross margin were affected by the different product mix of the products sold during each reporting period. During fiscal year 2021, more higher-margin and lower-cost TCMD products were sold as compared to fiscal year 2020; and (iii) the appreciation of RMB against US\$ had a 7.1% positive impact on our gross profit from sales of TCMD products.

Gross profit from third-party product sales increased by \$2,628,729, or 61.1%, from \$4,301,009 in fiscal year 2020 to \$6,929,738 in fiscal year 2021, while the gross margin of third-party product sales increased by 2.7%, from 34.9% in fiscal year 2020 to 37.6% in fiscal year 2021. The average unit selling price of third-party products increased by 56.6%, or \$0.80 per unit, while average unit cost of third-party products also increased by 50.6%, or \$0.46 per unit. The increase in the average selling price outpaced the increase in average unit cost of third-party products by \$0.34 per unit. The increase in our gross profit from third-party products was affected by changes in the product mix of the products sold in fiscal year 2021 as compared to fiscal year 2020.

### *Operating expenses*

The following table sets forth the breakdown of our operating expenses for fiscal years 2021 and 2020:

	For the years ended September 30,					
	2021		2020		Variance	
	Amount	% of revenue	Amount	% of revenue	Amount	%
<b>Total revenue</b>	<b>\$47,982,031</b>	<b>100.0%</b>	<b>\$30,703,960</b>	<b>100.0%</b>	<b>\$17,278,071</b>	<b>56.3%</b>
Operating expenses:						
Selling expenses	2,973,531	6.2%	1,555,546	5.1%	1,417,985	91.2%
General and administrative expenses	3,296,844	6.9%	1,703,424	5.5%	1,593,420	93.5%
Research and development expenses	5,465,662	11.4%	583,125	1.9%	4,882,537	837.3%
<b>Total operating expenses</b>	<b>\$11,736,037</b>	<b>24.5%</b>	<b>\$ 3,842,095</b>	<b>12.5%</b>	<b>\$ 7,893,942</b>	<b>205.5%</b>

### *Selling expenses*

Our selling expenses primarily include salaries and welfare benefit expenses paid to our sales personnel, advertising expenses to increase our brand awareness, shipping and delivery expenses, expenses incurred for our business travel, meals and other sales promotion and marketing activities related expenses.

	For the years ended September 30,					
	2021		2020		Variance	
	Amount	%	Amount	%	Amount	%
Salary and employee benefit expenses	\$ 859,436	28.9%	\$ 586,632	37.7%	\$ 272,804	46.5%
Advertising expenses	1,316,654	44.3%	343,962	22.1%	972,692	282.8%
Shipping and delivery expenses	701,997	23.6%	576,796	37.1%	125,201	21.7%
Business travel and meals expenses	78,565	2.6%	31,410	2.0%	47,155	150.1%
Other sales promotion related expenses	16,879	0.6%	16,746	1.1%	133	0.8%
Total selling expenses	<u>\$ 2,973,531</u>	<u>100.0%</u>	<u>\$ 1,555,546</u>	<u>100.0%</u>	<u>\$ 1,417,985</u>	<u>91.2%</u>

Our selling expenses increased by \$1,417,985, or 91.2%, from \$1,555,546 in fiscal year 2020 to \$2,973,531 in fiscal year 2021, primarily attributable to (i) an increase in advertising expenses by \$972,692, or 282.8%, from \$343,962 in fiscal year 2020 to \$1,316,654 in fiscal year 2021. In fiscal year 2020, we used outdoor billboards, magazines and social media such as WeChat and Weibo to advertise our brand and products in order to increase customer awareness. In fiscal year 2021, in connection with the sales and promotion of our TCMD products to targeted customers, we engaged a local advertising agency to develop and produce a TV advertisement for promoting the sales of our major TCMD products, Bai Nian Dan and Guben Yanling Pill, and coordinate with a TV channel to broadcast the advertisement to targeted geographic market areas. As a result of our advertising efforts in fiscal year 2021, we spent more on advertising than we did in fiscal year 2020, which led to higher advertising expenses in fiscal year 2021. In addition, we expect that our capitalized advertising costs will be expensed, and increase our future advertising expenses in subsequent period, starting from when the advertisement was first broadcasted; (ii) an increase in salary and benefit expenses paid to our sales employees by \$272,804, or 46.5%, from \$586,632 in fiscal year 2020 to \$859,436 in fiscal year 2021, and an increase in business travel and meals expense by \$47,155 or 150.1%, from \$31,410 in fiscal year 2020 to \$78,565 in fiscal year 2021, primarily due to our increased sales activities in fiscal year 2021; and (iii) an increase in shipping and delivery expenses by \$125,201, or 21.7%, from \$576,796 in fiscal year 2020 to \$701,997 in fiscal year 2021, due to our increased sales volume and an increase in the number of sales orders fulfilled in fiscal year 2021. These above-mentioned factors combined led to the increase in our selling expenses in fiscal year 2021 as compared to fiscal year 2020. As a percentage of revenues, our selling expenses accounted for 6.2% and 5.1% of our total revenue for the years ended September 30, 2021 and 2020, respectively.

#### ***General and Administrative Expenses***

Our general and administrative expenses primarily consist of employee salaries, welfare and insurance expenses, depreciation, bad debt reserve expenses, inspection and maintenance expenses, office supply and utility expenses, business travel and meals expenses, land and property taxes and professional service expenses.

	For the years ended September 30,					
	2021		2020		Variance	
	Amount	%	Amount	%	Amount	%
Salary and employee benefit expense	\$ 657,543	19.9%	\$ 464,530	27.3%	\$ 193,013	41.6%
Depreciation and amortization	172,453	5.2%	188,670	11.1%	(16,217)	(8.6)%
Bad debt reserve expenses (recovery)	(230,175)	(7.0)%	98,101	5.8%	(328,276)	(334.6)%
Land and property tax	104,451	3.2%	97,039	5.7%	7,412	7.6%
Office supply and utility expense	376,204	11.4%	115,891	6.8%	260,313	224.6%
Transportation, business travel and meals expense	68,047	2.1%	42,151	2.5%	25,896	61.4%

Consulting fee	1,967,858	59.7%	616,982	36.2%	1,350,876	218.9%
Inspection and maintenance fee	60,939	1.8%	21,825	1.3%	39,114	179.2%
Stamp tax and other expenses	119,524	3.6%	58,235	3.4%	61,289	105.2%
Total general and administrative expenses	<u>\$3,296,844</u>	<u>100.0%</u>	<u>\$1,703,424</u>	<u>100.0%</u>	<u>\$1,593,420</u>	<u>93.5%</u>

Our general and administrative expenses increased by \$1,593,420 or 93.5% from \$1,703,424 in fiscal year 2020 to \$3,296,844 in fiscal year 2021, primarily attributable to (i) an increase in our professional service fees by \$1,350,876 in fiscal year 2021 as compared to fiscal year 2020, primarily due to increased audit fees, legal fees, business consulting fees in connection with our public offering; (ii) an increase in our office supply and utility expenses by \$260,313, or 224.6%, to support our administration activities; and (iii) an increase in our salaries, welfare expenses and insurance expenses paid to administration employees by \$193,013, or 41.6%, because higher amount of annual bonus was distributed to administrative staffs in fiscal year 2021 as compared to fiscal year 2020, offset by a decrease in bad debt expense by \$328,276 because we accrued more bad debt expenses in fiscal year 2020 based on estimated accounts receivable collection trend, and approximately \$0.2 million bad debt accrual in prior periods was collected in fiscal year 2021, which led to a bad debt recovery in 2021. The overall increase in our general and administrative expenses in fiscal year 2021 as compared to fiscal year 2020 reflected the above-mentioned factors combined. As a percentage of revenues, general and administrative expenses were 6.9% and 5.5% of our revenue in fiscal years 2021 and 2020, respectively.

### *Research and development expenses*

Our research and development expenses primarily consist of salaries, welfare and insurance expenses paid to our employees involved in the research and development activities, materials and supplies used in the development and testing new TCMD products, depreciation and other miscellaneous expenses.

	For the years ended September 30,					
	2021		2020		Variance	
	Amount	%	Amount	%	Amount	%
Salary and employee benefit expenses to R&D staff	\$ 155,940	2.9%	\$ 97,444	16.7%	\$ 58,496	60.0%
Materials used in R&D activities	836,710	15.3%	469,788	80.6%	366,922	78.1%
Expenditure on new product development	4,454,400	81.5%	-	0.0%	4,454,400	100.0%
Depreciation and others	18,612	0.3%	15,893	2.7%	2,719	17.1%
Total R&D expenses	<u>\$ 5,465,662</u>	<u>100.0%</u>	<u>\$ 583,125</u>	<u>100.0%</u>	<u>\$ 4,882,537</u>	<u>837.3%</u>

Research and development expenses increased by \$4,882,537, or 837.3%, from \$583,125 in fiscal year 2020 to \$5,465,662 in fiscal year 2021, primarily attributable to (i) an increase in research and development expense of \$4,454,400 in order to develop and test eight new Chinese medicine products in order to diversify our future product portfolio. In fiscal year 2021, we entered into several cooperative agreements with external academic and research institutions to jointly conduct the new product development and accordingly incurred significant amount of R&D expense in connection with such efforts; and (ii) an increase in the materials used in the research and development (“R&D”) activities by \$366,922. In fiscal year 2021, in order to develop new products and improve the formulation of several existing products, we conducted more testing on product stability and safety, and as a result, more materials were used in our R&D activities in fiscal year 2021 than in fiscal year 2020. As a percentage of revenues, research and development expenses were 11.4% and 1.9% of our revenue in fiscal years 2021 and 2020, respectively.

### ***Other income (expenses), net***

Our other income (expenses) primarily includes interest expenses incurred on our short-term bank loans, gain or loss from disposal of fixed assets, investment income from our long-term investment in exchange for a 5% ownership interest in a local bank, and income generated from our short-term investments to purchase wealth management products from financial institutions. Total other income, net, increased by \$239,630 or 158.4%, from net other expenses of \$151,292 in fiscal year 2020 to net other income of \$88,338 in fiscal year 2021 due to the following reasons:

Interest expenses decreased by \$22,156, or 17.9%, from \$123,760 in fiscal year 2020 to \$101,604 in fiscal year 2021. The decrease in our interest expenses was due to lower amount of outstanding loans we carried during fiscal year 2021 as compared to fiscal year 2020.

Other expense increased by \$31,082, from other expense of \$49,352 in fiscal year 2020 to other expense of \$80,434 in fiscal year 2021, primarily due to payment of work injury compensation to workers in fiscal year 2021 and foreign currency transaction loss.

Equity investment income was \$30,827 and \$21,820 in fiscal years 2021 and 2020, respectively. From March 2009 to September 2017, we invested approximately RMB5 million (\$0.7 million) in Jiangxi Jian Rural Commercial Bank (“JX RCB Bank”) in exchange for a 5% ownership interest in the bank. The purpose of this investment was to earn investment income as JX RCB Bank continues to grow. We account for this investment using the measurement alternative in accordance with ASC 321. As of September 30, 2021 and 2020, the value of this investment amounted to \$744,924 and \$735,000, respectively, and was reported as long-term investment in equity investee on our consolidated balance sheets.

Income from short-term investments increased from Nil in fiscal year 2020 to \$239,549 in fiscal year 2021. Our short-term investments consist of wealth management financial products purchased from a financial institution, which can be redeemed anytime at our discretion. The financial institution put our investments in certain financial instruments, including money market funds and bonds, to generate investment income. In fiscal year 2021, we used available cash to purchase such wealth management financial products from financial institution and generated \$239,549 investment income in fiscal year 2021. There was no such income in fiscal year 2020.

### ***Provision for Income Taxes***

Our provision for income taxes was \$2,358,526 in fiscal year 2021, a decrease of \$183,685, from \$2,542,211 in fiscal year 2020. Under the Enterprise Income Tax Law, or the EIT Law, domestic enterprises and foreign investment enterprises are usually subject to a unified 25% enterprise income tax rate while preferential tax rates, tax holidays and even tax exemption may be granted on a case-by-case basis. The EIT Law grants preferential tax treatment to High and New Technology Enterprises (“HNTEs”, individually an “HNTE”). Under this preferential tax treatment, HNTEs are entitled to an income tax rate of 15%, subject to a requirement that they re-apply for their HNTE status every three years. Jiangxi Universe, one of our main operating subsidiaries in the PRC, was approved as an HNTE and was entitled to a reduced income tax rate of 15% beginning November 2016 with a term of three years. Jiangxi Universe’s HNTE status was successfully renewed in December 2019 for a term of three additional years. The EIT Law is typically enforced by the local tax authorities in the PRC. Each local tax authority has the discretion to grant tax holidays to local enterprises as a way to encourage entrepreneurship and stimulate local economy. The corporate income taxes for the fiscal years 2021 and 2020 were reported at a blended reduced rate since Jiangxi Universe enjoys a 15% reduced income tax rate due to its HNTE status and Universe Trade, a wholly owned subsidiary of Jiangxi Universe, is subject to a standard 25% income tax rate. The impact of the tax holidays noted above decreased PRC corporate income taxes by \$1,518,979 and \$118,986 for the years ended September 30, 2021, and 2020, respectively.

The benefit of the tax holidays on net income per share (basic and diluted) \$0.09 and \$0.01 for the years ended September 30, 2021 and 2020, respectively.

### ***Net Income***

As a result of the foregoing, we reported a net income of \$11,319,952 in fiscal year 2021, representing a \$3,761,730 increase from a net income of \$7,558,222 in fiscal year 2020.

### **B. Liquidity and Capital Resources**

As of September 30, 2022, we had \$5,711,458 in cash on hand. We also had short-term investments of \$13.1 million in wealth management financial products from financial institutions to generate investment income, which we purchased with our IPO proceeds. Such short-term investment can be redeemed anytime at our discretion and is highly liquid. As of September 30, 2022, we also had \$15.2 million in accounts receivable. Our accounts receivable primarily include balance due from customers for our pharmaceutical products sold and delivered to customers. No single customer accounts for more than 10% of our total accounts receivable balance as of September 30, 2022. Approximately 71.9%, or \$10.9 million, of our net accounts receivable balance as of September 30, 2022 has been subsequently collected. Collected accounts receivable will be used as working capital in our operations, if necessary.

As of September 30, 2022, our inventory balance amounted to \$2,206,488, primarily consisting of raw materials and work-in-progress and finished TCMD products, which we believe are able to be sold quickly based on the analysis of the current trends in demand for our products.

During the fiscal year 2021, we also started to construct new manufacturing facilities in order to expand our future production capacity, and we had made a prepayment of approximately RMB69.2 million (approximately \$9.7 million) to Jiangxi Chenyuan Construction Project Co., Ltd. (“Chenyuan”), a sub-contractor, to start the construction-in-progress project, or CIP project, including land improvement, building foundation and the construction of the manufacturing plants. As of September 30, 2022, \$401,702 (approximately RMB2.9 million) of prepayment for the CIP project had been used for construction work, and the amount was recorded as construction in progress which was included in property, plant and equipment in the consolidated balance sheets. As of September 30, 2022, the remaining \$9.3 million prepayment to Chenyuan was recorded as prepayment for the CIP project on the balance sheets. There was no additional significant prepayment to the sub-contractor during the fiscal year 2022. As of September 30, 2022, future additional capital expenditure on this CIP project is estimated to be approximately RMB95.8 million (equivalent to \$13.5 million), among which approximately \$3.5 million is required for the next 12 months. We currently plan to support our ongoing CIP project through cash flows from operations, proceeds received from the IPO, and borrowings from banks, if necessary.

As of September 30, 2022, we made a prepayment of approximately \$2.25 million to a related party in order to purchase certain residential and commercial property. On May 6, 2021, we entered into a real estate property purchase agreement with a related party, Jiangxi Yueshang Investment Co., Ltd. (“Jiangxi Yueshang”), an entity in which our chief executive officer, Mr. Gang Lai, owned 5% of its equity interests as of the date of that agreement. Pursuant to this purchase agreement, Jiangxi Yueshang will sell and we will purchase certain residential apartments and commercial office space totaling 2,749.30 square meters, with a total purchase price of RMB32 million (approximately \$4.50 million). Pursuant to this purchase agreement, we were required to make a prepayment in the amount of 50% of the total purchase price, with 20% of the total purchase price payable when a certificate of occupancy is available to us, and 30% of the total purchase price payable upon delivery of the property. As of September 30, 2022, we had made a prepayment of RMB16 million (\$2,249,248) to Jiangxi Yueshang. As of the date of this annual report, we have not received the certificate of occupancy nor access to the property. The remaining balance is expected to be paid by August 2024.

As of September 30, 2022, we made a prepayment of approximately \$3.5 million to an individual for equity acquisition. On September 26, 2022, the Company entered into a letter of intent for an equity transfer with an individual, Mr. Xibo Liu, pursuant to which, Mr. Xibo Liu shall transfer his 51% ownership in Yunnan Faxi to the Company in consideration for RMB72 million (approximately \$10.1 million). Based on contract terms, the Company prepaid RMB25 million (approximately \$3.5 million) within 3 business days upon signing the letter of intent. The intended acquisition is expected to be completed and the remaining balance is expected to be paid in June 2023.

As of September 30, 2022, we also had short-term bank loans of approximately \$3.9 million that we obtained from Jiangxi Luling Rural Commercial Bank (“LRC Bank”) and Bank of Communications for working capital purposes. We expect that we will be able to renew all of the existing bank loans upon their maturity based on our past experiences and our outstanding credit history.

As of September 30, 2022, our working capital balance was \$28.4 million. In assessing our liquidity, management monitors and analyzes our cash on-hand, our ability to generate sufficient revenue in the future, and our operating and capital expenditure commitments. We believe that our current cash and cash flows provided by operating activities, borrowings from banks and from our principal shareholders and proceeds received from the IPO will be sufficient to meet our working capital needs in the next 12 months from the date of this annual report.

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

	<b>For the years ended September 30,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
Net cash provided by (used in) operating activities	\$(1,312,346)	\$ (2,055,847)	\$ 6,115,157
Net cash used in investing activities	(3,908,105)	(27,059,958)	(51,798)
Net cash used in financing activities	3,317,943	26,581,809	470,136
Effect of exchange rate change on cash	(463,942)	553,702	347,386
Net increase (decrease) in cash	(2,366,450)	(1,980,294)	6,880,881
Cash, beginning of year	8,077,908	10,058,202	3,177,321
Cash, end of year	<u>\$ 5,711,458</u>	<u>\$ 8,077,908</u>	<u>\$10,058,202</u>

### ***Operating Activities***

Net cash used in operating activities was \$1,312,346 for the fiscal year 2022, primarily consisted of the following:

- Net loss of \$8,736,566 for the period.
- An increase in accounts receivable of \$1,549,312. Our accounts receivable primarily includes balance due from customers for our pharmaceutical products sold and delivered to customers. As of September 30, 2022, most of our outstanding accounts receivable aged below six months. As of date of this annual report, approximately 71.9%, or \$10.9 million of our net accounts receivable balance as of September 30, 2022 has been subsequently collected. Collected accounts receivable will be used as working capital in our operations, if necessary.
- A decrease in advance to suppliers of \$2,681,214 because we made significant advance payments to suppliers for raw material purchase as of September 30, 2021 and we received purchased raw materials valued at approximately \$2.7 million during the fiscal year 2022.

- A decrease in prepayment for advertising of \$7,385,695. In September 2021, we engaged a third-party advertising agency to develop and produce TV advertisement for promoting the sales of our major TCMD

product, Bai Nian Dan and Guben Yanling Pill, and coordinate with a TV channel to broadcast the advertisement to targeted geographic market areas. Such prepayment was charged to expense when our TV advertisement was broadcasted in the fiscal year 2022.

- An increase in prepaid expenses and other current assets of \$1,699,929 related with VAT of advertising expense deductible upon reception of invoice, as well as prepaid income tax deductible from future taxable income.
- A decrease in accounts payable of \$1,896,621 because we made payment to raw material suppliers when we received the invoices from them.

Net cash used in operating activities was \$2,055,847 for the year ended September 30, 2021, primarily consisting of the following:

- Net income of \$11,319,952 for the fiscal year.
- An increase in accounts receivable of \$3,867,457. Our accounts receivable primarily include balance due from customers for our pharmaceutical products sold and delivered to customers. As of September 30, 2021, most of our outstanding accounts receivable aged below six months. Approximately 75.4% of our net accounts receivable balance as of September 30, 2021 have been subsequently collected as of the date of this annual report. Collected accounts receivable will be used as working capital in our operations, if necessary.
- An increase in inventory balance of \$451,634 because we increased the stockpile of raw materials in order to meet the future production need.
- An increase in advance to suppliers of \$2,717,085, representing prepayments made to certain suppliers to ensure continuous supply of raw materials at favorable purchase prices. Approximately 66.1% of the advance to suppliers balance as of September 30, 2021 has been subsequently realized when we received the purchased raw materials from the suppliers as of the date of this annual report.
- An increase in prepayment to an advertising agency of \$7,434,240 in order to engage this advertising agency to develop and produce TV advertisement for promoting the sales of our major TCMD product, Bai Nian Dan and Guben Yanling Pill, and coordinate with a TV channel to broadcast the advertisement to targeted geographic market areas. Such prepayment has been charged to expense when our TV advertisement was first broadcasted in October 2021.
- An increase in accounts payable of \$2,457,337 primarily due to increased purchase of inventories and we have not received related invoices from the suppliers and accordingly such payable had not been settled as of September 30, 2021. Most of the outstanding accounts payable balance has been subsequently settled as of the date of this annual report.

Net cash provided by operating activities was \$6,115,157 for the year ended September 30, 2020, primarily consisting of the following:

- Net income of \$7,558,222 for the fiscal year ended September 30, 2020.
- An increase in accounts receivable of \$4,107,520. Our accounts receivable primarily includes balance due from customers for our pharmaceutical products sold and delivered to customers. As of September 30, 2020, most of our outstanding accounts receivable aged below six months. Approximately 99% of our net accounts receivable balance as of September 30, 2020 have been subsequently collected as of the date of this annual report. Collected accounts receivable will be used as working capital in our operations, if necessary.
- A decrease in inventory balance of \$888,607 because in fiscal year 2020, we have implemented our inventory control policy based on sales order level in order to avoid over-stockpile of raw materials and third-party products to reduce risks associated with slow-moving and obsolete in inventories.

- An increase in accounts payable of \$639,427 because we normally arrange the payment to suppliers upon receipt of the invoices from them. As of September 30, 2020, the increase in accounts payable was largely due to pending invoices from suppliers. Approximately 80% of the September 30, 2020 accounts payable balance has been subsequently settled as of the date of this annual report.
- An increase in taxes payable of \$731,518 primarily due to an increased taxable income.

### ***Investing Activities***

Net cash used in investing activities amounted to \$3,908,105 for the fiscal year 2022, which primarily included prepayment for acquisition of \$3,814,925. On September 26, 2022, we entered into a letter of intent for an equity transfer with an individual, Mr. Xibo Liu, pursuant to which Mr. Xibo Liu shall transfer his 51% ownership in Yunnan Faxi to the Company in consideration for RMB72 million (approximately \$10.1 million). We prepaid RMB25 million (approximately \$3.9 million) in the fiscal year 2022. The intended acquisition is expected to be completed and the remaining balance is expected to be paid in June 2023.

Net cash used in investing activities amounted to \$27,059,958 for the year ended September 30, 2021 and primarily included (i) purchase of fixed assets of \$444,505; (ii) prepayment of \$2,457,600 made to a related party to purchase residential and commercial property; (iii) prepayment of \$10,629,120 made to a sub-contractor in order to complete the CIP Project, including four manufacturing plants and an office building, with estimated project completion in August 2023; (iv) purchase of short-term investments of \$15,330,660 because we used part of the IPO proceeds to purchase certain wealth management financial products from financial institutions in order to earn investment income; and (v) redemption of short-term investments of \$1,801,927.

Net cash used in investing activities amounted to \$51,798 for the year ended September 30, 2020, and primarily included the purchase of fixed assets in the same amount.

### ***Financing Activities***

Net cash provided by financing activities amounted to \$3,317,943 for the fiscal year 2022, primarily including the following:

- Proceeds from short-term bank loans in the amount of \$4,272,716 and repayment of bank loans in the amount of \$4,272,716.
- Proceeds from related party borrowings of \$3,317,943. The balance due to related party mainly consisted of advances from our principal shareholders for working capital purposes during our normal course of business. These advances were non-interest bearing and due on demand.

Net cash provided by financing activities amounted to \$26,581,809 for the year ended September 30, 2021, primarily include the following:

- Proceeds from short-term bank loans of \$4,300,800 and offset by repayment of bank loans of \$2,764,800 upon loan maturity.
- Net proceeds of \$25,957,457 received upon completion of our IPO in March 2021.
- Repayment of related party borrowings of \$911,648. The balance due to related party mainly consisted of advances from our principal shareholder for working capital purposes during our normal course of business. These advances were non-interest bearing and due on demand.



Net cash provided by financing activities amounted to \$470,136 for the year ended September 30, 2020, primarily include the following:

- Proceeds from short-term bank loans of \$1,427,000 and repayment of bank loans of \$1,427,000. During fiscal year 2020, our subsidiary Universe Trade repaid RMB8 million loan to LRC Bank upon maturity and at the same time, renewed the loan agreement to borrow RMB8 million for additional six months until March 31, 2021.
- Payment for deferred public offering costs of \$441,064. Deferred offering costs consisted principally of legal, underwriting, and other professional service expenses in connection with the IPO of our ordinary shares. As of September 30, 2020, we capitalized \$441,064 of deferred offering costs. Such costs were deferred until the closing of the IPO, at which time the deferred costs were offset against the offering proceeds.
- Proceeds from related party borrowings of \$911,200. The balance due to related party mainly consisted of advances from our principal shareholder for working capital purposes during our normal course of business. These advances were non-interest bearing and due on demand.

### Commitments and contingencies

From time to time, we are a party to various legal actions arising in the ordinary course of business. We accrue costs associated with these matters when they become probable and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. For the years ended September 30, 2022, 2021 and 2020, we did not have any material legal claims or litigation that, individually or in aggregate, could have a material adverse impact on our consolidated financial position, results of operations and cash flows.

As of September 30, 2022, we had the following contractual obligations:

<b>Contractual obligations</b>	<b>Total</b>	<b>Payment Due by Period</b>		
		<b>Less than 1 year</b>	<b>1-2 years</b>	<b>2-3 years</b>
Debt obligations (1), (2) and (3)	\$ 3,936,184	\$ 3,936,184	\$ -	\$ -
Payment for advertising fees (4)	927,815	927,815	-	-
Capital expenditure commitment on CIP project (5)	13,467,372	\$ 3,479,306	\$ 9,988,066	-
<b>Total</b>	<b>\$18,331,371</b>	<b>\$ 8,343,305</b>	<b>\$ 9,988,066</b>	<b>\$ -</b>

- (1) On March 14, 2022, the Company's subsidiary, Universe Trade, signed a loan agreement with LRC Bank to borrow RMB8 million (equivalent to \$1,124,624) as working capital for one year, with the maturity date on March 13, 2023. The fixed interest rate of the loan was 4.62% per annum. There was no guarantee requirement for this loan.
- (2) On June 15, 2022, the Company's subsidiary, Jiangxi Universe, entered into a loan agreement with LRC Bank to borrow RMB10 million (equivalent to \$1,405,780) as working capital for one year, with the maturity date on June 14, 2023. The fixed interest rate of the loan was 4.62% per annum. Certain related parties of the Company, including Mr. Gang Lai, the Company's controlling shareholder, chairman of the board of directors, and chief executive officer, Ms. Lin Yang, the Company's chief financial officer, Ms. Xing Wu, Mr. Gang Lai's spouse, and the Company's subsidiary, Universe Technology, jointly signed guarantee agreements with LRC Bank to provide credit guarantee for this loan.

- (3) On June 24, 2022, the Company's subsidiary, Jiangxi Universe, signed a loan agreement with Bank of Communications to borrow RMB10 million (equivalent to \$1,405,780) as working capital for eleven months, with the maturity date on May 26, 2023. The fixed interest rate of the loan was 4.2% per annum. Jiangxi Province Financing Guarantee Group Co., Ltd., an unrelated third party, signed a guarantee agreement with Bank of Communications to provide credit guarantee for this loan.
- (4) On September 6, 2021, we entered into an advertising service agreement with a third party, Fengyang Legend, pursuant to which Fengyang Legend agreed to assist us in developing and producing a TV advertisement for promoting our representative TCMD products, Bai Nian Dan and Guben Yanling Pill, and coordinating with a TV channel to broadcast the advertisement to targeted geographic market areas. The total advertising service fee under this agreement was RMB55 million (approximately \$8.5 million) with a service period of one year, from October 1, 2021 to September 30, 2022. Pursuant to the terms under this agreement, we made an advance payment in the amount of 30% of the total advertising service fee to Fengyang Legend within 7 business days upon signing the service agreement, and made payment in the amount of 58% of the total advertising service fee when the specific TV channel used for broadcast the TV film was determined. In the fiscal year 2021, we paid RMB48.4 million (approximately \$7.5 million), the amount was recorded as prepayment for advertising on the balance sheets as of September 30, 2021, and recognized as selling expense during the fiscal year 2022. The remaining 12% of the contract price, RMB6.6 million (approximately \$0.9 million), representing the monthly advertising fees payable when the advertising film was broadcasted through the designated TV channels during the service period, is expected to be paid by August 2023.
- (5) On June 25, 2021, the Company signed a construction sub-contract with sub-contractor Chenyuan, pursuant to which, Chenyuan will construct four manufacturing plants and an office building with a total estimated maximum budget of RMB165 million (approximately \$23.2 million). The construction work started on August 8, 2021, with an estimated completion date on August 7, 2023. However, due to resurgence of the COVID-19 pandemic, which resulted in lingering logistic disruption, material and labor shortage, and domestic travel restrictions, the construction work is estimated to be completed in December 2024, and Chenyuan will bear the increased material and labor costs. As of September 30, 2022, we had made prepayment of approximately RMB69.2 million (approximately \$9.7 million) to Chenyuan for land improvement, building foundation and the construction of the manufacturing plants.

As of September 30, 2022, the \$9.7 million prepayment to Chenyuan was recorded as prepayment for the CIP Project on the balance sheets.

As of September 30, 2022, future additional capital expenditure on this CIP Project is estimated to be approximately RMB95.8 million (equivalent to \$13.5 million), among which approximately \$3.5 million is required for the 12 months ending September 30, 2023. The Company currently plans to support its ongoing CIP Project through cash flows from operations, proceeds received from the IPO, and borrowings from banks, if necessary. The CIP Project is expected to be fully completed, and the new manufacturing plants and office building are expected to be put into use by December 2024.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements as of September 30, 2022, 2021 and 2020.

### **Inflation**

To date, inflation in China has not materially impacted our results of operations. According to Wind Information ([www.wind.com.cn](http://www.wind.com.cn)), the year-over-year percent changes in the consumer price index for November 2022 was 2.02%. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price

index for December 2021 was 0.9%. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected by higher rates of inflation in China in the future.

### **Seasonality**

Seasonality does not materially affect our business or the results of our operations.

### **C. Research and Development, Patents and Licenses, etc.**

See “Item 4. Information on the Company—B. Business Overview—Intellectual Property” and “Item 4. Information on the Company—B. Business Overview—Research and Development.”

### **D. Trend Information**

Other than as disclosed below and elsewhere in this annual report on Form 20-F, we are not aware of any trends, uncertainties, demands, commitments, or events for the period from October 1, 2021 to September 30, 2022 that are reasonably likely to have a material adverse effect on our net revenue, income, profitability, liquidity, or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial condition.

### **E. Critical Accounting Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which requires us to make estimates and assumptions that affect the reported amounts of our assets and liabilities and revenues and expenses, to disclose contingent assets and liabilities on the date of the consolidated financial statements, and to disclose the reported amounts of revenues and expenses incurred during the financial reporting period. The most significant estimates and assumptions include the valuation of accounts receivable and inventories, realizability of advance to suppliers and prepaid advertising costs, useful lives of property, plant and equipment and intangible assets, the recoverability of long-lived assets, the impairment of the short-term investments, provision necessary for contingent liabilities, and revenue recognition. We continue to evaluate these estimates and assumptions that we believe to be reasonable under the circumstances. We rely on these evaluations as the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. Some of our accounting policies require higher degrees of judgment than others in their application. We believe critical accounting policies as disclosed in this annual report reflect the more significant judgments and estimates used in preparation of our consolidated financial statements.

### ***Risks and Uncertainties***

Our main operation is located in the PRC. Accordingly, our business, financial condition, and results of operations may be influenced by political, economic, and legal environments in the PRC, as well as by the general state of the PRC economy. Our results may be adversely affected by changes in the political, regulatory and social conditions in the PRC. Although we have not experienced losses from these situations and believes that we are in compliance with existing laws and regulations including our organization and structure, this may not be indicative of future results.

Our business, financial condition and results of operations may also be negatively impacted by risks related to natural disasters, extreme weather conditions, health epidemics and other catastrophic incidents, such as the COVID-19 pandemic, which could significantly disrupt our operations. In the fiscal year ended September 30, 2022, due to resurgence of COVID-19 pandemic in China and related restrictive measures, including travel restrictions, the PRC

operating entities experienced delays in the receipt of purchased raw materials from suppliers and in delivering products to customers. The prices of the raw materials increased by about 5% as compared to the fiscal year ended September 30, 2021. In addition, we granted some customers extended payment terms of 30 days to 120 days. However, based on our present relationship with these customers and our evaluation of their financial conditions, we do not anticipate any material collectability problems. Although the Chinese government removed its zero-COVID policy in December 2022, China is now facing a sudden surge in COVID cases after easing the lockdown restrictions nationwide. WHO officials had expressed hope that COVID-19 might be entering an endemic phase by early 2023, but the continued uncertainties associated with the COVID-19 pandemic worldwide may cause our revenue and cash flows to underperform in the next 12 months from the date of this annual report. The extent of the future impact of the COVID-19 pandemic on our business and the results of operations is still uncertain.

The development and commercialization of new pharmaceutical products is highly competitive, and the industry currently is characterized by rapidly changing technologies, significant competition and a strong emphasis on intellectual property. We may face competition with respect to our current and future pharmaceutical product candidates from major pharmaceutical companies in China.

The following critical accounting policies rely upon assumptions and estimates and were used in the preparation of our consolidated financial statements:

#### ***Uses of estimates***

In preparing the consolidated financial statements in conformity with U.S. GAAP, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on information as of the date of the consolidated financial statements. Significant estimates required to be made by management include, but are not limited to, the allowance for estimated uncollectible receivables, the realizability of advance to suppliers, inventory valuation, useful lives of property, plant and equipment, intangible assets, the recoverability of long-lived assets, provision necessary for contingent liabilities, revenue recognition and realization of deferred tax assets. Actual results could differ from those estimates.

#### ***Accounts receivable, net***

Accounts receivable are presented net of allowance for doubtful accounts. We determine the adequacy of reserves for doubtful accounts based on individual account analysis and historical collection trends. We establish a provision for doubtful receivables when there is objective evidence that we may not be able to collect amounts due. The allowance is based on management's best estimate of specific losses on individual exposures, as well as a provision on historical trends of collections. Actual amounts received may differ from management's estimate of credit worthiness and the economic environment. Delinquent account balances are written-off against the allowance for doubtful accounts after management has determined that the likelihood of collection is not probable. Allowance for uncollectable balances amounted to \$791,827 and \$446,527 as of September 30, 2022 and 2021, respectively.

#### ***Inventories, net***

Inventories are stated at net realizable value using weighted average method. Costs include the cost of raw materials, freight, direct labor and related production overhead. Any excess of the cost over the net realizable value of each item of inventories is recognized as a provision for diminution in the value of inventories. Net realizable value is the estimated selling price in the normal course of business less any costs to complete and sell products. We evaluate inventories on a quarterly basis for its net realizable value adjustments, and reduces the carrying value of those inventories that are obsolete or in excess of the forecasted usage to their estimated net realizable value based on various

factors including aging, expiration dates, as applicable, taking into consideration historical and expected future product sales. We recorded inventory reserve of \$120,286 and \$116,453 as of September 30, 2022 and 2021, respectively.

### ***Revenue recognition***

To determine revenue recognition for contracts with customers, we perform the following five steps : (i) identify the contract(s) with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, including variable consideration to the extent that it is probable that a significant future reversal will *not* occur, (iv) allocate the transaction price to the respective performance obligations in the contract, and (v) recognize revenue when (or as) we satisfy the performance obligation.

We recognize revenue when we transfer our goods and services to customers in an amount that reflects the consideration to which we expect to be entitled in such exchange. We account for the revenue generated from sales of our TCMD and third-party products on a gross basis as we are acting as a principal in these transactions, are subject to inventory risk, have latitude in establishing prices, and are responsible for fulfilling the promise to provide customers the specified goods, which we have control of the goods and has the ability to direct the use of goods to obtain substantially all the benefits. All of our contracts have one single performance obligation as the promise is to transfer the individual goods to customers, and there is no separately identifiable other promises in the contracts. Our revenue streams are recognized at a point in time when title and risk of loss passes and the customer accepts the goods, which generally occurs at delivery. Our products are sold with no right of return and we do not provide other credits or sales incentives to customers. Revenue is reported net of all VAT.

### ***Contract Assets and Liabilities***

Payment terms are established on our pre-established credit requirements based upon an evaluation of customers' credit quality. Contract assets are recognized for in related accounts receivable. Contract liabilities are recognized for contracts where payment has been received in advance of delivery. The contract liability balance can vary significantly depending on the timing when an order is placed and when shipment or delivery occurs. As of September 30, 2022 and 2021, other than accounts receivable and advances from customers, we had no other material contract assets, contract liabilities or deferred contract costs recorded on its consolidated balance sheet. Costs of fulfilling customers' purchase orders, such as shipping, handling and delivery, which occur prior to the transfer of control, are recognized in selling, general and administrative expense when incurred.

### ***Disaggregation of Revenues***

We disaggregate our revenue from contracts by product types, as we believe it best depicts how the nature, amount, timing and uncertainty of the revenue and cash flows are affected by economic factors.

The summary of our total revenues by product categories for the years ended September 30, 2022, 2021 and 2020 was as follows:

### **Revenue by product source**

	<b>For the years ended September 30,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
Sales of TCMD products manufactured by the Company	\$23,988,177	\$29,559,286	\$18,374,751
Sales of third-party products	16,154,974	18,422,745	12,329,209
Total revenue	<u>\$40,143,151</u>	<u>\$47,982,031</u>	<u>\$30,703,960</u>

## Revenue by product categories

	<u>For the years ended September 30,</u>		
	<u>2022</u>	<u>2021</u>	<u>2020</u>
<b>Sales of TCMD products:</b>			
Medicinal liquor products	\$ 1,095,336	\$ 1,951,679	\$ 1,616,080
Other chronic condition treatment products	19,140,419	22,978,001	14,059,403
Cold and flu medicines	3,752,422	4,629,606	2,699,268
Sub-total of TCMD products sales	<u>23,988,177</u>	<u>29,559,286</u>	<u>18,374,751</u>
<b>Sales of third-party products</b>			
Biochemical drugs	13,730,424	16,082,546	10,325,411
Traditional Chinese medicine pieces	30,202	20,705	47,097
Medical instruments	2,394,348	2,318,536	1,950,238
Dietary supplements	-	958	6,463
Subtotal of third-party products sales	<u>16,154,974</u>	<u>18,422,745</u>	<u>12,329,209</u>
<b>Total revenue</b>	<u><b>\$40,143,151</b></u>	<u><b>\$47,982,031</b></u>	<u><b>\$30,703,960</b></u>

## *Income Tax*

We account for current income taxes in accordance with the laws of the relevant tax authorities. Deferred income taxes are recognized when temporary differences exist between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period including the enactment date. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

An uncertain tax position is recognized only if it is “more likely than not” that the tax position would be sustained in a tax examination. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the period incurred. No significant penalties or interest relating to income taxes have been incurred during the years ended September 30, 2022, 2021 and 2020. We do not believe there was any uncertain tax provision as of September 30, 2022, 2021 and 2020.

Our operating subsidiaries in China are subject to the income tax laws of the PRC. No significant income was generated outside the PRC for the years ended September 30, 2022, 2021 and 2020. As of September 30, 2022 and 2021, all of our tax returns of our PRC subsidiaries remain open for statutory examination by PRC tax authorities.

## *Recently Issued Accounting Pronouncements*

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326), which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. ASU 2016-13 was subsequently amended by ASU 2018-19, ASU 2019-04, ASU 2019-05, ASU 2019-10 and ASU 2020-02. For

public entities, ASU 2016-13 and its amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. For all other entities, this guidance and its amendments will be effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early application will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of this guidance did not have a material impact on the Company’s consolidated financial statements.

In October 2020, the FASB issued ASU 2020-10, “Codification Improvements to Subtopic 205-10, presentation of financial statements”. The amendments in this Update improve the codification by ensuring that all guidance that requires or provides an option for an entity to provide information in the notes to financial statements is codified in the disclosure section of the codification. That reduce the likelihood that the disclosure requirement would be missed. ASU 2020-10 is effective for the Company for annual and interim reporting periods beginning January 1, 2022. Early application of the amendments is permitted for any annual or interim period for which financial statements are available to be issued. The amendments in this Update should be applied retrospectively. An entity should apply the amendments at the beginning of the period that includes the adoption date. The Company is currently evaluating the impact of this new standard on Company’s consolidated financial statements and related disclosures.

## Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. Directors and Senior Management

The following table sets forth information regarding our directors and executive officers as of the date of this annual report.

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>
Gang Lai	55	Chairman of the Board of Directors and Chief Executive Officer
Lin Yang	47	Chief Financial Officer and Director
Baochang Liu	43	Chief Operating Officer
Jiawen Pang	55	Independent Director
H. David Sherman	74	Independent Director
Ding Zheng	45	Independent Director

The following is a brief biography of each of our executive officers and directors:

**Mr. Gang Lai** is our chief executive officer and chairman of the board. Mr. Lai has served as the chief executive officer of Jiangxi Universe since 2004 and founded Universe Trade in 2010. Before joining us, Mr. Lai was a successful entrepreneur. He founded Jiangxi Lvzhouyuan Timber Joint Stock Co., Ltd. in 2001, a company listed on PRC National Equities Exchange and Quotations (NEEQ: 838893), and has since served as its chairman of the board. Mr. Lai graduated from Jingdezhen Ceramic Institute with a bachelor’s degree in mechanical engineering.

**Ms. Lin Yang** is our chief financial officer and director. Ms. Lin Yang has served as the financial director of Jiangxi Universe since April 2006 and the financial director of Universe Trade since its formation in 2010. Before joining us, Ms. Yang served as an accountant at Jiangxi Automobile Engineering Plastic Co., Ltd. from 1998 to March 2006. Ms. Yang graduated from Jiangxi University of Finance and Economics with a bachelor’s degree in accounting.

**Mr. Baochang Liu** has served as our chief operating officer since December 2021. Mr. Liu has over 17 years of experience in pharmaceutical marketing. From January 2020 to December 2021, Mr. Baochang Liu worked as the vice president of marketing and general manager of OTC department at China Shineway Pharmaceutical Group Ltd. (HKEX: 2877). From November 2015 to December 2019, Mr. Baochang Liu served as the general manager of OTC department at Chengdu Kanghong Pharmaceutical Group Co., Ltd. (SHE: 002773). Prior to that, Mr. Liu worked as the general marketing manager at Chengdu Rongyao Industry (Group) Co., Ltd. from December 2012 to November 2015. Mr. Baochang Liu obtained his bachelor’s degree in accounting and in marketing management from Harbin University of Commerce in 2004 and his master of business administration from Fudan University in 2020.

**Mr. Jiawen Pang** has served as our independent director since March 2021. Since January 1, 2021, Mr. Jiawen Pang has served as the vice president at Guangzhou Dahua Food Technology Co., Ltd., a food manufacturing company, where Mr. Pang is responsible for overseeing the company’s general management and marketing function. From January 1, 2018 to December 2020, Mr. Jiawen Pang served the general manager at Pangbei (Shanghai) Medical Technology Center, a medical device company, where Mr. Pang was responsible for overseeing the general management and marketing function of the company. Mr. Jiawen Pang graduated from Tianjin University of Commerce with a bachelor’s degree in refrigeration and food freezing engineering in 1989 and from Sun Yat-sen University with a master of business administration in healthcare and medicine in 2004.

**Mr. H David Sherman** has served as our independent director since March 2021. Mr. H David Sherman has served as a full-time professor at Northeastern University since September 1984. Mr. Sherman has extensive experience serving as independent director of public companies listed on Nasdaq. Currently, Mr. Sherman serves as an independent director and chair of the audit committee of Nuvve Holding Corp. (Nasdaq: NVVE), Lakeshore Acquisition II Corp. (Nasdaq: LBBB) and Prime Number Acquisition I Corp. (Nasdaq: PNAC). From April 2020 to August 2021, Mr. Sherman has served as an independent director and chair of the audit committee of China Liberal Education Holdings Limited (Nasdaq: CLEU). From December 2017 to August 2019, Mr. Sherman served as an independent director and chair of audit committee of Dunxin financial Holdings from (NYSE American: DXF). From January 2010 to August 2012, Mr. Sherman served as the chair of the audit committee of China HGS Real Estate Inc. (Nasdaq: HGSH). Mr. Sherman received his bachelor’s degree in economics from Brandies University in 1969, his master’s in business administration from Harvard University in 1971, and his doctorate degree in business administration from Harvard University in 1981. Mr. Sherman is a member of the American Institute of Certified Public Accountant.

**Mr. Ding Zheng** has served as our independent director since March 2021. Mr. Ding Zheng has served as the chairman of the board at Guangzhou Roujing Sunshade Energy-saving Technology Co., Ltd. since 2018. Mr. Zheng has also served as the general manager at Hande Manufacturing (China) Co., Ltd., since 2015. Mr. Zheng obtained a bachelor’s degree in technology economics from Shanghai Jiao Tong University in 2000 and a master of business administration degree from Tsinghua University in 2005. Mr. Zheng is a member of the China Institute of Certified Public Accountants (CICPA).

## Board Diversity

The table below provides certain information regarding the diversity of our board of directors as of the date of this annual report.

### Board Diversity Matrix

Country of Principal Executive Offices:	China
Foreign Private Issuer	Yes
Disclosure Prohibited under Home Country Law	No
Total Number of Directors	5

	Female	Male	Non-Binary	Did Not Disclose Gender
<b>Part I: Gender Identity</b>				
Directors	1	4	0	0
<b>Part II: Demographic Background</b>				
Underrepresented Individual in Home Country Jurisdiction			0	
LGBTQ+			0	
Did Not Disclose Demographic Background			1	



**Family Relationships**

None of our directors or executive officers has a family relationship as defined in Item 401 of Regulation S-K.

**Controlled Company**

Mr. Gang Lai, our chief executive officer, director, and chairman of the board of directors, currently beneficially own approximately 57.38% of the aggregate voting power of our outstanding ordinary shares. As a result, we are a “controlled company” within the meaning of the Nasdaq listing rules. As a controlled company, we are permitted to elect to rely on certain exemptions from the obligations to comply with certain corporate governance requirements, including:

- the requirement that a majority of the board of directors consist of independent directors;
- the requirement that our director nominees be selected or recommended solely by independent directors; and
- the requirement that we have a nominating and corporate governance committee and a compensation committee that are composed entirely of independent directors with a written charter addressing the purposes and responsibilities of the committees.

Although we do not intend to rely on the controlled company exemptions under the Nasdaq listing rules even if we are a controlled company, we could elect to rely on these exemptions in the future, and if so, you would not have the same protection afforded to shareholders of companies that are subject to all of the corporate governance requirements of Nasdaq.

**B. Compensation**

For the fiscal year ended September 30, 2022, we paid an aggregate of \$121,000 as compensation to our executive officers and directors. None of our non-employee directors have any service contracts with us that provide for benefits upon termination of employment. We have not set aside or accrued any amount to provide pension, retirement, or other similar benefits to our directors and executive officers. Our PRC subsidiaries are required by law to make contributions equal to certain percentages of each employee’s salary for his or her pension insurance, medical insurance, unemployment insurance, and other statutory benefits and a housing provident fund.

**C. Board Practices****Board of Directors**

Our board of directors consists of five directors, including three independent directors. A director is not required to hold any shares in our company to qualify to serve as a director. A director may vote with respect to any contract, proposed contract or arrangement in which he is materially interested, provided that (a) such director, if his or her interest in such contract or arrangement is material, has declared the nature of his or her interest at the earliest meeting of the board at which it is practicable for him or her to do so, either specifically or by way of a general notice and (b) if such contract or arrangement is a transaction with a related party, such transaction has been approved by the audit committee. The directors may exercise all the powers of the company to borrow money, mortgage its undertaking, property and uncalled capital, and issue debentures or other securities whenever money is borrowed or as security for any obligation of the company or of any third party.

## Committees of the Board of Directors

We have established three committees under the board of directors: an audit committee, a compensation committee, and a nominating and corporate governance committee. We have adopted a charter for each of the three committees. Each committee's members and functions are described below.

*Audit Committee.* Our audit committee consists of Jiawen Pang, H. David Sherman, and Ding Zheng. H. David Sherman serves as the chairman of our audit committee. We have determined that Jiawen Pang, H. David Sherman, and Ding Zheng satisfy the "independence" requirements of Rule 5605(a)(2) of the Listing Rules of the Nasdaq Stock Market and Rule 10A-3 under the Securities Exchange Act. Our board also has determined that H. David Sherman qualifies as an audit committee financial expert within the meaning of the SEC rules or possesses financial sophistication within the meaning of the Nasdaq corporate governance rules. The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- appointing the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management's response;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing the adequacy and effectiveness of our accounting and internal control policies and procedures and any steps taken to monitor and control major financial risk exposures;
- reviewing and approving all proposed related party transactions;
- meeting separately and periodically with management and the independent auditors; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

*Compensation Committee.* Our compensation committee consists of Jiawen Pang, H. David Sherman, and Ding Zheng. Jiawen Pang serves as the chairperson of our compensation committee. We have determined that Jiawen Pang, H. David Sherman, and Ding Zheng satisfy the "independence" requirements of Rule 5605(a)(2) of the Listing Rules of the Nasdaq Stock Market and Rule 10C-1 under the Securities Exchange Act. The compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- reviewing and approving the total compensation package for our most senior executive officers;
- approving and overseeing the total compensation package for our executives other than the most senior executive officers;
- reviewing and recommending to the board with respect to the compensation of our directors;
- reviewing periodically and approving any long-term incentive compensation or equity plans;
- selecting compensation consultants, legal counsel or other advisors after taking into consideration all factors relevant to that person's independence from management; and
- reviewing programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans.

*Nominating and Corporate Governance Committee.* Our nominating and corporate governance committee consists of Jiawen Pang, H. David Sherman and Ding Zheng. Ding Zheng serves as the chairperson of our nominating and corporate governance committee. Jiawen Pang, H. David Sherman, and Ding Zheng satisfy the “independence” requirements of Rule 5605(a)(2) of the Listing Rules of the Nasdaq Stock Market. The nominating and corporate governance committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee is responsible for, among other things:

- identifying and recommending nominees for election or re-election to our board of directors or for appointment to fill any vacancy;
- reviewing annually with our board of directors its current composition in light of the characteristics of independence, age, skills, experience and availability of service to us;
- identifying and recommending to our board the directors to serve as members of committees;
- advising the board periodically with respect to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to our board of directors on all matters of corporate governance and on any corrective action to be taken; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

### **Duties of Directors**

Under Cayman Islands law, all of our directors owe three types of duties to us: (i) statutory duties, (ii) fiduciary duties, and (iii) common law duties. The Companies Act (Revised) of the Cayman Islands imposes a number of statutory duties on a director. A Cayman Islands director’s fiduciary duties are not codified, however, the courts of the Cayman Islands have held that a director owes the following fiduciary duties: (a) a duty to act in what the director *bona fide* considers to be in the best interests of the company, (b) a duty to exercise their powers for the purposes they were conferred, (c) a duty to avoid fettering his or her discretion in the future and (d) a duty to avoid conflicts of interest and of duty. The common law duties owed by a director are those to act with skill, care and diligence that may reasonably be expected of a person carrying out the same functions as are carried out by that director in relation to the company and, also, to act with the skill, care and diligence in keeping with a standard of care commensurate with any particular skill they have which enables them to meet a higher standard than a director without those skills. In fulfilling their duty of care to us, our directors must ensure compliance with our amended and restated articles of association. We have the right to seek damages if a duty owed by any of our directors is breached.

Our board of directors has all powers necessary for managing, and for directing and supervising, our business affairs. The functions and powers of our board of directors include, among others:

- convening shareholders’ annual general meetings and reporting its work to shareholders at such meetings;
- declaring dividends and distributions;
- appointing officers and determining the terms of office of the officers;
- exercising the borrowing powers of our company and mortgaging the property of our Company; and

- approving the transfer of shares in our Company, including the registration of such shares in our share register.

### **Terms of Directors and Executive Officers**

Our directors may be elected by a resolution of our board of directors or by an ordinary resolution of our shareholders. Our directors are not subject to a term of office and hold office until such time as they are removed from office by ordinary resolution of the shareholders. A director will cease to be a director if, among other things, the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; (ii) dies or is found by our company to be or becomes of unsound mind; (iii) resigned his or her office by notice in writing to the company; or (iv) without special leave of absence from our board, is absent from three consecutive board meetings and our directors resolve that his office be vacated.

Our officers are elected by and serve at the discretion of the board of directors.

### **Qualification**

There is currently no shareholding qualification for directors, although a shareholding qualification for directors may be fixed by our shareholders by ordinary resolution.

### **Employment Agreements and Indemnification Agreements**

We have entered into employment agreements with each of our executive officers. Pursuant to these employment agreements, we agree to employ each of our executive officers for a specified time period, which may be renewed automatically unless either party gives the other party a two-month prior written notice before the end of the current employment term. We may terminate the employment for cause, at any time, without notice or remuneration, for certain acts of the executive officer, including but not limited to, the commitments of any serious or persistent breach or non-observance of the terms and conditions of the employment, conviction of a criminal offense, willful disobedience of a lawful and reasonable order, fraud or dishonesty, receipt of bribery, or severe neglect of his or her duties. An executive officer may terminate his or her employment at any time with two months' prior written notice. Each executive officer agrees to hold, both during and after the employment agreement expires, in strict confidence and not to use or disclose to any person, corporation or other entity without written consent, any confidential information.

We have also entered into indemnification agreements with each of our directors and executive officers. Under these agreements, we agree to indemnify our directors and executive officers against certain liabilities and expenses incurred by such persons in connection with claims made by reason of their being a director or officer of our Company.

### **Insider Participation Concerning Executive Compensation**

Our director, Mr. Gang Lai, was making all determinations regarding executive officer compensation from the inception of the Company until our Compensation Committee was set up in March 2021.

### **Code of Business Conduct and Ethics**

Our board of directors has adopted a code of business conduct and ethics, which is applicable to all of our directors, officers, and employees. Our code of business conduct and ethics is publicly available on our website.

### **D. Employees**

See “Item 4. Information on the Company—B. Business Overview—Employees.”

### **E. Share Ownership**

The following table sets forth information with respect to the beneficial ownership, within the meaning of Rule 13d-3 under the Exchange Act, of our ordinary shares as of the date of this annual report for:

- each of our directors and executive officers; and
- each person known to us to own beneficially more than 5% of our ordinary shares.

Beneficial ownership includes voting or investment power with respect to the securities. Except as indicated below, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all ordinary shares shown as beneficially owned by them. Percentage of beneficial ownership of each listed person is based on 21,750,000 ordinary shares outstanding as of the date of this annual report.

Information with respect to beneficial ownership has been furnished by each director, officer, or beneficial owner of 5% or more of our ordinary shares. Beneficial ownership is determined in accordance with the rules of the SEC and generally requires that such person have voting or investment power with respect to securities. In computing the number of ordinary shares beneficially owned by a person listed below and the percentage ownership of such person, ordinary shares underlying options, warrants, or convertible securities held by each such person that are exercisable or convertible within 60 days of the date of this annual report are deemed outstanding, but are not deemed outstanding for computing the percentage ownership of any other person.

	Ordinary Shares Beneficially Owned		Voting Power
	Number	%	%
<b>Directors and Executive Officers*:</b>			
Gang Lai <sup>(1)</sup>	12,480,000	57.38%	57.38%
Lin Yang	—	—	—
Baochang Liu	—	—	—
Jiawen Pang	—	—	—
H. David Sherman	—	—	—
Ding Zheng	—	—	—
<b>All directors and executive officers as a group:</b>	12,480,000	57.38%	57.38%
<b>5% Shareholders:</b>			
Sununion Holding Group Limited <sup>(1)</sup>	12,480,000	57.38%	57.38%

\* Unless otherwise indicated, the business address of each of our directors and officers is 265 Jingjiu Avenue, Jingtangshan Economic and Technological Development Zone, Ji'an, Jiangxi, People's Republic of China.

(1) Represents 12,480,000 ordinary shares held by Sununion Holding Group Limited, a business company incorporated in the British Virgin Islands, which is owned as to 91.4% and controlled by Gang Lai. The registered address of Sununion Holding Group Limited is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.

As of the date of this annual report, approximately 42.62% of our issued and outstanding ordinary shares are held in the United States by one record holder (Cede and Company).

We are not aware of any other arrangement that may, at a subsequent date, result in a change of control of our Company.

## **Item 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

### **A. Major Shareholders**

See “Item 6. Directors, Senior Management and Employees—E. Share Ownership.”

### **B. Related Party Transactions**

#### **Employment Agreements**

See “Item 6. Directors, Senior Management and Employees—C. Board Practices—Employment Agreements and Indemnification Agreements.”

#### **Material Transactions with Related Parties**

##### *Nature of relationships with related parties*

<b>Name</b>	<b>Relationship with the Company</b>
Mr. Gang Lai	Chief Executive Officer and chairman of the Board of Directors
Ms. Lin Yang	Chief Financial Officer and Director
Greatest Group (China) Financial Management Limited (“Greatest Group”)	One of our minority shareholders
Foshan Shangyu	Our affiliated entity, 90% owned by and controlled by our CEO, Mr. Gang Lai

##### *Due from related parties*

As of September 30, 2022, there was no balances due from related parties. The balance due from related parties as of September 30, 2021 consisted of due from Greatest Group in the amount of \$235,438 and due from Foshan Shangyu in the amount of \$1,554. The September 30, 2021 due from related parties balance has been subsequently collected back and we do not have any intention to make additional cash advance to related parties going forward.

##### *Due to related parties*

As of September 30, 2022 and 2021, the balances due to related parties were \$3,379,263 and \$19,723, respectively, which mainly consisted of advances from our related parties for working capital purposes in our normal course of business. These advances are non-interest bearing and due on demand. As of September 30, 2022, the balance consisted of balance due to Mr. Gang Lai in the amount of \$3,379,263. As of September 30, 2021, the balance consisted of balance due to Ms. Lin Yang in the amount of \$19,723.

##### *Prepayment for purchase of a property*

On May 6, 2021, we entered into a real estate property purchase agreement with a related party, Jiangxi Yueshang, in which our CEO, Mr. Gang Lai, owns 5% equity interest. Pursuant to this purchase agreement, Jiangxi Yueshang will

sell and we will purchase certain residential apartments and commercial office space totaling 2,749.30 square meters, with total purchase price of RMB32 million (approximately \$4.95 million). Pursuant to this purchase agreement, we were required to make a prepayment in the amount of 50% of the total purchase price, with 20% of the total purchase price payable when certificate of occupancy is available to us, and 30% of the total purchase price payable upon delivery of the property.

As of September 30, 2022, we had made a prepayment in the amount of RMB16 million (approximately \$2.25 million) to Jiangxi Yueshang. The remaining balance is expected to be paid by August 2024. Since the property is located at urban downtown of Ji'an City, we plan to use the property as our offices by September 2024.

On January 13, 2022, Mr. Gang Lai transferred the 5% equity interest he owned in Jiangxi Yueshang to a third party. As such, after this date, Jiangxi Yueshang is no longer our related party.

### ***Loan guarantee provided by related parties***

In connection with our borrowings from LRC Bank, our controlling shareholder and chief executive officer, Mr. Gang Lai, and Foshan Shangyu jointly signed a guarantee agreement with LRC Bank to provide credit guarantee for our borrowings from LRC Bank.

In connection with the Company's bank borrowings from Bank of Communications, certain related parties of the Company, including Mr. Gang Lai, the Company's controlling shareholder, Mr. Gang Lai's spouse, Ms. Xing Wu, and the Company's subsidiary, Universe Trade, jointly signed guarantee agreements with Bank of Communications to provide credit guarantee for this loan.

### **C. Interests of Experts and Counsel**

Not applicable.

## **Item 8. FINANCIAL INFORMATION**

### **A. Consolidated Statements and Other Financial Information**

We have appended consolidated financial statements filed as part of this annual report. See "Item 18. Financial Statements."

### **Legal Proceedings**

From time to time, we may become a party to various legal or administrative proceedings arising in the ordinary course of our business, including actions with respect to intellectual property infringement, violation of third-party licenses or other rights, breach of contract, and labor and employment claims. We are currently not a party to, and we are not aware of any threat of, any legal or administrative proceedings that, in the opinion of our management, are likely to have any material and adverse effect on our business, financial condition, cash flow, or results of operations.

### **Dividend Policy**

As of the date of this annual report, Universe Pharmaceuticals INC has transferred the net proceeds from our initial public offering, through Universe HK and Universe Technology, to Jiangxi Universe in the amount of RMB43,976,156 (approximately \$6,807,507).

As of the date of this annual report, none of our subsidiaries have made any dividends or distributions to Universe Pharmaceuticals INC and Universe Pharmaceuticals INC has not made any dividends or distributions to U.S. investors. We intend to keep any future earnings to finance the expansion of our business, and we do not anticipate that any cash dividends will be paid in the foreseeable future. Subject to the PFIC rules, the gross amount of distributions we make to investors with respect to our ordinary shares (including the amount of any taxes withheld therefrom) will be taxable as a dividend, to the extent that the distribution is paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles.

Our board of directors has discretion on whether to distribute dividends. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. In either case, all dividends are subject to certain restrictions under Cayman Islands law, namely that the company may only pay dividends out of profits or share premium, and provided always that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. Even if we decide to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant.

We are an exempted company with limited liability incorporated in the Cayman Islands. We may rely on dividends from our subsidiaries in China for our cash requirements, including any payment of dividends to our shareholders. PRC regulations may restrict the ability of our PRC subsidiaries to pay dividends to us, and as a holding company, we will be dependent on receipt of funds from our Hong Kong subsidiary, Universe HK.

Current PRC regulations permit our indirect PRC subsidiaries to pay dividends to Universe HK only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, each of our subsidiaries in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory reserve until such reserve reaches 50% of its registered capital. Each of such entity in China is also required to further set aside a portion of its after-tax profits to fund the employee welfare fund, although the amount to be set aside, if any, is determined at the discretion of its board of directors. Although the statutory reserves can be used, among other ways, to increase the registered capital and eliminate future losses in excess of retained earnings of the respective companies, the reserve funds are not distributable as cash dividends except in the event of liquidation.

The PRC government also imposes controls on the conversion of RMB into foreign currencies and the remittance of currencies out of the PRC. Therefore, we may experience difficulties in complying with the administrative requirements necessary to obtain and remit foreign currency for the payment of dividends from our profits, if any. Furthermore, if our subsidiaries and affiliates in the PRC incur debt on their own in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments. If we or our subsidiaries are unable to receive all of the revenue from our operations, we may be unable to pay dividends on our ordinary shares.

Cash dividends, if any, on our ordinary shares will be paid in U.S. dollars. Universe HK may be considered a non-resident enterprise for tax purposes, so that any dividends our PRC subsidiaries pay to Universe HK may be regarded as China-sourced income and as a result may be subject to PRC withholding tax at a rate of up to 10%. See “Item 10. Additional Information—E. Taxation—People’s Republic of China Taxation.”

In order for us to pay dividends to our shareholders, we will rely on payments made from Universe Technology’s subsidiary, Jiangxi Universe, to Universe Technology and from Universe Technology to Universe HK and then to our Company. According to the EIT Law, such payments from subsidiaries to parent companies in China are subject to the PRC enterprise income tax at a rate of 25%. In addition, if Jiangxi Universe or its subsidiary or branches incur debt on their own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us.



Pursuant to the Double Tax Avoidance Arrangement, the 10% withholding tax rate may be lowered to 5% if a Hong Kong resident enterprise owns no less than 25% of a PRC project. The 5% withholding tax rate, however, does not automatically apply and certain requirements must be satisfied, including without limitation that (a) the Hong Kong project must be the beneficial owner of the relevant dividends; and (b) the Hong Kong project must directly hold no less than 25% share ownership in the PRC project during the 12 consecutive months preceding its receipt of the dividends. In current practice, a Hong Kong project must obtain a tax resident certificate from the Hong Kong tax authority to apply for the 5% lower PRC withholding tax rate. As the Hong Kong tax authority will issue such a tax resident certificate on a case-by-case basis, we cannot assure you that we will be able to obtain the tax resident certificate from the relevant Hong Kong tax authority and enjoy the preferential withholding tax rate of 5% under the Double Taxation Arrangement with respect to any dividends paid by our PRC subsidiaries to its immediate holding company, Universe HK. As of the date of this annual report, we have not applied for the tax resident certificate from the relevant Hong Kong tax authority. Universe HK intends to apply for the tax resident certificate if and when Universe Technology plan to declare and pay dividends to Universe HK. See “Item 3. Key Information—D. Risk Factors— There are significant uncertainties under the Enterprise Income Tax Law, or the EIT Law, relating to the withholding tax liabilities of our PRC subsidiaries, and dividends payable by our PRC subsidiaries to our offshore subsidiaries may not qualify to enjoy certain treaty benefits.”

### **B. Significant Changes**

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

## **Item 9. THE OFFER AND LISTING**

### **A. Offer and Listing Details.**

Our ordinary shares have been listed on the Nasdaq Global Market since March 23, 2021 under the symbol “UPC.”

### **B. Plan of Distribution**

Not applicable.

### **C. Markets**

Our ordinary shares have been listed on the Nasdaq Global Market since March 23, 2021 under the symbol “UPC.”

### **D. Selling Shareholders**

Not applicable.

### **E. Dilution**

Not applicable.

### **F. Expenses of the Issue**

Not applicable.

## **Item 10. ADDITIONAL INFORMATION**

## **A. Share Capital**

Not applicable.

## **B. Memorandum and Articles of Association**

We are an exempted company incorporated under the laws of the Cayman Islands and our affairs are governed by our amended and restated memorandum and articles of association, as amended and restated from time to time, and Companies Act (As Revised) of the Cayman Islands, which we refer to as the Companies Act below, and the common law of the Cayman Islands.

We incorporate by reference into this annual report the description of our second amended and restated memorandum and articles of association, which was filed as Exhibit 3.1 to our registration statement on Form F-3 (File No. 333-268028), filed with the SEC on October 27, 2022.

### **Registered Office**

Our registered office in the Cayman Islands is located at Vistra (Cayman) Limited, P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KYI – 1205 Cayman Islands, and the phone number of our registered office is +1-(345)769-9372.

### **Board of Directors**

See “Item 6. Directors, Senior Management and Employees.”

### **Ordinary Shares**

#### ***General***

All of our issued and outstanding ordinary shares are fully paid and non-assessable. Our ordinary shares are issued in registered form, and are issued when registered in our register of members. Unless the board of directors determine otherwise, each holder of our ordinary shares will not receive a certificate in respect of such ordinary shares. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their ordinary shares. We may not issue shares or warrants to bearer.

Our authorized share capital is \$312,500 divided into 90,000,000 ordinary shares, par value \$0.003125 per share and 10,000,000 preferred shares, par value \$0.003125 per share. Subject to the provisions of the Companies Act and our articles regarding redemption and purchase of the shares, the directors have general and unconditional authority to allot (with or without confirming rights of renunciation), grant options over or otherwise deal with any unissued shares to such persons, at such times and on such terms and conditions as they may decide. Such authority could be exercised by the directors to allot shares which carry rights and privileges that are preferential to the rights attaching to ordinary shares. No share may be issued at a discount except in accordance with the provisions of the Companies Act. The directors may refuse to accept any application for shares, and may accept any application in whole or in part, for any reason or for no reason.

### ***Dividends***

Subject to the provisions of the Companies Act and any rights attaching to any class or classes of shares under and in accordance with the articles:

- (a) the directors may declare dividends or distributions out of our funds which are lawfully available for that purpose; and
- (b) the Company's shareholders may, by ordinary resolution, declare dividends but no such dividend shall exceed the amount recommended by the directors.

Subject to the requirements of the Companies Act regarding the application of a company's share premium account and with the sanction of an ordinary resolution, dividends may also be declared and paid out of any share premium account. The directors when paying dividends to shareholders may make such payment either in cash or in specie.

Unless provided by the rights attached to a share, no dividend shall bear interest.

### ***Voting Rights***

Subject to any rights or restrictions as to voting attached to any shares, unless any share carries special voting rights, on a show of hands every shareholder who is present in person and every person representing a shareholder by proxy shall have one vote per ordinary share. On a poll, every shareholder who is present in person and every person representing a shareholder by proxy shall have one vote for each share of which he or the person represented by proxy is the holder. In addition, all shareholders holding shares of a particular class are entitled to vote at a meeting of the holders of that class of shares. Votes may be given either personally or by proxy.

### ***Variation of Rights of Shares***

Whenever our capital is divided into different classes of shares, the rights attaching to any class of share (unless otherwise provided by the terms of issue of the shares of that class) may be varied either with the consent in writing of the holders of not less than two-thirds of the issued shares of that class, or with the sanction of a resolution passed by a majority of not less than two-thirds of the holders of shares of the class present in person or by proxy at a separate general meeting of the holders of shares of that class.

Unless the terms on which a class of shares was issued state otherwise, the rights conferred on the shareholder holding shares of any class shall not be deemed to be varied by the creation or issue of further shares ranking *pari passu* with the existing shares of that class.

### ***Alteration of Share Capital***

Subject to the Companies Act, our shareholders may, by ordinary resolution:

- (a) increase our share capital by new shares of the amount fixed by that ordinary resolution and with the attached rights, priorities and privileges set out in that ordinary resolution;
- (b) consolidate and divide all or any of our share capital into shares of larger amount than our existing shares;
- (c) convert all or any of our paid up shares into stock, and reconvert that stock into paid up shares of any denomination;
- (d) sub-divide our shares or any of them into shares of an amount smaller than that fixed, so, however, that in the sub-division, the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in case of the share from which the reduced share is derived; and
- (e) cancel shares which, at the date of the passing of that ordinary resolution, have not been taken or agreed to be taken by any person and diminish the amount of our share capital by the amount of the shares so cancelled or, in the case of shares without nominal par value, diminish the number of shares into which our capital is divided.

Subject to the Companies Act and to any rights for the time being conferred on the shareholders holding a particular class of shares, our shareholders may, by special resolution, reduce its share capital in any way.

***Calls on Shares and Forfeiture***

Subject to the terms of allotment, the directors may make calls on the shareholders in respect of any monies unpaid on their shares including any premium and each shareholder shall (subject to receiving at least 14 clear days' notice specifying when and where payment is to be made), pay to us the amount called on his shares. Shareholders registered as the joint holders of a share shall be jointly and severally liable to pay all calls in respect of the share. If a call remains unpaid after it has become due and payable the person from whom it is due and payable shall pay interest on the amount unpaid from the day it became due and payable until it is paid at the rate fixed by the terms of allotment of the share or in the notice of the call or if no rate is fixed, at the rate of ten percent per annum. The directors may, at their discretion, waive payment of the interest wholly or in part.

We have a first and paramount lien on all shares (whether fully paid up or not) registered in the name of a shareholder (whether solely or jointly with others). The lien is for all monies payable to us by the shareholder or the shareholder's estate:

- (a) either alone or jointly with any other person, whether or not that other person is a shareholder; and
- (b) whether or not those monies are presently payable.

At any time the directors may declare any share to be wholly or partly exempt from the lien on shares provisions of the articles.

We may sell, in such manner as the directors may determine, any share on which the sum in respect of which the lien exists is presently payable, if due notice that such sum is payable has been given (as prescribed by the articles) and, within 14 days of the date on which the notice is deemed to be given under the articles, such notice has not been complied with.

***Unclaimed Dividend***

A dividend that remains unclaimed for a period of six years after it became due for payment shall be forfeited to, and shall cease to remain owing by, the company.

***Forfeiture or Surrender of Shares***

If a shareholder fails to pay any capital call, the directors may give to such shareholder not less than 14 clear days' notice requiring payment and specifying the amount unpaid including any interest which may have accrued, any expenses which have been incurred by us due to that person's default and the place where payment is to be made. The notice shall also contain a warning that if the notice is not complied with, the shares in respect of which the call is made will be liable to be forfeited.

If such notice is not complied with, the directors may, before the payment required by the notice has been received, resolve that any share the subject of that notice be forfeited (which forfeiture shall include all dividends or other monies payable in respect of the forfeited share and not paid before such forfeiture).

A forfeited share may be sold, re-allotted or otherwise disposed of on such terms and in such manner as the directors determine and at any time before a sale, re-allotment or disposition the forfeiture may be cancelled on such terms as the directors think fit.

A person whose shares have been forfeited shall cease to be a shareholder in respect of the forfeited shares, but shall, notwithstanding such forfeiture, remain liable to pay to us all monies which at the date of forfeiture were payable by him to us in respect of the shares, together with all expenses and interest from the date of forfeiture or surrender until payment, but his liability shall cease if and when we receive payment in full of the unpaid amount.

A declaration, whether statutory or under oath, made by a director or the secretary shall be conclusive evidence that the person making the declaration is our director or secretary and that the particular shares have been forfeited or surrendered on a particular date.

Subject to the execution of an instrument of transfer, if necessary, the declaration shall constitute good title to the shares.

### ***Share Premium Account***

The directors shall establish a share premium account and shall carry the credit of such account from time to time to a sum equal to the amount or value of the premium paid on the issue of any share or capital contributed or such other amounts required by the Companies Act.

### ***Redemption and Purchase of Own Shares***

Subject to the Companies Act and any rights for the time being conferred on the shareholders holding a particular class of shares, we may by action of our directors:

- (a) issue shares that are to be redeemed or liable to be redeemed, at our option or the shareholder holding those redeemable shares, on the terms and in the manner our directors determine before the issue of those shares;
- (b) with the consent by special resolution of the shareholders holding shares of a particular class, vary the rights attaching to that class of shares so as to provide that those shares are to be redeemed or are liable to be redeemed at our option on the terms and in the manner which the directors determine at the time of such variation; and
- (c) purchase all or any of our own shares of any class including any redeemable shares on the terms and in the manner which the directors determine at the time of such purchase.

We may make a payment in respect of the redemption or purchase of its own shares in any manner authorized by the Companies Act, including out of any combination of capital, our profits and the proceeds of a fresh issue of shares.

When making a payment in respect of the redemption or purchase of shares, the directors may make the payment in cash or in specie (or partly in one and partly in the other) if so authorized by the terms of the allotment of those shares or by the terms applying to those shares, or otherwise by agreement with the shareholder holding those shares.

### ***Transfer of Shares***

Provided that a transfer of ordinary shares complies with applicable rules of Nasdaq, a shareholder may transfer ordinary shares to another person by completing an instrument of transfer in a common form or in a form prescribed by Nasdaq or in any other form approved by the directors, executed:

- (a) where the ordinary shares are fully paid, by or on behalf of that shareholder; and
- (b) where the ordinary shares are partly paid, by or on behalf of that shareholder and the transferee.

The transferor shall be deemed to remain the holder of an ordinary share until the name of the transferee is entered into the register of members of the Company.

Our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share that has not been fully paid up or is subject to a company lien. Our board of directors may also decline to register any transfer of such ordinary share unless:

- (a) the instrument of transfer is lodged with the Company, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of ordinary shares;
- (c) the instrument of transfer is properly stamped, if required;

- (d) the ordinary shares transferred is fully paid and free of any lien in favor of us;
- (e) any fee related to the transfer has been paid to us; and
- (f) the transfer is not to more than four joint holders.

If our directors refuse to register a transfer, they are required, within three months after the date on which the instrument of transfer was lodged, to send to each of the transferor and the transferee notice of such refusal.

This, however, is unlikely to affect market transactions of the ordinary shares purchased by investors in the public offering. The legal title to such ordinary shares and the registration details of those ordinary shares in the Company's register of members will remain with Depository Trust Company ("DTC"). All market transactions with respect to those ordinary shares will then be carried out without the need for any kind of registration by the directors, as the market transactions will all be conducted through the DTC systems.

The registration of transfers may, on 14 calendar days' notice being given by advertisement in such one or more newspapers or by electronic means, be suspended and our register of members closed at such times and for such periods as our board of directors may from time to time determine. The registration of transfers, however, may not be suspended, and the register may not be closed, for more than 30 days in any year.

### ***Inspection of Books and Records***

Holders of our ordinary shares will have no general right under the Companies Act to inspect or obtain copies of our register of members or our corporate records.

### ***General Meetings***

As a Cayman Islands exempted company, we are not obligated by the Companies Act to call shareholders' annual general meetings; accordingly, we may, but shall not be obliged to, in each year hold a general meeting as an annual general meeting. Any annual general meeting held shall be held at such time and place as may be determined by our board of directors. All general meetings other than annual general meetings shall be called extraordinary general meetings.

The directors may convene general meetings whenever they think fit. General meetings shall also be convened on the written requisition of one or more of the shareholders entitled to attend and vote at our general meetings who (together) hold not less than ten percent of the rights to vote at such general meeting in accordance with the notice provisions in the articles, specifying the purpose of the meeting and signed by each of the shareholders making the requisition. If the directors do not convene such meeting for a date not later than 21 clear days' after the date of receipt of the written requisition, those shareholders who requested the meeting may convene the general meeting themselves within three months after the end of such period of 21 clear days in which case reasonable expenses incurred by them as a result of the directors failing to convene a meeting shall be reimbursed by us.

At least 14 days' notice of an extraordinary general meeting and 21 days' notice of an annual general meeting shall be given to shareholders entitled to attend and vote at such meeting. The notice shall specify the place, the day and the hour of the meeting and the general nature of that business. In addition, if a resolution is proposed as a special resolution, the text of that resolution shall be given to all shareholders. Notice of every general meeting shall also be given to the directors and our auditors.

Subject to the Companies Act and with the consent of the shareholders who, individually or collectively, hold at least 90 percent of the voting rights of all those who have a right to vote at a general meeting, a general meeting may be convened on shorter notice.

A quorum shall consist of the presence (whether in person or represented by proxy) of one or more shareholders holding shares that represent not less than one-third of the outstanding shares carrying the right to vote at such general meeting.

If, within 15 minutes from the time appointed for the general meeting, or at any time during the meeting, a quorum is not present, the meeting, if convened upon the requisition of shareholders, shall be cancelled. In any other case it shall stand adjourned to the same time and place seven days or to such other time or place as is determined by the directors.

The chairman may, with the consent of a meeting at which a quorum is present, adjourn the meeting. When a meeting is adjourned for seven days or more, notice of the adjourned meeting shall be given in accordance with the articles.

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands, unless a poll is (before, or on, the declaration of the result of the show of hands) demanded by the chairman of the meeting or by at least two shareholders having the right to vote on the resolutions or one or more shareholders present who together hold not less than ten percent of the voting rights of all those who are entitled to vote on the resolution. Unless a poll is so demanded, a declaration by the chairman as to the result of a resolution and an entry to that effect in the minutes of the meeting, shall be conclusive evidence of the outcome of a show of hands, without proof of the number or proportion of the votes recorded in favor of, or against, that resolution.

If a poll is duly demanded it shall be taken in such manner as the chairman directs and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded, shall not be entitled to a second or casting vote.

### ***Directors***

We may by ordinary resolution, from time to time, fix the maximum and minimum number of directors to be appointed. Under the articles, we are required to have a minimum of one director and the maximum number of directors shall be unlimited.

A director may be appointed by ordinary resolution or by the directors. Any appointment may be to fill a vacancy or as an additional director.

Unless the remuneration of the directors is determined by the shareholders by ordinary resolution, the directors shall be entitled to such remuneration as the directors may determine.

The shareholding qualification for directors may be fixed by our shareholders by ordinary resolution and unless and until so fixed no share qualification shall be required.

Unless removed or re-appointed, each director shall be appointed for a term expiring at the next-following annual general meeting, if one is held. At any annual general meeting held, our directors will be elected by an ordinary resolution of our shareholders. At each annual general meeting, each director so elected shall hold office for a one-year term and until the election of their respective successors in office or removed.

A director may be removed by ordinary resolution.

A director may at any time resign or retire from office by giving us notice in writing. Unless the notice specifies a different date, the director shall be deemed to have resigned on the date that the notice is delivered to us.

Subject to the provisions of the articles, the office of a director may be terminated forthwith if:

- (a) he is prohibited by the law of the Cayman Islands from acting as a director;
- (b) he is made bankrupt or makes an arrangement or composition with his creditors generally;
- (c) he resigns his office by notice to us;
- (d) he only held office as a director for a fixed term and such term expires;

- (e) in the opinion of a registered medical practitioner by whom he is being treated he becomes physically or mentally incapable of acting as a director;
- (f) he is given notice by the majority of the other directors (not being less than two in number) to vacate office (without prejudice to any claim for damages for breach of any agreement relating to the provision of the services of such director);
- (g) he is made subject to any law relating to mental health or incompetence, whether by court order or otherwise;  
or
- (h) without the consent of the other directors, he is absent from meetings of directors for continuous period of six months.

Each of the compensation committee and the nominating and corporate governance committee shall consist of at least three directors and the majority of the committee members shall be independent within the meaning of Rule 5605(a)(2) of the Listing Rules of the Nasdaq Stock Market. The audit committee shall consist of at least three directors, all of whom shall be independent within the meaning of Rule 5605(a)(2) of the Listing Rules of the Nasdaq Stock Market and will meet the criteria for independence set forth in Rule 10A-3 or Rule 10C-1 of the Exchange Act.

### ***Powers and Duties of Directors***



Subject to the provisions of the Companies Act and our memorandum and articles of association, our business shall be managed by the directors, who may exercise all our powers. No prior act of the directors shall be invalidated by any subsequent alteration of our memorandum or articles of association. To the extent allowed by the Companies Act, however, shareholders may by special resolution validate any prior or future act of the directors which would otherwise be in breach of their duties.

The directors may delegate any of their powers to any committee consisting of one or more persons who need not be shareholders and may include non-directors so long as the majority of those persons are directors; any committee so formed shall in the exercise of the powers so delegated conform to any regulations that may be imposed on it by the directors. Our board of directors have established an audit committee, compensation committee, and nomination and corporate governance committee.

The board of directors may establish any local or divisional board of directors or agency and delegate to it its powers and authorities (with power to sub-delegate) for managing any of our affairs whether in the Cayman Islands or elsewhere and may appoint any persons to be members of a local or divisional board of directors, or to be managers or agents, and may fix their remuneration.

The directors may from time to time and at any time by power of attorney or in any other manner they determine appoint any person, either generally or in respect of any specific matter, to be our agent with or without authority for that person to delegate all or any of that person's powers.

The directors may from time to time and at any time by power of attorney or in any other manner they determine appoint any person, whether nominated directly or indirectly by the directors, to be our attorney or our authorized signatory and for such period and subject to such conditions as they may think fit. The powers, authorities and discretions, however, must not exceed those vested in, or exercisable, by the directors under the articles.

The board of directors may remove any person so appointed and may revoke or vary the delegation.

The directors may exercise all of our powers to borrow money and to mortgage or charge its undertaking, property and assets both present and future and uncalled capital or any part thereof, to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of ours or our parent undertaking (if any) or any subsidiary undertaking of us or of any third party.

A director shall not, as a director, vote in respect of any contract, transaction, arrangement or proposal in which he has an interest which (together with any interest of any person connected with him) is a material interest (otherwise than by virtue of his interests, direct or indirect, in shares or debentures or other securities of, or otherwise in or through, us) and if he shall do so his vote shall not be counted, nor in relation thereto shall he be counted in the quorum present at the meeting, but (in the absence of some other material interest than is mentioned below) none of these prohibitions shall apply to:

- (a) the giving of any security, guarantee or indemnity in respect of:
  - (i) money lent or obligations incurred by him or by any other person for our benefit or any of our subsidiaries; or
  - (ii) a debt or obligation of ours or any of our subsidiaries for which the director himself has assumed responsibility in whole or in part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security;

- (b) where we or any of our subsidiaries is offering securities in which offer the director is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which the director is to or may participate;
- (c) any contract, transaction, arrangement or proposal affecting any other body corporate in which he is interested, directly or indirectly and whether as an officer, shareholder, creditor or otherwise howsoever, provided that he (together with persons connected with him) does not to his knowledge hold an interest representing one percent or more of any class of the equity share capital of such body corporate (or of any third body corporate through which his interest is derived) or of the voting rights available to shareholders of the relevant body corporate;
- (d) any act or thing done or to be done in respect of any arrangement for the benefit of the employees of us or any of our subsidiaries under which he is not accorded as a director any privilege or advantage not generally accorded to the employees to whom such arrangement relates; or
- (e) any matter connected with the purchase or maintenance for any director of insurance against any liability or (to the extent permitted by the Companies Act) indemnities in favor of directors, the funding of expenditure by one or more directors in defending proceedings against him or them or the doing of anything to enable such director or directors to avoid incurring such expenditure.

A director may, as a director, vote (and be counted in the quorum) in respect of any contract, transaction, arrangement or proposal in which he has an interest which is not a material interest or as described above.

#### ***Capitalization of Profits***

The directors may resolve to capitalize:

- (a) any part of our profits not required for paying any preferential dividend (whether or not those profits are available for distribution); or
- (b) any sum standing to the credit of our share premium account or capital redemption reserve, if any.

The amount resolved to be capitalized must be appropriated to the shareholders who would have been entitled to it had it been distributed by way of dividend and in the same proportions.

#### ***Liquidation Rights***

If we are wound up, the shareholders may, subject to the articles and any other sanction required by the Companies Act, pass a special resolution allowing the liquidator to do either or both of the following:

- (a) to divide in specie among the shareholders the whole or any part of our assets and, for that purpose, to value any assets and to determine how the division shall be carried out as between the shareholders or different classes of shareholders; and
- (b) to vest the whole or any part of the assets in trustees for the benefit of shareholders and those liable to contribute to the winding up.

The directors have the authority to present a petition for our winding up to the Grand Court of the Cayman Islands on our behalf without the sanction of a resolution passed at a general meeting.

## ***Register of Members***

Under the Companies Act, we must keep a register of members and there should be entered therein:

- the names and addresses of our shareholders, a statement of the shares held by each shareholder, and of the amount paid or agreed to be considered as paid, on the shares of each shareholder;
- the date on which the name of any person was entered on the register as a shareholder; and
- the date on which any person ceased to be a shareholder.

Under the Companies Act, the register of members of our company is prima facie evidence of the matters set out therein (that is, the register of members will raise a presumption of fact on the matters referred to above unless rebutted) and a shareholder registered in the register of members is deemed as a matter of the Companies Act to have legal title to the shares as set against its name in the register of members.

If the name of any person is incorrectly entered in or omitted from our register of members, or if there is any default or unnecessary delay in entering on the register the fact of any person having ceased to be a shareholder of our company, the person or shareholder aggrieved (or any shareholder of our company or our company itself) may apply to the Grand Court of the Cayman Islands for an order that the register be rectified, and the Court may either refuse such application or it may, if satisfied of the justice of the case, make an order for the rectification of the register.

## **Preferred Shares**

The directors are empowered to designate and issue from time to time one or more classes or series of preference shares and to fix and determine the relative rights, preferences, designations, qualifications, privileges, options, conversion rights, limitations and other special or relative rights of each such class or series so authorized. Such action could adversely affect the voting power and other rights of the holders of our ordinary shares or could have the effect of discouraging any attempt by a person or group to obtain control of us.

As of the date of this annual report, no preferred shares are issued and outstanding.

## **C. Material Contracts**

We have not entered into any material contracts other than in the ordinary course of business and other than those described in “Item 4. Information on the Company” or elsewhere in this annual report.

## **D. Exchange Controls**

See “Item 4. Information on the Company—B. Business Overview—Regulations—Other Laws—Foreign Exchange Control.”

## **E. Taxation**

### **People’s Republic of China Taxation**

The following brief description of Chinese enterprise laws is designed to highlight the enterprise-level taxation on our earnings, which will affect the amount of dividends, if any, we are ultimately able to pay to our shareholders.

According to the Enterprise Income Tax Law of the People's Republic of China, or the EIT Law, which was promulgated by the SCNPC on March 16, 2007, and became effective on January 1, 2008, and then amended on February 24, 2017, and the Implementation Rules of the EIT Law, or the Implementation Rules, which were promulgated by the State Council on December 6, 2007, effective on January 1, 2008, and amended on April 23, 2019, enterprises are divided into resident enterprises and non-resident enterprises. Resident enterprises pay enterprise income tax on their incomes obtained in and outside the PRC at the rate of 25%. Non-resident enterprises setting up institutions in the PRC pay enterprise income tax on the incomes obtained by such institutions in and outside the PRC at the rate of 25%. Non-resident enterprises with no institutions in the PRC, and non-resident enterprises with income having no substantial connection with their institutions in the PRC, pay enterprise income tax on their income obtained in the PRC at a reduced rate of 10%.

We are an exempted company incorporated with limited liability in the Cayman Islands and we gain substantial income by way of dividends paid to us from our PRC subsidiaries, Universe Technology, Jiangxi Universe, and Universe Trade. The EIT Law and its implementation rules provide that China-sourced income of foreign enterprises, such as dividends paid by a PRC subsidiary to its equity holders that are non-resident enterprises, will normally be subject to PRC withholding tax at a rate of 10%, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a preferential tax rate or a tax exemption.

Under the EIT Law, an enterprise established outside of China with a "de facto management body" within China is considered a "resident enterprise," which means that it is treated in a manner similar to a Chinese enterprise for enterprise income tax purposes. Although the implementation rules of the EIT Law define "de facto management body" as a managing body that actually, comprehensively manage and control the production and operation, staff, accounting, property and other aspects of an enterprise, the only official guidance for this definition currently available is set forth in SAT Notice 82, which provides guidance on the determination of the tax residence status of a Chinese-controlled offshore incorporated enterprise, defined as an enterprise that is incorporated under the laws of a foreign country or territory and that has a PRC enterprise or enterprise group as its primary controlling shareholder. Although Universe INC does not have a PRC enterprise or enterprise group as our primary controlling shareholder and is therefore not a Chinese-controlled offshore incorporated enterprise within the meaning of SAT Notice 82, in the absence of guidance specifically applicable to us, we have applied the guidance set forth in SAT Notice 82 to evaluate the tax residence status of Universe INC and its subsidiaries organized outside the PRC.

According to SAT Notice 82, a Chinese-controlled offshore incorporated enterprise will be regarded as a PRC tax resident by virtue of having a "de facto management body" in China and will be subject to PRC enterprise income tax on its worldwide income only if all of the following criteria are met: (i) the places where senior management and senior management departments that are responsible for daily production, operation and management of the enterprise perform their duties are mainly located within the territory of China; (ii) financial decisions (such as money borrowing, lending, financing and financial risk management) and personnel decisions (such as appointment, dismissal and salary and wages) are decided or need to be decided by organizations or persons located within the territory of China; (iii) main property, accounting books, corporate seal, the board of directors and files of the minutes of shareholders' meetings of the enterprise are located or preserved within the territory of China; and (iv) one half (or more) of the directors or senior management staff having the right to vote habitually reside within the territory of China.

We believe that we do not meet some of the conditions outlined in the immediately preceding paragraph. For example, as a holding company, the key assets and records of Universe INC, including the resolutions and meeting minutes of our board of directors and the resolutions and meeting minutes of our shareholders, are located and maintained outside the PRC. In addition, we are not aware of any offshore holding companies with a corporate structure similar to ours that has been deemed a PRC "resident enterprise" by the PRC tax authorities. Accordingly, we believe that Universe INC and its offshore subsidiaries should not be treated as a "resident enterprise" for PRC tax purposes if the criteria for "de facto management body" as set forth in SAT Notice 82 were deemed applicable to us. However, as the tax residency status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term "de facto management body" as applicable to our offshore entities, we will continue to monitor our tax status.

The implementation rules of the EIT law provides that, (i) if the enterprise that distributes dividends is domiciled in the PRC or (ii) if gains are realized from transferring equity interests of enterprises domiciled in the PRC, then such dividends or gains are treated as China-sourced income. It is not clear how “domicile” may be interpreted under the EIT Law, and it may be interpreted as the jurisdiction where the enterprise is a tax resident. Therefore, if we are considered as a PRC tax resident enterprise for PRC tax purposes, any dividends we pay to our overseas shareholders which are non-resident enterprises as well as gains realized by such shareholders from the transfer of our shares may be regarded as China-sourced income and as a result become subject to PRC withholding tax at a rate of up to 10%. AllBright Law Offices (Fuzhou), our PRC counsel, is unable to provide a “will” opinion because it believes that it is more likely than not that we and our offshore subsidiaries would be treated as non-resident enterprises for PRC tax purposes because we do not meet some of the conditions outlined in SAT Notice 82. In addition, AllBright Law Offices (Fuzhou) is not aware of any offshore holding companies with a corporate structure similar to ours that has been deemed a PRC “resident enterprise” by the PRC tax authorities as of the date of this annual report. Therefore, AllBright Law Offices (Fuzhou) believes that it is possible but highly unlikely that the income received by our overseas shareholders will be regarded as China-sourced income. See “Item 3. Key Information—Risk Factors—Risks Related to Doing Business in China—Under the EIT Law, we may be classified as a ‘Resident Enterprise’ of China. Such classification will likely result in unfavorable tax consequences to us and our non-PRC shareholders.”

Currently, as resident enterprises in the PRC, Universe Technology as well as Jiangxi Universe and its subsidiaries in PRC are subject to the enterprise income tax at the rate of 25%, except that once an enterprise meets certain requirements and is identified as a small-scale minimal profit enterprise, the part of its taxable income not more than RMB1 million is subject to a reduced rate of 5% and the part between RMB1 million and 3 million is subject to a reduced rate of 10%. The EIT is calculated based on the entity’s global income as determined under PRC tax laws and accounting standards. If the PRC tax authorities determine that Jiangxi Universe is a PRC resident enterprise for enterprise income tax purposes, we may be required to withhold a 10% withholding tax from dividends we pay to our shareholders that are non-resident enterprises. In addition, non-resident enterprise shareholders may be subject to a 10% PRC withholding tax on gains realized on the sale or other disposition of our ordinary shares, if such income is treated as sourced from within the PRC. It is unclear whether our non-PRC individual shareholders would be subject to any PRC tax on dividends or gains obtained by such non-PRC individual shareholders in the event we are determined to be a PRC resident enterprise. If any PRC tax were to apply to dividends or gains realized by non-PRC individuals, it would generally apply at a rate of 20% unless a reduced rate is available under an applicable tax treaty. However, it is also unclear whether our non-PRC shareholders would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. There is no guidance from the PRC government to indicate whether or not any tax treaties between the PRC and other countries would apply in circumstances where a non-PRC company was deemed to be a PRC tax resident, and thus there is no basis for expecting how tax treaty between the PRC and other countries may impact non-resident enterprises.

#### *Value-added Tax*

Pursuant to the Provisional Regulations on Value-Added Tax of the PRC (《中华人民共和国增值税暂行条例》), or the VAT Regulations, which were promulgated by the State Council on December 13, 1993, and amended on November 10, 2008, February 6, 2016, and November 19, 2017, respectively, and the Implementation Rules of the Provisional Regulations on Value Added Tax of the PRC (《中华人民共和国增值税暂行条例实施细则》) promulgated by the MOF on December 25, 1993 and amended on December 15, 2008 and October 28, 2011, respectively, entities and individuals that sell goods or labor services of processing, repair or replacement, sell services, intangible assets, or immovables, or import goods within the territory of the People’s Republic of China are taxpayers of value-added tax. The VAT rate is 17% for taxpayers selling goods, labor services, or tangible movable property leasing services or importing goods, except otherwise specified; 11% for taxpayers selling goods, labor services, or tangible movable property leasing services or importing goods, except otherwise specified; 6% for taxpayers selling services or intangible assets.

According to Provisions in the Notice on Adjusting the Value added Tax Rates (Cai Shui [2018] No. 32), or the Notice, issued by the SAT and the MOF, where taxpayers make VAT taxable sales or import goods, the applicable tax rates

shall be adjusted from 17% to 16% and from 11% to 10%, respectively. The Notice took effect on May 1, 2018, and the adjusted VAT rates took effect at the same time.

On March 23, 2016, the MOF and the SAT jointly issued the Circular of Full Implementation of Business Tax to VAT Reform (the “Circular 36”) (《关于全面推开营业税改征增值税试点的通知》), which confirms that business tax will be completely replaced by VAT from May 1, 2016. The Notice of the MOF and the SAT on the Adjustment to VAT Rates (《关于调整增值税税率的通知》), promulgated on April 4, 2018 and effective as of May 1, 2018, adjusted the applicative rate of VAT. The deduction rates of 17% and 11% applicable to the taxpayers who have VAT taxable sales activities or imported goods are adjusted to 16% and 10%, respectively. For the export goods to which a tax rate of 17% was originally applicable and the export rebate rate was 17%, the export rebate rate is adjusted to 16%. For the export goods and cross-border taxable activities to which a tax rate of 11% was originally applicable and the export rebate rate was 11%, the export rebate rate is adjusted to 10%. Pursuant to such circular, the Value Added Tax Pilot Program has been applicable nationwide since May 1, 2016.

Subsequently, the Notice on Policies for Deepening Reform of Value-added Tax was issued by the SAT, the MOF and the General Administration of Customs on March 30, 2019 and took effective on April 1, 2019, which further adjusted the applicable tax rate for taxpayers making VAT taxable sales or importing goods. The applicable tax rates shall be adjusted from 16% to 13% and from 10% to 9%, respectively.

According to the VAT Regulations and the related rules, as of the date of this annual report, as taxpayers selling goods, Jiangxi Universe and its consolidated affiliated entities are generally subject to 13% VAT rate.

#### *Dividend Withholding Tax*

Pursuant to the Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (《内地和香港特别行政区关于所得税避免双重征税和防止偷税漏税的安排》) effective on August 21, 2006, no more than 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident, provided that the recipient is a company that holds at least 25% of the capital of the PRC company. The 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if the recipient is a company that holds less than 25% of the capital of the PRC company.

Furthermore, pursuant to the Notice of the SAT on Issues Relating to the Implementation of Dividend Clauses in Tax Treaties (Guo Shui Han [2009] No.81) (《国家税务总局关于执行税收协定股息条款有关问题的通知》(国税函[2009] 81号)), which was promulgated and effective on February 20, 2009, all of the following requirements should be satisfied where a fiscal resident of the other party to the tax agreement needs to be entitled to such tax agreement treatment as being taxed at a tax rate specified in the tax agreement for the dividends paid to it by a PRC resident company: (1) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; (2) owner’s equity interests and voting shares of the PRC resident company directly owned by such a fiscal resident reaches a specified percentage; and (3) the equity interests of the PRC resident company directly owned by such a fiscal resident, at any time during the 12 months prior to the acquisition of the dividends, reaches a percentage specified in the tax agreement.

In addition, according to the Administrative Measures on Non-resident Taxpayers Enjoying Treaty Benefits (《非居民纳税人享受协定待遇管理办法》) promulgated by the SAT on October 14, 2019 and became effective on January 1, 2020, non-resident taxpayers claiming treaty benefits shall adhere to the principle of “self-assessment, claiming benefits, retention of the relevant materials for future inspection.” Where a non-resident taxpayer self-assesses and concludes that it satisfies the criteria for claiming treaty benefits, it may enjoy treaty benefits at the time of tax declaration or withholding. However such non-resident taxpayers shall retain relevant tax-reporting materials pursuant

to the provisions of these Measures for potential future inspection, and accept follow-up administration by relevant tax authorities.

As of the date of this annual report, when considered as a non-PRC resident investor, which is much more likely to happen than not, Universe HK shall be subject to the dividend withholding tax at the rate of 10%. Upon identified as the Hong Kong resident enterprise stipulated by the Double Tax Avoidance Arrangement and other applicable laws, the withholding tax may be reduced to 5%.

### **Hong Kong Taxation**

Entities incorporated in Hong Kong are subject to profits tax in Hong Kong at the rate of 16.5% for each of the fiscal years ended September 30, 2022, 2021 and 2020.

### **United States Federal Income Taxation**

The following does not address the tax consequences to any particular investor or to persons in special tax situations such as:

- banks;
- financial institutions;
- insurance companies;
- regulated investment companies;
- real estate investment trusts;
- broker-dealers;
- persons that elect to mark their securities to market;
- U.S. expatriates or former long-term residents of the U.S.;
- governments or agencies or instrumentalities thereof;
- tax-exempt entities;
- persons liable for alternative minimum tax;
- persons holding our ordinary shares as part of a straddle, hedging, conversion or integrated transaction;
- persons that actually or constructively own 10% or more of our voting power or value (including by reason of owning our ordinary shares);
- persons who acquired our ordinary shares pursuant to the exercise of any employee share option or otherwise as compensation;
- persons holding our ordinary shares through partnerships or other pass-through entities;

- beneficiaries of a Trust holding our ordinary shares; or
- persons holding our ordinary shares through a Trust.

The discussion set forth below is addressed only to U.S. Holders that purchase our ordinary shares. Prospective purchasers are urged to consult their own tax advisors about the application of the U.S. federal income tax rules to their particular circumstances as well as the state, local, foreign, and other tax consequences to them of the purchase, ownership, and disposition of our ordinary shares.

***Material Tax Consequences Applicable to U.S. Holders of Our Ordinary Shares***

The following sets forth the material U.S. federal income tax consequences related to the ownership and disposition of our ordinary shares. It is directed to U.S. Holders (as defined below) of our ordinary shares and is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This description does not deal with all possible tax consequences relating to ownership and disposition of our ordinary shares or U.S. tax laws, other than the U.S. federal income tax laws, such as the tax consequences under non-U.S. tax laws, state, local, and other tax laws.

The following brief description applies only to U.S. Holders (defined below) that hold ordinary shares as capital assets and that have the U.S. dollar as their functional currency. This brief description is based on the federal income tax laws of the United States in effect as of the date of this annual report and on U.S. Treasury regulations in effect or, in some cases, proposed, as of the date of this annual report, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below.

The brief description below of the U.S. federal income tax consequences to “U.S. Holders” will apply to you if you are a beneficial owner of ordinary shares and you are, for U.S. federal income tax purposes,

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized under the laws of the United States, any state thereof or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust that (1) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons for all substantial decisions or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If a partnership (or other entity treated as a partnership for United States federal income tax purposes) is a beneficial owner of our ordinary shares, the tax treatment of a partner in the partnership will depend upon the status of the partner and the activities of the partnership. Partnerships and partners of a partnership holding our ordinary shares are urged to consult their tax advisors regarding an investment in our ordinary shares.

***Taxation of Dividends and Other Distributions on Our Ordinary Shares***

Subject to the PFIC rules discussed below, the gross amount of distributions made by us to you with respect to the ordinary shares (including the amount of any taxes withheld therefrom) will generally be includable in your gross income as dividend income on the date of receipt by you, but only to the extent that the distribution is paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). With respect to



corporate U.S. Holders, the dividends will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations.

With respect to non-corporate U.S. Holders, including individual U.S. Holders, dividends will be taxed at the lower capital gains rate applicable to qualified dividend income, provided that (1) the ordinary shares are readily tradable on an established securities market in the United States, or we are eligible for the benefits of an approved qualifying income tax treaty with the United States that includes an exchange of information program, (2) we are not a PFIC for either our taxable year in which the dividend is paid or the preceding taxable year, and (3) certain holding period requirements are met. Because there is no income tax treaty between the United States and the Cayman Islands, clause (1) above can be satisfied only if the ordinary shares are readily tradable on an established securities market in the United States. Under U.S. Internal Revenue Service authority, ordinary shares are considered for purpose of clause (1) above to be readily tradable on an established securities market in the United States if they are listed on certain exchanges, which presently includes the NYSE and the Nasdaq Stock Market. You are urged to consult your tax advisors regarding the availability of the lower rate for dividends paid with respect to our ordinary shares, including the effects of any change in law after the date of this annual report.

Dividends will constitute foreign source income for foreign tax credit limitation purposes. If the dividends are taxed as qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating the foreign tax credit limitation will be limited to the gross amount of the dividend, multiplied by the reduced rate divided by the highest rate of tax normally applicable to dividends. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us with respect to our ordinary shares will constitute “passive category income” but could, in the case of certain U.S. Holders, constitute “general category income.”

To the extent that the amount of the distribution exceeds our current and accumulated earnings and profits (as determined under U.S. federal income tax principles), it will be treated first as a tax-free return of your tax basis in your ordinary shares, and to the extent the amount of the distribution exceeds your tax basis, the excess will be taxed as capital gain. We do not intend to calculate our earnings and profits under U.S. federal income tax principles. Therefore, a U.S. Holder should expect that a distribution will be treated as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above.

### ***Taxation of Dispositions of Ordinary Shares***

Subject to the PFIC rules discussed below, you will recognize taxable gain or loss on any sale, exchange, or other taxable disposition of a share equal to the difference between the amount realized (in U.S. dollars) for the share and your tax basis (in U.S. dollars) in the ordinary shares. The gain or loss will be capital gain or loss. If you are a non-corporate U.S. Holder, including an individual U.S. Holder, who has held the ordinary shares for more than one year, you will generally be eligible for reduced tax rates. The deductibility of capital losses is subject to limitations. Any such gain or loss that you recognize will generally be treated as United States source income or loss for foreign tax credit limitation purposes which will generally limit the availability of foreign tax credits.

### ***Passive Foreign Investment Company Consequences***

A non-U.S. corporation is considered a PFIC, as defined in Section 1297(a) of the U.S. Internal Revenue Code, for any taxable year if either:

- at least 75% of its gross income for such taxable year is passive income; or

- at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income (the “asset test”).

Passive income generally includes dividends, interest, rents and royalties (other than rents or royalties derived from the active conduct of a trade or business), and gains from the disposition of passive assets. We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, at least 25% (by value) of the stock. In determining the value and composition of our assets for purposes of the PFIC asset test, the value of our assets must be determined based on the market value of our ordinary shares from time to time, which could cause the value of our non-passive assets to be less than 50% of the value of all of our assets on any particular quarterly testing date for purposes of the asset test.

Based on our operations and the composition of our assets, we are not currently a PFIC under the current PFIC rules. We must make a separate determination each year as to whether we are a PFIC, however, and there can be no assurance with respect to our status as a PFIC for any future taxable years. Depending on the amount of assets held for the production of passive income, it is possible that, for any subsequent taxable year, more than 50% of our assets may be assets held for the production of passive income. We will make this determination following the end of any particular tax year. In addition, because the value of our assets for purposes of the asset test will generally be determined based on the market price of our ordinary shares, our PFIC status will depend in large part on the market price of our ordinary shares. Accordingly, fluctuations in the market price of the ordinary shares may cause us to become a PFIC. In addition, the application of the PFIC rules is subject to uncertainty in several respects and the composition of our income and assets will be affected by how, and how quickly, we spend our liquid assets. We are under no obligation to take steps to reduce the risk of our being classified as a PFIC, and as stated above, the determination of the value of our assets will depend upon material facts (including the market price of our ordinary shares from time to time) that may not be within our control. If we are a PFIC for any year during which you hold ordinary shares, we will continue to be treated as a PFIC for all succeeding years during which you hold ordinary shares. If we cease to be a PFIC and you did not previously make a timely “mark-to-market” election as described below, you may avoid some of the adverse effects of the PFIC regime by making a “purging election” (as described below) with respect to the ordinary shares.

If we are a PFIC for your taxable year(s) during which you hold ordinary shares, you will be subject to special tax rules with respect to any “excess distribution” that you receive and any gain you realize from a sale or other disposition (including a pledge) of the ordinary shares, unless you make a “mark-to-market” election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for the ordinary shares will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the ordinary shares;
- the amount allocated to your current taxable year, and any amount allocated to any of your taxable year(s) prior to the first taxable year in which we were a PFIC, will be treated as ordinary income, and
- the amount allocated to each of your other taxable year(s) will be subject to the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to years prior to the year of disposition or “excess distribution” cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of the ordinary shares cannot be treated as capital, even if you hold the ordinary shares as capital assets.

A U.S. Holder of “marketable stock” (as defined below) in a PFIC may make a mark-to-market election under Section 1296 of the US Internal Revenue Code for such stock to elect out of the tax treatment discussed above. If you make a mark-to-market election for first taxable year which you hold (or are deemed to hold) ordinary shares and for which we are determined to be a PFIC, you will include in your income each year an amount equal to the excess, if any, of the fair market value of the ordinary shares as of the close of such taxable year over your adjusted basis in such ordinary shares, which excess will be treated as ordinary income and not capital gain. You are allowed an ordinary loss for the excess, if any, of the adjusted basis of the ordinary shares over their fair market value as of the close of the taxable year. Such ordinary loss, however, is allowable only to the extent of any net mark-to-market gains on the ordinary shares included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as gain on the actual sale or other disposition of the ordinary shares, are treated as ordinary income. Ordinary loss treatment also applies to any loss realized on the actual sale or disposition of the ordinary shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such ordinary shares. Your basis in the ordinary shares will be adjusted to reflect any such income or loss amounts. If you make a valid mark-to-market election, the tax rules that apply to distributions by corporations which are not PFICs would apply to distributions by us, except that the lower applicable capital gains rate for qualified dividend income discussed above under “—Taxation of Dividends and Other Distributions on our Ordinary Shares” generally would not apply.

The mark-to-market election is available only for “marketable stock,” which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter (“regularly traded”) on a qualified exchange or other market (as defined in applicable U.S. Treasury regulations), including the Nasdaq Capital Market. If the ordinary shares are regularly traded on the Nasdaq Capital Market and if you are a holder of ordinary shares, the mark-to-market election would be available to you were we to be or become a PFIC.

Alternatively, a U.S. Holder of stock in a PFIC may make a “qualified electing fund” election under Section 1295(b) of the US Internal Revenue Code with respect to such PFIC to elect out of the tax treatment discussed above. A U.S. Holder who makes a valid qualified electing fund election with respect to a PFIC will generally include in gross income for a taxable year such holder’s pro rata share of the corporation’s earnings and profits for the taxable year. The qualified electing fund election, however, is available only if such PFIC provides such U.S. Holder with certain information regarding its earnings and profits as required under applicable U.S. Treasury regulations. We do not currently intend to prepare or provide the information that would enable you to make a qualified electing fund election. If you hold ordinary shares in any taxable year in which we are a PFIC, you will be required to file U.S. Internal Revenue Service Form 8621 in each such year and provide certain annual information regarding such ordinary shares, including regarding distributions received on the ordinary shares and any gain realized on the disposition of the ordinary shares.

If you do not make a timely “mark-to-market” election (as described above), and if we were a PFIC at any time during the period you hold our ordinary shares, then such ordinary shares will continue to be treated as stock of a PFIC with respect to you even if we cease to be a PFIC in a future year, unless you make a “purging election” for the year we cease to be a PFIC. A “purging election” creates a deemed sale of such ordinary shares at their fair market value on the last day of the last year in which we are treated as a PFIC. The gain recognized by the purging election will be subject to the special tax and interest charge rules treating the gain as an excess distribution, as described above. As a result of the purging election, you will have a new basis (equal to the fair market value of the ordinary shares on the last day of the last year in which we are treated as a PFIC) and holding period (which new holding period will begin the day after such last day) in your ordinary shares for tax purposes.

IRC Section 1014(a) provides for a step-up in basis to the fair market value for our ordinary shares when inherited from a decedent that was previously a holder of our ordinary shares. However, if we are determined to be a PFIC and a decedent that was a U.S. Holder did not make either a timely qualified electing fund election for our first taxable year as a PFIC in which the U.S. Holder held (or was deemed to hold) our ordinary shares, or a mark-to-market

election and ownership of those ordinary shares are inherited, a special provision in IRC Section 1291(e) provides that the new U.S. Holder's basis should be reduced by an amount equal to the Section 1014 basis minus the decedent's adjusted basis just before death. As such if we are determined to be a PFIC at any time prior to a decedent's passing, the PFIC rules will cause any new U.S. Holder that inherits our ordinary shares from a U.S. Holder to not get a step-up in basis under Section 1014 and instead will receive a carryover basis in those ordinary shares.

You are urged to consult your tax advisors regarding the application of the PFIC rules to your investment in our ordinary shares and the elections discussed above.

### ***Information Reporting and Backup Withholding***

Dividend payments with respect to our ordinary shares and proceeds from the sale, exchange, or redemption of our ordinary shares may be subject to information reporting to the U.S. Internal Revenue Service and possible U.S. backup withholding under Section 3406 of the U.S. Internal Revenue Code with at a current flat rate of 24%. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification on U.S. Internal Revenue Service Form W-9 or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status generally must provide such certification on U.S. Internal Revenue Service Form W-9. U.S. Holders are urged to consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the U.S. Internal Revenue Service and furnishing any required information. We do not intend to withhold taxes for individual shareholders. Transactions effected through certain brokers or other intermediaries, however, may be subject to withholding taxes (including backup withholding), and such brokers or intermediaries may be required by law to withhold such taxes.

Under the Hiring Incentives to Restore Employment Act of 2010, certain U.S. Holders are required to report information relating to our ordinary shares, subject to certain exceptions (including an exception for ordinary shares held in accounts maintained by certain financial institutions), by attaching a complete Internal Revenue Service Form 8938, Statement of Specified Foreign Financial Assets, with their tax return for each year in which they hold ordinary shares.

### **F. Dividends and Paying Agents**

Not applicable.

### **G. Statement by Experts**

Not applicable.

### **H. Documents on Display**

We have previously filed with the SEC our registration statements on Form F-1 (File No. 333-248067), as amended, to register our ordinary shares in connection with our initial public offering.

We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F within four months after the end of each fiscal year. The SEC maintains a website at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding

registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules of the Exchange Act prescribing, among other things, the furnishing and content of proxy statements to shareholders, and our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

## **I. Subsidiary Information**

Not applicable.

### **Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### ***Foreign Exchange Risk***

Substantially all of our revenues are denominated in Renminbi. The Renminbi is not freely convertible into foreign currencies for capital account transactions. The value of the Renminbi against the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions and China's foreign exchange policies. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar, and the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, the Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future.

To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. To the extent that we need to convert U.S. dollars we received from our initial public offering in March 2021 into Renminbi for our operations or capital expenditures, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us.

As of September 30, 2022, we had U.S. dollar-denominated cash and cash equivalents of US\$5.7 million. A 10% depreciation of U.S. dollar against the Renminbi based on the foreign exchange rate on September 30, 2022 would result in a decrease of RMB4.05 million in cash and cash equivalents. A 10% appreciation of U.S. dollar against the Renminbi based on the foreign exchange rate on September 30, 2022 would result in an increase of RMB4.05 million in cash and cash equivalents.

#### ***Credit Risk***

Accounts receivable are typically unsecured and derived from revenue earned from customers, thereby exposed to credit risk. The risk is mitigated by our assessment of its customers' creditworthiness and its ongoing monitoring of outstanding balances.

#### ***Interest Rate Risk***

We have not used derivative financial instruments to hedge interest rate risk. Interest-earning instruments carry a degree of interest rate risk. We have not been exposed, nor do we anticipate being exposed to material risks due to changes in market interest rates. However, our future interest income may fall short of expectations due to changes in market interest rates.

### ***Inflation Risk***

In recent years, inflation has not had a material impact on our results of operations. According to the National Bureau of Statistics of China, the consumer price index in China increased by 2.9%, 2.5% and 0.9% in 2019, 2020 and 2021, respectively. According to Wind Information (www.wind.com.cn), the year-over-year percent changes in the consumer price index for November 2022 was 2.02%. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2021 was 0.9%. Although we have not in the past been materially affected by inflation since our inception, we can provide no assurance that we will not be affected in the future by higher rates of inflation in China. If inflation rises, it may materially and adversely affect our business.

## **Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

### **A. Debt Securities**

Not applicable.

### **B. Warrants and Rights**

Not applicable.

### **C. Other Securities**

Not applicable.

### **D. American Depositary Shares**

Not applicable.

## **Part II**

## **Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

## **Item 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

See “Item 10. Additional Information” for a description of the rights of securities holders, which remain unchanged.

### **Use of Proceeds**

The following “Use of Proceeds” information relates to the registration statement on Form F-1 (File Number 333-248067), as amended, which was declared effective by the SEC on March 22, 2021, for our initial public offering, which was closed on March 25, 2021. We issued and sold an aggregate of 5,750,000 ordinary shares, at a price of \$5.00 per share with gross proceeds of \$28.75 million. Univest Securities, LLC was the underwriter of our initial public offering.

We incurred approximately \$2,953,114 in expenses in connection with our initial public offering and \$178,758 in expenses in connection with the issuance of overallotment shares. None of the transaction expenses included payments

to directors or officers of our company or their associates, persons owning more than 10% or more of our equity securities or our affiliates. None of the net proceeds we received from the initial public offering were paid, directly or indirectly, to any of our directors or officers or their associates, persons owning 10% or more of our equity securities or our affiliates.

The net proceeds raised from the initial public offering were \$25,618,128 after deducting underwriting discounts and the offering expenses payable by us. For the period from the effectiveness of the registration statement on Form F-1 to September 30, 2022, we used approximately US\$3.2 million for research and development purposes, approximately US\$3.4 million for upgrading and expanding our manufacturing facilities, and approximately US\$2.9 million for brand marketing. We still intend to use the remaining proceeds from our initial public offering in the manner disclosed in our registration statement on Form F-1, as amended (File Number 333-248067).

## **Item 15. CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act.

Based upon this evaluation, our management has concluded that, as of September 30, 2022, our existing disclosure controls and procedures were ineffective because of a lack of accounting staff and resources with appropriate knowledge of U.S. GAAP and SEC reporting and compliance requirements.

### **Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with U.S. GAAP and includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company's assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company's receipts and expenditures are being made only in accordance with authorizations of a company's management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of a company's assets that could have a material effect on the consolidated financial statements.

Our management, with the participation of our chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of our Company's internal control over financial reporting as of September 30, 2022 based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013 Framework). Based on this evaluation, we identified one deficiency, which related to a lack of accounting staff and resources with appropriate knowledge of U.S. GAAP and SEC reporting and compliance requirements, and which we believe to be a material weakness as of September 30, 2022.

As a result of the above material weakness, management has concluded that our internal control over financial reporting was ineffective as of September 30, 2022. To remedy our identified material weakness as of September 30,

2022, we have undertaken the remedial steps and also plan to adopt certain measures to improve our internal control over financial reporting as set forth below.

***Remediation plan of the Material Weakness in Internal Control over Financial Reporting Reported as of September 30, 2022***

As of the date of this annual report, we have not fully addressed the above-referenced weaknesses. However, we have made progress in implementing remedial measures, including:

- (i) recruiting qualified accounting personnel with relevant U.S. GAAP and SEC reporting experience and qualifications to strengthen the financial reporting function and to set up a financial and system control framework. Since very few companies in Ji'an, Jiangxi Province, the area in which our main PRC operating subsidiaries are located, have sought public listing on a U.S. exchange, we have difficulty identifying qualified accounting candidates with U.S. GAAP experience and expertise. We plan to search for qualified personnel in other regions of China;
- (ii) implementing regular and continuous U.S. GAAP accounting and financial reporting training programs for our accounting and financial reporting personnel; and
- (iii) setting up an internal audit function as well as engaging an external consulting firm to assist us with assessment of Sarbanes-Oxley compliance requirements and improvement of overall internal control.

**Attestation Report of the Registered Public Accounting Firm**

This annual report on Form 20-F does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the SEC where domestic and foreign registrants that are non-accelerated filers, which we are, and "emerging growth companies," which we also are, are not required to provide the auditor attestation report.

**Changes in Internal Control over Financial Reporting**

As of September 30, 2021, we identified a material weakness in our internal control over financial reporting, which related to the fact that our internal audit function was not set up properly.

We implemented the following remedial measures during the fiscal year ended September 30, 2022 to address the material weakness identified as of September 30, 2021:

- i. hiring qualified personnel to set up an internal audit function;
- ii. establishing an annual plan of internal audit and getting approval from audit committee; and
- iii. engaging an external consulting firm to assist us in conducting internal audit programs.

Other than as described above, there were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report on Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 16. [RESERVED]**

**Item 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Mr. H. David Sherman qualifies as an "audit committee financial expert" as defined in Item 16A of Form 20-F. Mr. H. David Sherman satisfies the "independence" requirements of Section 5605(a)(2) of the Nasdaq Listing Rules as well as the independence requirements of Rule 10A-3 under the Exchange Act.



## Item 16B. CODE OF ETHICS

Our board of directors has adopted a code of business conduct and ethics, which is applicable to all of our directors, officers, and employees. Our code of business conduct and ethics is publicly available on our website.

## Item 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered and billed by YCM CPA INC., our independent registered public accounting firm for the periods indicated.

### YCM CPA INC.

	For the Years Ended September 30,	
	2021	2022
Audit fees <sup>(1)</sup>	\$ 200,000	\$ 210,000
Audit-related fees <sup>(2)</sup>	-	-
Tax fees <sup>(3)</sup>	-	-
All other fees	-	-
Total	<u>\$ 200,000</u>	<u>\$ 210,000</u>

- (1) Audit fees include the aggregate fees billed for each of the fiscal years for professional services rendered by our independent registered public accounting firm for the audit of our annual financial statements or for the audits of our financial statements and review of the interim financial statements.
- (2) Audit related fees include the aggregate fees billed for related services by our principal accountant that are reasonably related to the performance of the audit or review of our financial statements and are not reported under audit fees.
- (3) Tax fees represent the aggregated fees billed for professional services rendered by our independent registered public accounting firm for tax compliance, tax advice, and tax planning.

The audit committee of our board of directors has established its pre-approval policies and procedures, pursuant to which the audit committee approved the foregoing audit, tax and non-audit services provided by YCM CPA INC. in fiscal years 2021 and 2022. Consistent with our audit committee's responsibility for engaging our independent auditors, all audit and permitted non-audit services require pre-approval by the audit committee. The full audit committee approves proposed services and fee estimates for these services. One or more independent directors serving on the audit committee may be delegated by the full audit committee to pre-approve any audit and non-audit services. Any such delegation shall be presented to the full audit committee at its next scheduled meeting. Pursuant to these procedures, the audit committee approved the foregoing audit services provided by YCM CPA INC.

## Item 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

## Item 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

None.

## **Item 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

On December 7, 2021, we appointed YCM CPA INC. ("YCM") as our independent registered public accounting firm, effective on the same day. YCM replaces Friedman LLP ("Friedman"), our former independent registered public accounting firm, which we dismissed on December 1, 2021. The appointment of YCM was made after careful consideration and evaluation process by the Company and has been approved by the audit committee of our board of directors. Our decision to make this change was not the result of any disagreement between the Company and Friedman on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

The audit report of Friedman on the consolidated financial statements of the Company as of September 30, 2020 and for the fiscal years ended September 30, 2020 did not contain an adverse opinion or disclaimer of opinion and was not qualified or modified as to uncertainty, scope of accounting principles.

During the two most recent fiscal years and any subsequent interim periods prior to the engagement of YCM, neither the Company, nor someone on behalf of the Company, has consulted YCM regarding either (a) the application of accounting principles to a specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on the Company's consolidated financial statements, and neither a written report was provided to the Company or oral advice was provided that YCM concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue; or (b) any matter that was the subject of a disagreement as defined in Item 16F(a)(1)(iv) of Form 20-F and related instructions to Item 16F of Form 20-F, or any reportable events as described in Item 16F(a)(1)(v) of Form 20-F.

## **Item 16G. CORPORATE GOVERNANCE**

As a Cayman Islands company listed on the Nasdaq Global Market, we are subject to the Nasdaq corporate governance listing standards. Nasdaq rules, however, permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the Nasdaq corporate governance listing standards.

Nasdaq Listing Rule 5635 generally provides that shareholder approval is required of U.S. domestic companies listed on Nasdaq prior to issuance (or potential issuance) of securities (i) equaling 20% or more of the company's common stock or voting power for less than the greater of market or book value (ii) resulting in a change of control of the company; and (iii) which is being issued pursuant to a stock option or purchase plan to be established or materially amended or other equity compensation arrangement made or materially amended. Notwithstanding this general requirement, Nasdaq Listing Rule 5615(a)(3)(A) permits foreign private issuers to follow their home country practice rather than these shareholder approval requirements. The Companies Act does not require shareholder approval prior to any of the foregoing types of issuances. We, therefore, are not required to obtain such shareholder approval prior to entering into a transaction with the potential to issue securities as described above. Specifically, our board of directors has elected to follow our home country rules and be exempt from the requirements to obtain shareholder approval for the issuance of 20% or more of our outstanding ordinary shares under Nasdaq Listing Rule 5635(d).

Nasdaq Listing Rule 5605(b)(1) requires listed companies to have, among other things, a majority of its board members be independent. As a foreign private issuer, however, we are permitted to follow home country practice in lieu of the above requirements. The corporate governance practice in our home country, the Cayman Islands, does not require a majority of our board to consist of independent directors. Currently, a majority of our board members are independent. However, if we change our board composition such that independent directors do not constitute a majority of our board of directors, our shareholders may be afforded less protection than they would otherwise enjoy under Nasdaq's corporate governance requirements applicable to U.S. domestic issuers. See "Item 3. Key

Information—D. Risk Factors—Risks Related to Our Ordinary Shares— As a foreign private issuer, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the Nasdaq listing standards. These practices may afford less protection to shareholders than they would enjoy if we complied fully with corporate governance listing standards.”

Other than those described above, there are no significant differences between our corporate governance practices and those followed by U.S. domestic companies under Nasdaq corporate governance listing standards.

#### **Item 16H. MINE SAFETY DISCLOSURE**

Not applicable.

#### **Item 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.**

Not applicable.

### **Part III**

#### **Item 17. FINANCIAL STATEMENTS**

We have elected to provide financial statements pursuant to Item 18.

#### **Item 18. FINANCIAL STATEMENTS**

The consolidated financial statements of Universe Pharmaceuticals INC and its subsidiaries are included at the end of this annual report.

#### **Item 19. EXHIBITS**

#### **EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
1.1	<a href="#"><u>Second Amended and Restated Memorandum and Articles of Association (incorporated by reference to Exhibit 3.1 of our Registration Statement on Form F-3 (file No. 333-268028), filed with the Securities and Exchange Commission on October 27, 2022)</u></a>
2.1	<a href="#"><u>Specimen Certificate for Ordinary Shares (incorporated by reference to Exhibit 4.1 of our Registration Statement on Form F-1 (file No. 333-248067), as amended, initially filed with the Securities and Exchange Commission on August 17, 2020)</u></a>
2.2	<a href="#"><u>Form of Underwriter Warrants (incorporated by reference to Exhibit 4.2 of our Registration Statement on Form F-1 (file No. 333-248067), as amended, initially filed with the Securities and Exchange Commission on August 17, 2020)</u></a>
2.3*	<a href="#"><u>Description of Securities</u></a>
4.1	<a href="#"><u>Form of Employment Agreement by and between executive officers and the Registrant (incorporated by reference to Exhibit 10.1 of our Registration Statement on Form F-1 (file No. 333-248067), as amended, initially filed with the Securities and Exchange Commission on August 17, 2020)</u></a>
4.2	<a href="#"><u>Form of Indemnification Agreement with the Registrant’s directors and officers (incorporated by reference to Exhibit 10.2 of our Registration Statement on Form F-1 (file No. 333-248067), as amended, initially filed with the Securities and Exchange Commission on August 17, 2020)</u></a>

- 4.3 [Form of Sales and Distribution Agreement by and between Universe Trade and customers \(incorporated by reference to Exhibit 10.7 of our Registration Statement on Form F-1 \(file No. 333-248067\), as amended, initially filed with the Securities and Exchange Commission on August 17, 2020\)](#)
- 4.4 [Strategic Cooperation Agreement by and between Universe Pharmaceuticals INC and Kitanihon Pharmaceutical Co., Ltd., dated December 1, 2021 \(incorporated by reference to Exhibit 1.1 of our Current Report on Form 6-K \(file No. 001-40231\), filed with the Securities and Exchange Commission on December 10, 2021\)](#)
- 4.5 [Share Purchase Agreement by and among Universe Pharmaceuticals INC, Kitanihon Pharmaceutical Co., Ltd., and Nishimura Ichiro, dated December 1, 2021 \(incorporated by reference to Exhibit 1.2 of our Current Report on Form 6-K \(file No. 001-40231\), filed with the Securities and Exchange Commission on December 10, 2021\)](#)

- 4.6 [Cooperation Agreement on Manufacturing Facility Construction Project by and between Universe Pharmaceuticals INC and Kitanihon Pharmaceutical Co., Ltd., dated December 1, 2021 \(incorporated by reference to Exhibit 1.3 of our Current Report on Form 6-K \(file No. 001-40231\), filed with the Securities and Exchange Commission on December 10, 2021\)](#)
- 4.7 [Share Transfer Agreement by and among Sununion Holding Group Ltd., Kitanihon Pharmaceutical Co., Ltd., and Gang Lai, dated December 1, 2021 \(incorporated by reference to Exhibit 1.4 of our Current Report on Form 6-K \(file No. 001-40231\), filed with the Securities and Exchange Commission on December 10, 2021\)](#)
- 4.8 [English translation of the real estate property purchase agreement entered into by and between Jiangxi Universe and Jiangxi Yueshang Investment Co., Ltd., dated May 16, 2021 \(incorporated by reference to Exhibit 4.13 of our annual report on Form 20-F \(file No. 001-40231\), filed with the Securities and Exchange Commission on January 31, 2022\)](#)
- 4.9 [English translation of the construction agreement entered into by and between Jiangxi Universe and Jiangxi Chenyuan Construction Project Co., Ltd., dated June 25, 2021 \(incorporated by reference to Exhibit 4.15 of our annual report on Form 20-F \(file No. 001-40231\), filed with the Securities and Exchange Commission on January 31, 2022\)](#)
- 4.10 [English translation of the advertising service agreement entered into by and between Jiangxi Universe and Guangdong Fengyang Legend Consulting Co., Ltd., dated September 6, 2021 \(incorporated by reference to Exhibit 4.17 of our annual report on Form 20-F \(file No. 001-40231\), filed with the Securities and Exchange Commission on January 31, 2022\)](#)
- 4.11\* [English translation of the working capital loan contract entered into by and between Universe Trade and Jiangxi Liuling Rural Commercial Bank Co., Ltd., dated March 14, 2022](#)
- 4.12\* [English translation of the working capital loan contract entered into by and between Jiangxi Universe and Jiangxi Liuling Rural Commercial Bank Co., Ltd., dated June 15, 2022](#)
- 4.13\* [English translation of the working capital loan contract entered into by and between Jiangxi Universe and Bank of Communications, dated June 22, 2022](#)
- 4.14\* [English translation of the Letter of Intent on Transfer of Equity Interests in Yunnan Faxi Pharmaceuticals Co., Ltd., entered into by and among Jiangxi Universe, Xibo Liu, and Yunnan Faxi Pharmaceuticals Co., Ltd. dated September 26, 2022](#)
- 8.1 [List of subsidiaries of the Registrant \(incorporated by reference to Exhibit 8.1 of our annual report on Form 20-F \(file No. 001-40231\), filed with the Securities and Exchange Commission on January 31, 2022\)](#)
- 11.1 [Code of Business Conduct and Ethics of the Registrant \(incorporated by reference to Exhibit 99.1 of our Registration Statement on Form F-1 \(file No. 333-248067\), as amended, initially filed with the Securities and Exchange Commission on August 17, 2020\)](#)
- 12.1\* [Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 12.2\* [Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 13.1\*\* [Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)

13.2**	<a href="#">Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
15.1*	<a href="#">Consent of AllBright Law Offices (Fuzhou)</a>
15.2*	<a href="#">Consent of YCM CPA INC.</a>
15.3*	<a href="#">Consent of Friedman LLP</a>
101*	The following financial statements from the Company’s Annual Report on Form 20-F for the fiscal year ended September 30, 2022, formatted in Inline XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations and Comprehensive Income, (iii) Consolidated Statements of Changes in Equity, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements, tagged as blocks of text and including detailed tags
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

\* Filed with this annual report on Form 20-F  
\*\* Furnished with this annual report on Form 20-F

## SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Universe Pharmaceuticals INC

By: /s/ Gang Lai

Gang Lai  
Chief Executive Officer, Director, and  
Chairman of the Board of Directors

Date: February 10, 2023

## INDEX TO FINANCIAL STATEMENTS

### UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and  
Shareholders of Universe Pharmaceuticals INC

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Universe Pharmaceuticals INC and subsidiaries (collectively, the “Company”) as of September 30, 2022 and 2021, and the related consolidated statements of operations and comprehensive income (loss), changes in stockholders’ equity, and cash flows for the years ended September 30, 2022 and 2021, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2022 and 2021, and the results of its operations and its cash flows for the period ended September 30, 2022 and 2021, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statement. We believe that our audits provide a reasonable basis for our opinion.

/s/ YCM CPA, Inc.

We have served as the Company’s auditor since 2021.

**FRIEDMAN LLP**<sup>®</sup>  
ACCOUNTANTS AND ADVISORS

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and shareholders of  
Universe Pharmaceuticals Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Universe Pharmaceuticals Inc. and its subsidiaries (collectively, the “Company”) as of September 30, 2020, and the related consolidated statements of income and comprehensive income, changes in shareholders’ equity, and cash flows for each of the years in the two-year period ended September 30, 2020, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2020, and the results of its operations and its cash flows for each of the years in the two-year period ended September 30, 2020, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statement. We believe that our audits provide a reasonable basis for our opinion.

/s/ Friedman LLP

We have served as the Company’s auditor since 2019 through 2021.

**UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	<b>As of</b>	
	<b>September 30,</b>	
	<b>2022</b>	<b>2021</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 5,711,458	\$ 8,077,908
Short-term investments	13,148,594	13,725,204
Accounts receivable, net	15,183,890	15,573,742
Inventories, net	2,206,488	2,462,542
Due from related parties	-	236,982
Advance to suppliers	16,701	2,738,313
Prepayment for advertising	-	7,492,320
Prepayment for acquisition	3,514,450	
Prepaid expenses and other current assets	1,724,099	174,053
<b>TOTAL CURRENT ASSETS</b>	<b>41,505,680</b>	<b>50,481,064</b>
Property, plant and equipment, net	4,250,638	4,681,353
Prepayments made to a related party for purchase of property	2,249,248	2,476,800
Prepayments for construction in progress	9,326,296	10,712,160
Intangible assets, net	157,451	178,483
Investment in equity securities	702,890	744,924
Deferred tax assets	1,347,672	869,997
<b>TOTAL NONCURRENT ASSETS</b>	<b>18,034,195</b>	<b>19,663,717</b>
<b>TOTAL ASSETS</b>	<b>\$59,539,875</b>	<b>\$70,144,781</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Short-term bank loans	\$ 3,936,184	\$ 4,334,400
Accounts payable	3,075,393	5,310,526
Taxes payable	167,350	1,101,460
Due to related parties	3,379,263	19,723
Accrued expenses and other current liabilities	2,539,362	444,319
<b>TOTAL CURRENT LIABILITIES</b>	<b>13,097,552</b>	<b>11,210,428</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Ordinary shares, \$0.003125 par value, 100,000,000 shares authorized, 21,750,000 shares issued and outstanding as of September 30, 2022 and 2021	67,969	67,969
Additional paid in capital	29,279,159	29,279,159



Statutory reserve	2,439,535	2,439,535
Retained earnings	16,322,365	25,058,931
Accumulated other comprehensive (loss) income	<u>(1,666,705)</u>	<u>2,088,759</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b><u>46,442,323</u></b>	<b><u>58,934,353</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u>\$59,539,875</u></b>	<b><u>\$70,144,781</u></b>

The accompanying notes are an integral part of these consolidated financial statements.

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**UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

	<b>For the Years Ended September 30,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
Revenue	<b>\$ 40,143,151</b>	<b>\$ 47,982,031</b>	<b>\$ 30,703,960</b>
Cost of revenue	<u>(18,251,815)</u>	<u>(22,655,854)</u>	<u>(16,610,140)</u>
<b>Gross profit</b>	<b><u>21,891,336</u></b>	<b><u>25,326,177</u></b>	<b><u>14,093,820</u></b>
<b>Operating expenses</b>			
Selling expenses	(19,083,135)	(2,973,531)	(1,555,546)
General and administrative expenses	(2,602,624)	(3,296,844)	(1,703,424)
Research and development expenses	<u>(7,644,375)</u>	<u>(5,465,662)</u>	<u>(583,125)</u>
<b>Total operating expenses</b>	<b><u>(29,330,134)</u></b>	<b><u>(11,736,037)</u></b>	<b><u>(3,842,095)</u></b>
<b>Income from operations</b>	<b><u>(7,438,798)</u></b>	<b><u>13,590,140</u></b>	<b><u>10,251,725</u></b>
<b>Other income (expenses)</b>			
Interest expense, net	(162,400)	(101,604)	(123,760)
Other income (expenses), net	48,940	(80,434)	(49,352)
Short-term investments (loss) income	(470,477)	239,549	-
Equity investment income	<u>38,588</u>	<u>30,827</u>	<u>21,820</u>
Total other (expense) income, net	<u>(545,349)</u>	<u>88,338</u>	<u>(151,292)</u>
<b>(Loss) income before income tax provision</b>	<b><u>(7,984,147)</u></b>	<b><u>13,678,478</u></b>	<b><u>10,100,433</u></b>
<b>Income tax provision</b>	<b><u>(752,419)</u></b>	<b><u>(2,358,526)</u></b>	<b><u>(2,542,211)</u></b>
<b>Net (loss) income</b>	<b><u>(8,736,566)</u></b>	<b><u>11,319,952</u></b>	<b><u>7,558,222</u></b>
<b>Other comprehensive income (loss)</b>			
Foreign currency translation adjustment	<u>(3,755,464)</u>	<u>1,193,369</u>	<u>860,623</u>
<b>Comprehensive (loss) income</b>	<b><u>\$(12,492,030)</u></b>	<b><u>\$ 12,513,321</u></b>	<b><u>\$ 8,418,845</u></b>
Earnings per share			
Basic and diluted	<u>\$ (0.40)</u>	<u>\$ 0.60</u>	<u>\$ 0.47</u>

Weighted average number of shares outstanding

Basic and diluted 21,750,000 18,980,822 16,000,000

The accompanying notes are an integral part of these consolidated financial statements.

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UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED SEPTEMBER 30, 2022, 2021 AND 2020

	Common shares		Additional paid-in capital	Statutory reserve	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
	Shares	Amount					
<b>Balance at September 30, 2019</b>	<b>16,000,000</b>	<b>\$ 50,000</b>	<b>\$ 3,679,000</b>	<b>\$2,439,535</b>	<b>\$ 6,180,757</b>	<b>\$ 34,767</b>	<b>\$ 12,384,059</b>
Net income	-	-	-	-	7,558,222	-	7,558,222
Foreign currency translation adjustment	-	-	-	-	-	860,623	860,623
<b>Balance at September 30, 2020</b>	<b>16,000,000</b>	<b>\$ 50,000</b>	<b>\$ 3,679,000</b>	<b>\$2,439,535</b>	<b>\$13,738,979</b>	<b>\$ 895,390</b>	<b>\$ 20,802,904</b>
Issuance of ordinary shares and additional shares under overallotment option in initial public offerings, gross	5,750,000	17,969	28,732,031	-	-	-	28,750,000
Capitalized initial public offering costs	-	-	(3,131,872)	-	-	-	(3,131,872)
Net income	-	-	-	-	11,319,952	-	11,319,952
Foreign currency translation adjustment	-	-	-	-	-	1,193,369	1,193,369
<b>Balance at September 30, 2021</b>	<b>21,750,000</b>	<b>\$ 67,969</b>	<b>\$29,279,159</b>	<b>\$2,439,535</b>	<b>\$25,058,931</b>	<b>\$ 2,088,759</b>	<b>\$ 58,934,353</b>

Net loss	-	-	-	-	(8,736,566)	-	(8,736,566)
Foreign currency translation adjustment	-	-	-	-	-	(3,755,464)	(3,755,464)
<b>Balance at September 30, 2022</b>	<b><u>21,750,000</u></b>	<b><u>\$ 67,969</u></b>	<b><u>\$29,279,159</u></b>	<b><u>\$2,439,535</u></b>	<b><u>\$16,322,365</u></b>	<b><u>\$ (1,666,705)</u></b>	<b><u>\$ 46,442,323</u></b>

The accompanying notes are an integral part of these consolidated financial statements.

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## UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS

	<b>For the Years Ended September 30,</b>		
	<b><u>2022</u></b>	<b><u>2021</u></b>	<b><u>2020</u></b>
<b>Cash flows from operating activities</b>			
Net (loss) income	\$(8,736,566)	\$ 11,319,952	\$ 7,558,222
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	533,949	446,878	410,079
Loss from disposal of fixed assets	983	1,559	-
Allowance for doubtful accounts	419,353	(230,175)	98,102
Inventory reserve	15,774	-	(75,391)
Deferred income tax benefit	(605,278)	(668,341)	(9,886)
Short-term investments income	470,477	(239,549)	-
Changes in operating assets and liabilities:			
Accounts receivable	(1,549,312)	(3,867,457)	(4,107,520)
Inventory, net	16,586	(451,634)	888,607
Advance to suppliers, net	2,681,214	(2,717,085)	-
Prepayment for advertising	7,385,695	(7,434,240)	-
Advances to related parties	236,982	(237,720)	-
Prepaid expenses and other current assets	(1,699,929)	(168,188)	12,407
Accounts payable	(1,896,621)	2,457,337	639,427
Taxes payable	(904,127)	(298,620)	731,518
Accrued expenses and other current liabilities	2,318,474	31,436	(30,408)
Net cash (used in) provided by operating activities	<u>(1,312,346)</u>	<u>(2,055,847)</u>	<u>6,115,157</u>
<b>Cash flows from investing activities</b>			
Purchases of property and equipment	(93,703)	(444,505)	(51,798)
Proceeds from disposal of fixed assets	523	-	-
Prepayments made to a related party for purchase of property	-	(2,457,600)	-
Prepayments for construction in progress	-	(10,629,120)	-
Prepayment for acquisition	(3,814,925)	-	-
Payments for short-term investments	-	(15,330,660)	-
Redemption of short-term investments	-	1,801,927	-
Net cash used in investing activities	<u>(3,908,105)</u>	<u>(27,059,958)</u>	<u>(51,798)</u>

<b>Cash flows from financing activities</b>			
Proceeds from short-term bank loans	4,272,716	4,300,800	1,427,000
Repayment of bank loans	(4,272,716)	(2,764,800)	(1,427,000)
Dividend payment	-	-	-
Gross proceeds from initial public offerings	-	28,750,000	-
Payment for deferred initial public offering costs	-	(2,792,543)	(441,064)
Proceeds from (prepayments for) related parties borrowings	3,317,943	(911,648)	911,200
Net cash provided by financing activities	<u>3,317,943</u>	<u>26,581,809</u>	<u>470,136</u>
Effect of exchange rate changes on cash	(463,942)	553,702	347,386
<b>Net (decrease) increase in cash</b>	<u>(2,366,450)</u>	<u>(1,980,294)</u>	<u>6,880,881</u>
<b>Cash, beginning of year</b>	<u>8,077,908</u>	<u>10,058,202</u>	<u>3,177,321</u>
<b>Cash, end of year</b>	<u>\$ 5,711,458</u>	<u>\$ 8,077,908</u>	<u>\$10,058,202</u>
<b>Supplemental disclosure information</b>			
Cash paid for interest expense	<u>\$ 199,852</u>	<u>\$ 149,303</u>	<u>\$ 157,528</u>
Cash paid for income tax	<u>\$ 2,748,629</u>	<u>\$ 3,271,219</u>	<u>\$ 2,167,963</u>

The accompanying notes are an integral part of these consolidated financial statements.

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## UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1 — ORGANIZATION AND BUSINESS DESCRIPTION

Universe Pharmaceuticals Inc. (“Universe INC” or the “Company”) was incorporated under the laws of the Cayman Islands on December 11, 2019 as an exempted company with limited liability.

Universe INC. owns 100% equity interest of Universe Pharmaceuticals (International) Group (“Universe HK”), an entity incorporated on May 21, 2014 in accordance with the laws and regulations in Hong Kong.

Jiangxi Universe Pharmaceuticals Technology Co., Ltd. (“Universe Technology”) was formed on April 8, 2019, as a Wholly Foreign-Owned Enterprise (“WFOE”) in the People’s Republic of China (“PRC” or “China”). The registered capital of Universe Technology is approximately \$4.3 million (RMB30.5 million). In December 2019, the Company made a capital contribution of \$500,000 to Universe Technology. Pursuant to the article of incorporation of Universe Technology, the remaining capital contribution of approximately \$3.8 million for Universe Technology is required to be completed before 2038.

Universe INC, Universe HK and Universe Technology are currently not engaging in any active business operations and are merely acting as holding companies.

Jiangxi Universe Pharmaceuticals Co., Ltd. (“Jiangxi Universe”) was incorporated on March 2, 1998 in accordance with PRC laws and is engaged in research and development and manufacturing of modernized traditional Chinese medicines. Jiangxi Universe owns 100% of the equity interests of Jiangxi Universe Pharmaceuticals Commercial Trade Co., Ltd. (“Universe Trade”), which was incorporated on March 10, 2010 to handle the sales and distribution of the pharmaceutical products manufactured by Jiangxi Universe.

## **Reorganization**

A reorganization of the Company's legal structure ("Reorganization") was completed on December 11, 2019. The Reorganization involved the incorporation of Universe INC and Universe Technology, and the transfer of 100% of the equity interests of Jiangxi Universe to Universe Technology. Consequently, Universe INC, through its subsidiary Universe HK, directly controls Universe Technology and Jiangxi Universe, and became the ultimate holding company of all other entities mentioned above.

The Reorganization has been accounted for as a recapitalization among entities under common control, since the same controlling shareholders controlled all these entities before and after the Reorganization. The consolidation of the Company and its subsidiaries has been accounted for at historical cost and prepared on the basis as if the aforementioned transactions had become effective as of the beginning of the first period presented in the accompanying consolidated financial statements. Results of operations for the periods presented comprise those of the previously separate entities combined from the beginning of the period to the end of the period, eliminating the effects of intra-entity transactions.

On March 25, 2021, the Company closed its initial public offering (the "IPO") of 5,000,000 ordinary shares, par value \$0.003125 per share (the "ordinary shares") at a public offering price of \$5.00 per share. On March 29, 2021, the underwriter exercised in full its over-allotment option to purchase an additional 750,000 ordinary shares. The closing for the sale of the over-allotment shares took place on March 31, 2021. Gross proceeds from the IPO totaled \$28.75 million. Net proceeds of the IPO, including over-allotment shares, were approximately \$25.6 million. In connection with the IPO, the Company's ordinary shares began trading on the Nasdaq Global Market under the symbol "UPC" on March 23, 2021.

On May 12, 2021, through the Company's PRC subsidiary, Jiangxi Universe, the Company established a wholly controlled subsidiary, Guangzhou Universe Hanhe Medical Research Co., Ltd. ("Universe Hanhe") in Guangzhou City, China, for the business purpose of conducting research and development of new pharmaceutical products in order to diversify the Company's product offerings in the near future. As of September 30, 2022 and as of the date of this report, Universe Hanhe has no active business operations.

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## **UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **NOTE 1 — ORGANIZATION AND BUSINESS DESCRIPTION (continued)**

Details of the subsidiaries of the Company as of September 30, 2022 are set out below:

<b>Name of Entity</b>	<b>Date of Incorporation</b>	<b>Place of Incorporation</b>	<b>% of Ownership</b>	<b>Principal Activities</b>
Universe INC	December 11, 2019	Cayman Islands	Parent, 100%	Investment holding
Universe HK	May 21, 2014	Hong Kong	100%	Investment holding
Universe Technology	April 18, 2019	PRC	100%	WFOE, Investment holding

Jiangxi Universe	March 2, 1998	PRC	100%	Research and development and manufacturing of modernized traditional Chinese medicines
Universe Trade	March 10, 2010	PRC	100%	Sales of modernized traditional Chinese medicines
Universe Hanhe	May 12, 2021	PRC	100%	Research and development of new pharmaceutical products

The Company, through its wholly-owned subsidiaries, is primarily engaged in the development, manufacturing and sale of traditional Chinese medicines derivatives (“TCMD”) products targeted to the elderly to address their physical conditions in the aging process and to promote their general well-being. In addition, the Company also sells biochemical drugs, medical instruments, traditional Chinese medicine pieces products and dietary supplements (collectively “third-party products”). All of these TCMD and third-party products are currently sold to customers including pharmaceutical companies, hospitals, clinics and drugstore chains throughout China.

## NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Basis of consolidation*

The accompanying consolidated financial statements include the financial statements of Universe INC, Universe HK, Universe Technology, Jiangxi Universe, Universe Trade and Universe Hanhe. All inter-company balances and transactions are eliminated upon consolidation.

### *Uses of estimates*

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“US GAAP”), management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on information as of the date of the consolidated financial statements. Significant estimates required to be made by management include, but are not limited to, the allowance for estimated uncollectible receivables, the realizability of advance to suppliers, inventory valuations, useful lives of property, plant and equipment, intangible assets, the recoverability of long-lived assets, provision necessary for contingent liabilities, revenue recognition and realization of deferred tax assets. Actual results could differ from those estimates.

## UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *Risks and Uncertainties*

The main operation of the Company is located in the PRC. Accordingly, the Company’s business, financial condition, and results of operations may be influenced by political, economic, and legal environments in the PRC, as well as by the general state of the PRC economy. The Company’s results may be adversely affected by changes in the political, regulatory and social conditions in the PRC. Although the Company has not experienced losses from these situations

and believes that it is in compliance with existing laws and regulations including its organization and structure disclosed in Note 1, this may not be indicative of future results.

The development and commercialization of new pharmaceutical products is highly competitive, and the industry currently is characterized by rapidly changing technologies, significant competition and a strong emphasis on intellectual property. The Company may face competition with respect to its current and future pharmaceutical product candidates from major pharmaceutical companies in China.

The Company's business, financial condition and results of operations may also be negatively impacted by risks related to natural disasters, extreme weather conditions, health epidemics and other catastrophic incidents, which could significantly disrupt the Company's operations.

The Company's operations may be further affected by the ongoing COVID-19 pandemic. Due to the resurgence of COVID-19 pandemic in China in 2022, there had been delays in purchase of raw material supplies and deliver products to the customers of the PRC operating entities on a timely basis as a consequence of the travel restrictions. The prices of the raw materials also increased by about 5% from January 2022 to May 2022 as compared to the same period last year. In addition, the Company has granted some of its customers extended payment terms of 30 days to 120 days since January 2022, as a result of the COVID-19 pandemic. However, based on the present relationship with these customers and the evaluation of their financial health, the Company does not anticipate any material collectability problems. Even though the Company does not expect that the COVID-19 pandemic will have a negative impact on the business operations of the PRC operating entities and the financial results, due to the high uncertainty of the evolving situation, the Company has limited visibility on how the COVID-19 pandemic affects the execution of customer contracts, the collection of customer payments, or disrupt our supply chain, and the continued uncertainties associated with COVID-19 may cause the revenue and cash flows to underperform in the next 12 months from the date the consolidated financial statements are released. The extent of the future impact of the COVID-19 pandemic on the business and results of operations is still uncertain. Any resurgence of the COVID-19 pandemic could negatively affect the execution of customer contracts, the collection of customer payments, or disrupt the Company's supply chain, and the continued uncertainties associated with COVID-19 may negatively impact the Company's revenue and cash flows.

## UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### *Cash*

Cash includes currency on hand and deposits held by banks that can be added or withdrawn without limitation. The Company maintains most of its bank accounts in the PRC. Cash balances in bank accounts in the PRC are not insured by the Federal Deposit Insurance Corporation or other programs.

##### *Accounts receivable, net*

Accounts receivable are presented net of allowance for doubtful accounts. The Company determines the adequacy of reserves for doubtful accounts based on individual account analysis and historical collection trends. The Company establishes a provision for doubtful receivables when there is objective evidence that the Company may not be able to collect amounts due. The allowance is based on management's best estimate of specific losses on individual exposures, as well as a provision on historical trends of collections. Actual amounts received may differ from management's estimate of credit worthiness and the economic environment. Delinquent account balances are written-off against the

allowance for doubtful accounts after management has determined that collection is not probable. Allowance for uncollectable balances amounted to \$ 791,827 and \$446,527 as of September 30, 2022 and 2021, respectively.

***Inventories, net***

Inventories are stated at net realizable value using weighted average method. Costs include the cost of raw materials, freight, direct labor and related production overhead. Any excess of the cost over the net realizable value of each item of inventories is recognized as a provision for diminution in the value of inventories. Net realizable value is the estimated selling price in the normal course of business less any costs to complete and sell products. The Company evaluates inventories on a quarterly basis for its net realizable value adjustments, and reduces the carrying value of those inventories that are obsolete or in excess of the forecasted usage to their estimated net realizable value based on various factors including aging, expiration dates, as applicable, taking into consideration historical and expected future product sales. The Company recorded inventory reserve of \$120,286 and \$116,453 as of September 30, 2022 and 2021, respectively.

***Advances to suppliers, net***

Advances to suppliers represent prepayments made to ensure continuous high-quality supplies and favorable purchase prices for raw materials. These advances are directly related to the purchases of raw materials used to fulfill sales orders. The Company is required from time to time to make cash advances when placing its purchase orders. These advances are settled upon suppliers delivering raw materials to the Company when the transfer of ownership occurs. The Company reviews its advances to suppliers on a periodic basis and makes general and specific allowances when there is doubt as to the ability of a supplier to provide supplies to the Company or refund an advance. As of September 30, 2022 and 2021, no allowance for doubtful accounts was deemed necessary, as the Company believes that all advances to suppliers are fully realizable.

***Deferred initial public offering (“IPO”) costs***

The Company complies with the requirement of the ASC 340-10-S99-1 and SEC Staff Accounting Bulletin (“SAB”) Topic 5A — “Expenses of Offering”. Deferred offering costs consist of underwriting, legal, accounting and other expenses incurred through the balance sheet date that are directly related to the intended IPO. Deferred offering costs were charged to shareholders’ equity upon the completion of the IPO on March 25, 2021.

**UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Short-term investments***

The Company’s short-term investments consist of wealth management financial products purchased from a financial institution, which can be redeemed anytime. The financial institution invests the Company’s fund in certain financial instruments including money market funds and bonds to generate investment income. The short-term investments are deemed to be trading securities and are measured subsequently at fair value in the statement of financial position. Unrealized holding gains and losses for investment are included in the consolidated statements of operations and comprehensive income over the investment period (see Note 8).

***Fair value of financial instruments***



Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-level fair value hierarchy prioritizes the inputs used to measure fair value. The hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 — inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 — inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted market prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable and inputs derived from or corroborated by observable market data.
- Level 3 — inputs to the valuation methodology are unobservable.

Unless otherwise disclosed, the fair value of the Company’s financial instruments, including cash, accounts receivable, inventories, short-term investments, advances to suppliers, prepaid expenses and other current assets, accounts payable, short-term bank loans, accrued expenses and other current liabilities, taxes payable and due to related parties, approximate the fair value of the respective assets and liabilities as of September 30, 2022 and 2021 based upon the short-term nature of the assets and liabilities. The Company’s investment in equity securities is accounted for using the measurement alternative in accordance with ASC 321, which also approximate its recorded value.

***Property, plant and equipment***

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization of property and equipment is provided using the straight-line method over their expected useful lives, as follows:

	<b>Useful life</b>
Buildings	20 years
Machinery and equipment	5–10 years
Automobiles	3–5 years
Office and electric equipment	3–5 years

Expenditures for maintenance and repairs, which do not materially extend the useful lives of the assets, are charged to expense as incurred. Expenditures for major renewals and betterments which substantially extend the useful life of assets are capitalized. The cost and related accumulated depreciation of assets retired or sold are removed from the respective accounts, and any gain or loss is recognized in the consolidated statements of income and other comprehensive income in other income or expenses.

**UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Property, plant and equipment (continued)***

The Company reviews the carrying value of property, plant, and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are

less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition and other economic factors. Based on this assessment, no impairment expenses for property, plant, and equipment were recorded in operating expenses for the years ended September 30, 2022, 2021 and 2020, respectively.

### ***Intangible Assets***

Intangible assets consist primarily of land use rights and software. Under the PRC law, all land in the PRC is owned by the government and cannot be sold to an individual or company. The government grants individuals and companies the right to use parcels of land for specified periods of time. Land use rights are stated at cost less accumulated amortization. Intangible assets are amortized using the straight-line method with the following estimated useful lives:

	<u>Useful life</u>
Land use rights	50 years
Software	3 years

The Company reviews the carrying value of land use rights for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition and other economic factors. Based on this assessment, no impairment of land use rights was deemed necessary for the years ended September 30, 2022, 2021 and 2020, respectively.

### ***Construction-in-Progress (“CIP”)***

CIP represents property and buildings under construction and consists of construction expenditures, equipment procurement, and other direct costs attributable to the construction. CIP is not depreciated. Upon completion and ready for intended use, CIP is reclassified to the appropriate category within property, plant and equipment.

### ***Impairment of long-lived Assets***

Long-lived assets with finite lives, primarily property, plant and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the estimated undiscounted cash flows from the use of the asset and its eventual disposition below are the asset’s carrying value, then the asset is deemed to be impaired and written down to its fair value. There were no impairments of these assets as of September 30, 2022 and 2021.

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## **UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### ***Investments in Equity Securities***

The Company accounts for its equity investments in accordance with Accounting Standards Codification (“ASC”) 321 “Investments—Equity Securities” (“ASC 321”). In accordance with ASC 321, equity investment which the

Company has no significant influence (generally less than a 20% ownership interest) with readily determinable fair values are accounted for at fair value based on quoted market prices with the changes in fair value recognized as unrealized gains or losses in earnings. Equity investments without readily determinable fair values are accounted for either at fair value or using the measurement alternative. Under the measurement alternative, the equity investments are measured at cost, less any impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment.

From March 2009 to September 2017, the Company invested approximately \$0.7 million (RMB5 million) in Jiangxi Jian Rural Commercial Bank (“JX RCB Bank”) in exchange for 5% ownership interest in the bank. The purpose of entering into these equity investment agreements with JX RCB Bank was to earn investment income as the bank continues to grow. The Company determined that this investment in equity securities does not have a readily determinable fair value and, accordingly, elected the measurement alternative noted above.

The Company initially recorded the investments at historical cost and subsequently records any dividends received from the net accumulated earnings of the investee as income. As of September 30, 2022 and 2021, this investment amounted to \$702,890 (RMB 5 million) and \$744,924 (RMB 5 million), respectively, and was reported as long-term investment in equity investee on the consolidated balance sheets. Investment income amounted to \$38,588, \$30,827 and \$21,820 for the years ended September 30, 2022, 2021 and 2020, respectively.

The investments in equity securities are evaluated for impairment when facts or circumstances indicate that the fair value of the investment is less than its carrying value. An impairment is recognized when a decline in fair value is determined to be other-than-temporary. The Company reviews several factors to determine whether a loss is other-than-temporary. These factors include, but are not limited to, the: (i) nature of the investment; (ii) cause and duration of the impairment; (iii) extent to which fair value is less than cost; (iv) financial condition and near-term prospects of the investments; and (v) ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value. There was no impairment for the Company’s investments in equity securities as of September 30, 2022 and 2021.

### ***Revenue recognition***

To determine revenue recognition for contracts with customers, the Company performs the following five steps : (i) identify the contract(s) with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, including variable consideration to the extent that it is probable that a significant future reversal will *not* occur, (iv) allocate the transaction price to the respective performance obligations in the contract, and (v) recognize revenue when (or as) the Company satisfies the performance obligation.

The Company recognizes revenue when it transfers its goods and services to customers in an amount that reflects the consideration to which the Company expects to be entitled in such exchange. The Company accounts for the revenue generated from sales of its TCMD and third-party products on a gross basis, as the Company is acting as a principal in these transactions, is subject to inventory risk, has latitude in establishing prices, and is responsible for fulfilling the promise to provide customers the specified goods, which the Company has control of the goods and has the ability to direct the use of goods to obtain substantially all the benefits. All of the Company’s contracts have one single performance obligation, namely, the promise is to transfer the individual goods to customers, and there is no separately identifiable other promise in the contracts. The Company’s revenue streams are recognized at a point in time when title and risk of loss passes and the customer accepts the goods, which generally occurs at delivery. The Company’s products are sold with no right of return and the Company does not provide other credits or sales incentive to customers. Revenue is reported net of all value added taxes (“VAT”).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Contract Assets and Liabilities*

Payment terms are established on the Company's pre-established credit requirements based upon an evaluation of customers' credit quality. Contract assets are recognized for in related accounts receivable. Contract liabilities are recognized for contracts where payment has been received in advance of delivery. The contract liability balance can vary significantly depending on the timing when an order is placed and when shipment or delivery occurs. As of September 30, 2022 and 2021, the Company did not have contract assets and contract liabilities.

#### *Disaggregation of Revenues*

The Company disaggregates its revenue from contracts by product types, as the Company believes it best depicts how the nature, amount, timing and uncertainty of the revenue and cash flows are affected by economic factors. The Company's disaggregation of revenues for the years ended September 30, 2022, 2021 and 2020 are disclosed in Note 19 of these consolidated financial statements.

#### *Cost of revenue*

Cost of revenue consists primarily of the costs of raw materials, freight charges, direct labor, depreciation of plants and machinery, warehousing and overhead associated with the manufacturing process.

#### *Research and development expenses*

The Company expenses all internal research and development costs as incurred, which primarily comprise employee costs, internal and external costs related to execution of studies, including manufacturing costs, facility costs of the research center, and amortization and depreciation to intangible assets and property, plant and equipment used in the research and development activities. For the years ended September 30, 2022, 2021 and 2020, total research and development expense were approximately \$7,644,375, \$5,465,662 and \$583,125, respectively.

#### *Shipping and handling costs*

Shipping and handling costs are expensed as incurred. Inbound shipping and handling cost associated with bringing the purchased raw materials and third-party products from suppliers to the Company's warehouse are included in cost of revenue. Outbound shipping and handling costs associated with shipping and delivery the products to customers are included in selling expenses.

#### *Advertising expense*

Advertising expenses primarily relate to promotion of the Company's brand name and products through outdoor billboards, social media such as Weibo and WeChat, and TV advertisement. Advertising costs are expensed as incurred or deferred and then expensed the first time the advertising takes place. Advertising expenses are included in selling expenses in the consolidated statements of income and comprehensive income. Advertising expenses amounted to \$17,527,318, \$1,316,654 and \$343,962 for the years ended September 30, 2022, 2021 and 2020, respectively.

#### *Segment Reporting*

The Company uses the management approach in determining reportable operating segments. The management approach considers the internal reporting used by the Company's chief operating decision maker for making operating decisions about the allocation of resources of the segment and the assessment of its performance in determining the Company's reportable operating segments. Management has determined that the Company has one operating segment (See Note 19).

**UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*****Income taxes***

The Company accounts for current income taxes in accordance with the laws of the relevant tax authorities. Deferred income taxes are recognized when temporary differences exist between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period including the enactment date. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

An uncertain tax position is recognized only if it is “more likely than not” that the tax position would be sustained in a tax examination. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the period incurred. No significant penalties or interest relating to income taxes have been incurred during the years ended September 30, 2022, 2021 and 2020. The Company does not believe there was any uncertain tax provision at September 30, 2022 and September 30, 2021.

The Company’s operating subsidiary in China is subject to the income tax laws of the PRC. No significant income was generated outside the PRC for the years ended September 30, 2022, 2021 and 2020. As of September 30, 2022, all of the tax returns of the Company’s PRC subsidiaries remain open for statutory examination by PRC tax authorities.

***Value added tax (“VAT”)***

Sales revenue represents the invoiced value of goods, net of VAT. The VAT is based on gross sales price and VAT rates range up to 17% (starting from May 1, 2018, VAT rate was lowered to 16%, and starting from April 1, 2019, VAT rate was further lowered to 13%), depending on the type of products sold. The VAT may be offset by VAT paid by the Company on raw materials and other materials included in the cost of producing or acquiring its finished products. The Company recorded a VAT payable or receivable net of payments in the accompanying consolidated financial statements.

***Earnings per Share***

The Company computes earnings per share (“EPS”) in accordance with ASC 260, “Earnings per Share” (“ASC 260”). ASC 260 requires companies with complex capital structures to present basic and diluted EPS. Basic EPS is measured as net income divided by the weighted average common shares outstanding for the period. Diluted presents the dilutive effect on a per share basis of potential common shares (e.g., convertible securities, options and warrants) as if they had been converted at the beginning of the periods presented, or issuance date, if later. Potential common shares that have an anti-dilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from the calculation of diluted EPS. For the years ended September 30, 2022, 2021 and 2020, there were no dilutive shares.

## UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### *Foreign currency translation*

The functional currency for Universe INC is the U.S Dollar (“US\$”). Universe HK uses Hong Kong dollar as its functional currency. However, Universe INC and Universe HK currently only serve as holding companies and did not have active operations as of the date of this report. The Company operates only in the PRC and the Company’s functional currency is the Chinese Yuan (“RMB”). The Company’s consolidated financial statements have been translated into the reporting currency US\$.

Assets and liabilities of the Company are translated at the exchange rate at each reporting period end date. Equity is translated at historical rates. Income and expense accounts are translated at the average rate of exchange during the reporting period. The resulting translation adjustments are reported under other comprehensive income. Gains and losses resulting from the translations of foreign currency transactions and balances are reflected in the results of operations.

The RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at the rates used in translation.

The following table outlines the currency exchange rates that were used in creating the consolidated financial statements in this report:

	September 30, 2022	September 30, 2021	September 30, 2020
Year-end spot rate	US\$1=RMB7.1135	US\$1=RMB6.4580	US\$1=RMB6.8033
Average rate	US\$1=RMB6.5532	US\$1=RMB6.5095	US\$1=RMB7.0077

##### *Comprehensive income*

Comprehensive income consists of two components, net income and other comprehensive income. The foreign currency translation gain resulting from translation of the financial statements expressed in RMB to US\$ is reported in other comprehensive income in the consolidated statements of income and comprehensive income.

##### *Statement of Cash Flows*

In accordance with ASC 230, “Statement of Cash Flows”, cash flows from the Company’s operations are formulated based upon the local currencies. As a result, amounts related to assets and liabilities reported on the statements of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheets.

##### *Employee Defined Contribution Plan*

The Company’s subsidiaries in the PRC participate in a government-mandated multi-employer defined contribution plan pursuant to which pension, work-related injury benefits, maternity insurance, medical insurance, unemployment benefit and housing fund are provided to eligible full-time employees. The relevant labor regulations require the Company’s subsidiaries in the PRC to pay the local labor and social welfare authorities monthly contributions based on the applicable benchmarks and rates stipulated by the local government. The contributions to the plan are expensed as incurred. Employee social security and welfare benefits included as expenses in the accompanying statements of income and comprehensive income amounted to \$465,689, \$617,145 and \$347,312 for the years ended September 30, 2022, 2021 and 2020, respectively.

**UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Recent Accounting Pronouncements***

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326), which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. ASU 2016-13 was subsequently amended by ASU 2018-19, ASU 2019-04, ASU 2019-05, ASU 2019-10 and ASU 2020-02. For public entities, ASU 2016-13 and its amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. For all other entities, this guidance and its amendments will be effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early application will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In October 2020, the FASB issued ASU 2020-10, "Codification Improvements to Subtopic 205-10, presentation of financial statements". The amendments in this Update improve the codification by ensuring that all guidance that requires or provides an option for an entity to provide information in the notes to financial statements is codified in the disclosure section of the codification. That reduce the likelihood that the disclosure requirement would be missed. ASU 2020-10 is effective for the Company for annual and interim reporting periods beginning January 1, 2022. Early application of the amendments is permitted for any annual or interim period for which financial statements are available to be issued. The amendments in this Update should be applied retrospectively. An entity should apply the amendments at the beginning of the period that includes the adoption date. The Company is currently evaluating the impact of this new standard on Company's consolidated financial statements and related disclosures.

**NOTE 3 — ACCOUNTS RECEIVABLE, NET**

Accounts receivable consists of the following:

	<b>September 30, 2022</b>	<b>September 30, 2021</b>
Accounts receivable	\$ 15,975,717	\$ 16,020,269
Less: allowance for doubtful accounts	(791,827)	(446,527)
Accounts receivable, net	<u>\$ 15,183,890</u>	<u>\$ 15,573,742</u>

The Company's accounts receivable primarily includes the balance due from customers when the Company's pharmaceutical products are sold and delivered to customers. All of the Company's accounts receivable balance at September 30, 2021 has been collected in the fiscal year 2022. As of date of this report, approximately 71.9%, or \$10.9 million, of the Company's net account receivable balance at September 30, 2022 has been subsequently collected and the remaining balance is expected to be substantially collected before March 31, 2023.

The following table summarizes the Company's accounts receivable and subsequent collection by aging bucket:

<b>Accounts Receivable by aging bucket</b>	<b>Balance as of September 30, 2022</b>	<b>Subsequent collection</b>	<b>% of subsequent collection</b>
Less than 3 months	\$ 6,673,685	\$ 4,135,508	62.0%
From 4 to 6 months	6,970,635	5,360,236	76.9%
From 7 to 9 months	1,554,318	1,089,957	70.1%
From 10 to 12 months	285,871	180,564	63.2%
Over 1 year	491,208	152,711	31.1%
Total gross accounts receivable	15,975,717	10,918,976	68.3%
Allowance for doubtful accounts	(791,827)	-	
Accounts Receivable, net	<u>\$15,183,890</u>	<u>\$10,918,976</u>	<u>71.9%</u>

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**UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 3 — ACCOUNTS RECEIVABLE, NET (continued)**

Allowance for doubtful accounts movement is as follows:

	<b>September 30, 2022</b>	<b>September 30, 2021</b>
Beginning balance	\$ 446,527	\$ 639,991
Additions	419,353	-
Bad debt recovery	-	(225,660)
Foreign currency translation adjustments	(74,053)	32,196
Ending balance	<u>\$ 791,827</u>	<u>\$ 446,527</u>

**NOTE 4 — INVENTORY, NET**

Inventory consists of the following:

	<b>September 30, 2022</b>	<b>September 30, 2021</b>
Raw materials	\$ 989,043	\$ 607,661
Finished goods	1,337,731	1,971,334
Inventory valuation allowance	(120,286)	(116,453)
Total inventory, net	<u>\$ 2,206,488</u>	<u>\$ 2,462,542</u>

**NOTE 5 — ADVANCE TO SUPPLIERS**

Advances to suppliers consist of the following:

	<b>September 30, 2022</b>	<b>September 30, 2021</b>
Advances to suppliers for inventory raw materials	\$ 16,701	\$ 2,738,313
Less: allowance for doubtful accounts	-	-



Advances to suppliers, net	\$ 16,701	\$ 2,738,313
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Advances to suppliers represent prepayments made to suppliers to ensure continuous high-quality supplies and favorable purchase prices for raw materials.

## UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 6 — PREPAYMENT FOR ADVERTISING

On September 6, 2021, the Company entered into an advertising service agreement with a third-party, Guangdong Fengyang Legend Consulting Co., Ltd. (“Fengyang Legend”), pursuant to which, Fengyang Legend assisted the Company in developing and producing TV advertising films for the Company in order to promote the Company’s sales of its major TCMD product, Bainian Pill and Guben Yanling Pill, and coordinating the specific TV Channel to broadcast the advertising films to targeted geographic market areas. The total contracted advertising service fee was RMB55 million (approximately \$8.5 million), with an advertising consulting service period of one year from October 1, 2021 to September 30, 2022. Based on contract terms, the Company was required to make a 30% advance payment to Fengyang Legend within 7 business days upon signing the service agreement and make an additional 58% of the contract price to Fengyang Legend when the specific TV channel used for broadcast the TV film was determined. In fiscal year 2021, the Company paid RMB48.4 million (approximately \$7.5 million), the amount was recorded as prepayment for advertising on the balance sheets as of September 30, 2021, and recognized as selling expense during fiscal year 2022. The remaining 12% of the contract price, RMB6.6 million (approximately \$0.9 million), represented the monthly advertising fees payable when the advertising film was broadcasted through the designated TV channels during the service period.

#### NOTE 7 — PREPAYMENT FOR ACQUISITION

On September 26, 2022, the Company entered into a letter of intent for an equity transfer with an individual, Mr. Xibo Liu, pursuant to which, Mr. Xibo Liu transfers his 51% ownership in Yunnan Faxi Pharmaceuticals Co., Ltd. (“Yunnan Faxi”) to the Company at the price of RMB72 million (approximately \$10.1 million). Based on contract terms, the Company prepaid RMB25 million (approximately \$3.5 million) within 3 business days upon signing the letter of intent. As of September 30, 2022, the prepayment was recorded as prepayment for acquisition on the balance sheets. The intended acquisition is expected to be completed and the remaining balance is expected to be paid in June 2023.

#### NOTE 8 — SHORT-TERM INVESTMENTS

The Company’s short-term investments consist of wealth management financial products purchased from financial institution, which can be redeemed anytime at the Company’s discretion. The financial institution invests the Company’s fund in certain financial instruments including money market funds and bonds to generate investment income. Short-term investments consisted of the following:

	<b>September 30, 2022</b>	<b>September 30, 2021</b>
Beginning balance	\$ 13,725,204	\$ -
Add: purchase wealth management financial products		15,330,660
Less: redemption		(1,801,927)
Accrued investment income (loss)	(470,477)	239,549
Foreign currency translation adjustments	(106,133)	(43,078)

Ending balance of short-term investments \$ 13,148,594 \$ 13,725,204

Investment income (loss) generated from such short-term investments amounted to (\$470,477), \$239,549 and Nil for the years ended September 30, 2022, 2021 and 2020, respectively.

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**UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 9 — PROPERTY, PLANT AND EQUIPMENT, NET**

Property, plant and equipment, net, consists of the following:

	Useful life	September 30, 2022	September 30, 2021
Buildings	20 years	\$ 7,492,360	\$ 7,808,006
	5-10		
Machinery and equipment	years	77,932	2,047,338
Automobiles	3-5 years	1,912,525	116,370
Office and electric equipment	3-5 years	477,919	489,886
Subtotal		<u>9,960,736</u>	<u>10,461,600</u>
Less: accumulated depreciation		<u>(5,710,098)</u>	<u>(5,780,247)</u>
Property, plant and equipment, net		<u>\$ 4,250,638</u>	<u>\$ 4,681,353</u>

Depreciation expense was \$528,919, \$441,355 and \$404,948 for the years ended September 30, 2022, 2021 and 2020, respectively. Loss from disposal of fixed assets amounted to \$983, \$1,559 and Nil for the years ended September 30, 2022, 2021 and 2020, respectively.

**NOTE 10 — INTANGIBLE ASSETS, NET**

Intangible assets, net consist of the following:

	Useful life	September 30, 2022	September 30, 2021
Land use rights	20 years	\$ 252,757	\$ 278,327
	5-10		
Software	years	21,217	23,364
Total		<u>273,974</u>	<u>301,691</u>
Less: accumulated amortization		<u>(116,523)</u>	<u>(123,208)</u>
Intangible assets, net		<u>\$ 157,451</u>	<u>\$ 178,483</u>

Amortization expense was \$5,030, \$5,523 and \$5,131 for the years ended September 30, 2022, 2021 and 2020, respectively.

Estimated future amortization expense for intangible assets is as follows:

<u>Years ending September 30,</u>	<u>Amortization expense</u>
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2023	\$ 5,055
2024	5,055
2025	5,055
2026	5,055
2027	5,055
Thereafter	132,176
Total	<u>\$ 157,451</u>

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## UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 11 — PREPAYMENT FOR CIP PROJECT

CIP represents direct costs of construction incurred for the Company’s manufacturing facilities. On June 25, 2021, the Company signed a construction sub-contract with sub-contractor Jiangxi Chenyuan Construction Project Co., Ltd. (“Chenyuan”), pursuant to which, Chenyuan will help the Company construct four manufacturing plant buildings and an office building with a total estimated budget of RMB165 million (approximately \$23.2 million). The construction work started on August 8, 2021, with an originally estimated completion date on August 7, 2023. However, due to resurgence of the COVID-19 pandemic, which resulted in lingering logistic disruption, material and labor shortage, and domestic travel restriction, the construction work is estimated to be completed in December 2024, and Chenyuan will bear the increased material and labor costs. As of September 30, 2022, the Company had made a prepayment of approximately RMB69.2 million (approximately \$9.7 million) to Chenyuan for land improvement, building foundation and the construction of the main body of the manufacturing plants.

As of September 30, 2022, \$401,702 (approximately RMB2.9 million) of the prepayment for the CIP project had been used for construction work, and the amount was recorded as property, plant and equipment in the consolidated balance sheets. As of September 30, 2022, the remaining \$9.3 million prepayment to Chenyuan was recorded as a prepayment for CIP project on the balance sheets.

As of September 30, 2022, future additional capital expenditure on this CIP project is estimated to be approximately RMB95.8 million (equivalent to \$13.5 million), among which approximately \$3.5 million is required for the next 12 months. The Company currently plans to support its ongoing CIP project construction through cash flows from operations, proceeds received from the IPO, and borrowings from PRC banks in the future and use such bank borrowings to support the CIP project, if necessary. The construction of the four manufacturing plant buildings and the office building is expected to be fully completed and put into use by December 2024 and December 2025, respectively.

As of September 30, 2022, future minimum capital expenditures on the Company’s CIP project are estimated as follows:

<b>Years ending September 30,</b>	<b>Capital Expenditure on CIP</b>
2023	\$ 3,479,306
2024	9,988,066
Total	<u>\$ 13,467,372</u>

**UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 12 — PREPAYMENT FOR PURCHASE OF A PROPERTY**

On May 6, 2021, the Company entered into a real estate property purchase agreement with related party Jiangxi Yueshang Investment Co., Ltd. (“Jiangxi Yueshang”), an entity in which the Company’s chief executive officer, Mr. Gang Lai, owned 5% equity interest as of the date of that agreement. Pursuant to the property purchase agreement, Jiangxi Yueshang will sell and the Company will purchase a certain residential apartment and commercial office space totaling 2,749.30 square meters, with a total purchase price of RMB32 million (approximately \$4.50 million). Pursuant to this agreement, the Company was required to make a prepayment in the amount of 50% of the total purchase price, with 20% of the total purchase price payable upon the availability of a certificate of occupancy, and 30% of the total purchase price payable upon delivery of the property.

As of September 30, 2022, the Company had made a prepayment of RMB16 million (approximately \$2.25 million) to Jiangxi Yueshang. The remaining balance is expected to be paid by August 2024. Since the property is located in the urban downtown area of Ji’an City, the Company plans to use the property for offices in late 2024.

**NOTE 13 — SHORT-TERM BANK LOANS**

Short-term bank loans consist of the following:

	<b>Note</b>	<b>September 30, 2022</b>	<b>September 30, 2021</b>
<b>Short-term bank loans:</b>			
Loans payable to Jiangxi Luling Rural Commercial Bank (“LRC Bank”):			
Maturity date on June 15, 2022, interest rate 4.81% per annum	(1)	\$ -	\$ 1,548,000
Maturity date on March 17, 2022, interest rate 4.81% per annum	(2)	-	1,238,400
Maturity date on March 13, 2023, interest rate 4.62% per annum	(3)	1,124,624	-
Maturity date on June 14, 2023, interest rate 4.62% per annum	(4)	1,405,780	-
Bank of Communications Co., Ltd			
Maturity date on June 30, 2022, interest rate 4.50% per annum	(5)	-	1,548,000
Maturity date on June 24, 2023, interest rate 4.20% per annum	(6)	1,405,780	-
<b>Total short-term loans</b>		<b>\$ 3,936,184</b>	<b>\$ 4,334,400</b>

- (1) On June 16, 2021, the Company’s subsidiary, Jiangxi Universe, signed a loan agreement with Jiangxi Luling Rural Commercial Bank (“LRC Bank”) to borrow RMB10 million (equivalent to \$1,548,000) as working capital for one year, with the maturity date on June 15, 2022. The fixed interest rate of the loan was 4.81% per annum. There was no guarantee requirement for this loan. The loan was fully repaid upon maturity.
- (2) On March 18, 2021, the Company’s subsidiary, Universe Trade, signed a loan agreement with LRC Bank to borrow RMB8 million (equivalent to \$1,238,400) as working capital for one year, with the maturity date on March 17, 2022. The fixed interest rate of the loan was 4.81% per annum. There was no guarantee requirement for this loan. The loan was fully repaid upon maturity.
- (3) On March 14, 2022, the Company’s subsidiary, Universe Trade, signed a loan agreement with LRC Bank to borrow RMB8 million (equivalent to \$1,124,624) as working capital for one year, with the maturity date on March 13, 2023. The fixed interest rate of the loan was 4.62% per annum. There was no guarantee requirement for this loan.

- (4) On June 15, 2022, the Company's subsidiary, Jiangxi Universe, entered into a loan agreement with LRC Bank to borrow RMB10 million (equivalent to \$1,405,780) as working capital for one year, with the maturity date on June 14, 2023. The fixed interest rate of the loan was 4.62% per annum. Certain related parties of the Company, including Mr. Gang Lai, the Company's controlling shareholder, chairman of the board of directors, and chief executive officer, Ms. Lin Yang, the Company's chief financial officer, Ms. Xing Wu, Mr. Gang Lai's spouse, and the Company's WFOE, Universe Technology, jointly signed guarantee agreements with LRC Bank to provide credit guarantee for this loan.
- (5) On June 30, 2021, the Company's subsidiary, Jiangxi Universe, signed a loan agreement with Bank of Communications to borrow RMB10 million (equivalent to \$1,548,000) as working capital for one year, with the maturity date on June 30, 2022. The fixed interest rate of the loan was 4.5% per annum. Certain related parties of the Company, including Mr. Gang Lai, the Company's controlling shareholder, Mr. Gang Lai's spouse, Mrs. Xing Wu, and the Company's subsidiary, Universe Trade, jointly signed guarantee agreements with Bank of Communications to provide credit guarantees for this loan. The loan was fully repaid upon maturity.
- (6) On June 24, 2022, the Company's subsidiary, Jiangxi Universe, signed a loan agreement with Bank of Communications to borrow RMB10 million (equivalent to \$1,405,780) as working capital for one year, with the maturity date on June 24, 2023. The fixed interest rate of the loan was 4.2% per annum. Jiangxi Province Financing Guarantee Group Co., Ltd., an unrelated third party, signed a guarantee agreement with Bank of Communications to provide credit guarantee for this loan.

For the above-mentioned loans, the Company recorded a total interest expense of \$199,852, \$149,303 and \$157,528 for the years ended September 30, 2022, 2021 and 2020, respectively.

## UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 14 — RELATED PARTY TRANSACTIONS

##### (a) Nature of relationships with related parties

<u>Name</u>	<u>Relationship with the Company</u>
Mr. Gang Lai	The Company's controlling shareholder, Chief Executive Officer and chairman of the Company's Board of Directors
Ms. Lin Yang	Chief Financial Officer and Director
Greatest Group (China) Financial Management Limited ("Greatest Group")	One of the Company's minority shareholders owns 8.7% of the ownership interest in this entity
Foshan Shangyu Investment Holding Co., Ltd ("Foshan Shangyu")	An affiliated entity of the Company, 90% owned by and controlled by the Company's Chief Executive Officer

##### (b) Due from related parties

<u>Name</u>	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Greatest Group	\$ -	\$ 235,438
Foshan Shangyu	-	1,544

<b>Total due from related parties</b>	<u>\$</u>	-	<u>\$</u>	236,982
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The Company's due from related parties were interest free and due on demand. The September 30, 2021 due from related parties balance has been subsequently collected back and the Company does not have the intention to make additional cash advance to related parties going forward.

**(c) Due to related parties**

<b>Name</b>	<b>September 30, 2022</b>	<b>September 30, 2021</b>
Mr. Gang Lai	\$ 3,379,263	\$ -
Mrs. Lin Yang	-	19,723
<b>Total due to related parties</b>	<u>\$ 3,379,263</u>	<u>\$ 19,723</u>

As of September 30, 2022 and 2021, the balance due to related parties mainly consisted of advances from the Company's officers for working capital purposes during the Company's normal course of business. These advances are non-interest bearing and due on demand.

**(d) Loan guarantee provided by related parties**

In connection with the Company's bank borrowings from Bank of Communications, certain related parties of the Company, including Mr. Gang Lai, the Company's controlling shareholder, chairman of the board of directors, and chief executive officer, Mr. Gang Lai's spouse, Ms. Xing Wu, and the Company's subsidiary, Universe Trade, jointly signed guarantee agreements with Bank of Communications to provide credit guarantee for these loans.

In connection with the Company's bank borrowings from LRC Bank, the Company's chief executive officer, Mr. Gang Lai, signed a guarantee agreement with LRC Bank to provide a credit guarantee for the Company's loans from LRC Bank within the loan period (see Note 13).

**UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 14 — RELATED PARTY TRANSACTIONS (continued)**

**(e) Prepayment to related party for property purchase**

As disclosed in Note 12, on May 6, 2021, the Company entered into a real estate property purchase agreement with a related party, Jiangxi Yueshang, to purchase certain residential apartment and commercial office space totaling 2,749.30 square meters with total purchase price of RMB32 million (approximately \$4.5 million). As of September 30, 2022, the Company had made a prepayment of RMB16 million (\$2,249,248) to Jiangxi Yueshang. The remaining balance is expected to be paid by August 2024.

On January 13, 2022, Mr. Gang Lai transferred the 5% equity interest he owned in Jiangxi Yueshang to a third party. As such, after this date, Jiangxi Yueshang is no longer our related party.

**NOTE 15 — TAXES**

## (a) Corporate Income Taxes (“CIT”)

### Cayman Islands

Under the current tax laws of the Cayman Islands, Universe INC is not subject to tax on its income or capital gains. In addition, no Cayman Islands withholding tax will be imposed upon the payment of dividends by the Company to its shareholders.

### Hong Kong

Universe HK is incorporated in Hong Kong and is subject to profit taxes in Hong Kong at a rate of 16.5%. However, Universe HK did not generate any assessable profits derived from Hong Kong sources for the years ended September 30, 2022, 2021 and 2020, and accordingly no provision for Hong Kong profits tax has been made in these periods.

### PRC

Under the Enterprise Income Tax (“EIT”) Law of PRC, domestic enterprises and Foreign Investment Enterprises (“FIEs”) are usually subject to a unified 25% enterprise income tax rate while preferential tax rates, tax holidays and even tax exemption may be granted on a case-by-case basis. EIT grants preferential tax treatment to High and New Technology Enterprises (“HNTEs”). Under this preferential tax treatment, HNTEs are entitled to an income tax rate of 15%, subject to a requirement that they re-apply for their HNTE status every three years. Jiangxi Universe, one of the Company’s main operating subsidiaries in the PRC, was approved as a HNTE and is entitled to a reduced income tax rate of 15% beginning November 2016 with a term of three years. In December 2019, Jiangxi Universe successfully renewed its HNTE certification with local government and will continue to enjoy the reduced income tax rate of 15% for another three years through December 2022. In November 2022, Jiangxi Universe successfully further renewed its HNTE certification with local government and will continue to enjoy the reduced income tax rate of 15% for another three years through November 2025. Universe Trade, another operating subsidiary of the Company in the PRC, was approved as a HNTE and is entitled to a reduced income tax rate of 15% beginning December 2020 with a term of three years through December 2023. EIT is typically governed by the local tax authority in the PRC. Each local tax authority at times may grant tax holidays to local enterprises as a way to encourage entrepreneurship and stimulate local economy. The corporate income taxes for the years ended September 30, 2022, 2021 and 2020 were reported at a blended reduced rate as a result of certain of the PRC subsidiaries of the Company’s being approved as a HNTE and enjoying a 15% reduced income tax rate. The impact of the tax holidays noted above decreased PRC corporate income taxes by \$694,955, \$1,518,979 and \$118,986 for the years ended September 30, 2022, 2021 and 2020, respectively. The benefit of the tax holidays on net income per share (basic and diluted) was \$0.03, \$0.09 and \$0.01 for the years ended September 30, 2022, 2021 and 2020, respectively.

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## UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 15 — TAXES (continued)

The components of the income tax provision (benefit) are as follows:

	<u>For the Years Ended September 30,</u>		
	<u>2022</u>	<u>2021</u>	<u>2020</u>
Current tax provision:			
Cayman	\$ -	\$ -	\$ -
Hong Kong	-	-	-

PRC	1,357,697	3,026,867	2,552,097
Sub-total	<u>1,357,697</u>	<u>3,026,867</u>	<u>2,552,097</u>
Deferred tax provision (benefit):			
Cayman	-	-	
Hong Kong	-	-	
PRC	(605,278)	(668,341)	(9,886)
Sub-total	<u>(605,278)</u>	<u>(668,341)</u>	<u>(9,886)</u>
Total income tax provision	<u>\$ 752,419</u>	<u>\$ 2,358,526</u>	<u>\$ 2,542,211</u>

The following table reconciles the China statutory rates to the Company's effective tax rate for the years ended September 30, 2022, 2021 and 2020:

	<b>For the Years Ended September 30,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
Statutory PRC income tax rate	25.0%	25.0%	25.0%
Effect of income tax holiday	(8.7)%	(11.0)%	(1.1)%
Permanent difference	(22.3)%	-%	-%
Non-PRC entities not subject to PRC income tax	(3.4)%	2.0%	1.3%
Impact on DTA due to change in applicable income tax rate	-%	0.6%	-%
Change in valuation allowance	-%	0.5%	-%
Effective tax rate	<u>(9.4)%</u>	<u>17.1%</u>	<u>25.2%</u>

The Company continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. As of September 30, 2022, all of the Company's tax returns of its PRC subsidiaries remain open for statutory examination by PRC tax authorities.

Deferred tax assets are composed of the following:

	<b>September 30, 2022</b>	<b>September 30, 2021</b>
Deferred tax assets:		
Net operating loss carry-forwards	\$ 1,210,855	\$ 785,550
Allowance for doubtful accounts	136,817	84,447
Total	<u>1,347,672</u>	<u>869,997</u>
Valuation allowance	-	-
Total deferred tax assets	<u>\$ 1,347,672</u>	<u>\$ 869,997</u>

UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 — TAXES (continued)

The Company periodically evaluates the likelihood of the realization of deferred tax assets, and reduces the carrying amount of the deferred tax assets by a valuation allowance to the extent it believes a portion will not be realized. Management considers new evidence, both positive and negative, that could affect the Company's future realization of deferred tax assets including its recent cumulative earnings experience, expectation of future income, the carry



forward periods available for tax reporting purposes and other relevant factors. Although Jiangxi Universe incurred a net loss during the year ended September 30, 2022, the Company determined that it is more likely than not that its deferred tax assets could be realized due to the estimated future earnings in Jiangxi Universe.

**(b) Taxes payable**

Taxes payable consist of the following:

	<b>September 30, 2022</b>	<b>September 30, 2021</b>
Income tax payable	\$ -	\$ 669,780
Value added tax payable	115,087	326,468
Other taxes payable	52,263	105,212
Total taxes payable	<u>\$ 167,350</u>	<u>\$ 1,101,460</u>

**NOTE 16 — CONCENTRATIONS**

A majority of the Company’s revenue and expense transactions are denominated in RMB and a significant portion of the Company and its subsidiaries’ assets and liabilities are denominated in RMB. RMB is not freely convertible into foreign currencies. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People’s Bank of China (“PBOC”). Remittances in currencies other than RMB by the Company in China must be processed through the PBOC or other China foreign exchange regulatory bodies which require certain supporting documentation in order to affect the remittance.

As of September 30, 2022 and 2021, \$5,711,423 and \$5,892,655 of the Company’s cash, respectively, was on deposit at financial institutions in the PRC where no existing rule or regulation requires such financial institutions to maintain insurance to cover bank deposits in the event of bank failure. For the years ended September 30, 2022, 2021 and 2020, the Company’s substantial assets were located in the PRC and the Company’s substantial revenues were derived from its subsidiaries located in the PRC.

For the years ended September 30, 2022, 2021 and 2020, no single customer accounted for more than 10% of the Company’s total revenue. The Company’s top 10 customers aggregately accounted for 32.2%, 30.4% and 33.3% of the total revenue for the years ended September 30, 2022, 2021 and 2020, respectively.

Sales of one of the Company’s major products, Guben Yanling Pill, accounted for 42.5%, 40.3% and 38.2% of the Company’s total revenue for the years ended September 30, 2022, 2021 and 2020, respectively.

As of September 30, 2022 and 2021, no customer accounted for more than 10% of the total accounts receivable balance.

As of September 30, 2022, one supplier accounted for 100% of the total advance to supplier balance. As of September 30, 2021, two suppliers accounted for 35.3% and 28.0% of the total advance to supplier balance.

For the year ended September 30, 2022, one supplier accounted for approximately 10.3% of the total purchases. For the year ended September 30, 2021, no supplier accounted for more than 10% of the total purchases, respectively. For the year ended September 30, 2020, two suppliers accounted for approximately 19.6% and 13.6% of the total purchases, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 17 — SHAREHOLDERS' EQUITY

#### *Ordinary Shares*

Universe INC was incorporated under the laws of the Cayman Islands on December 11, 2019. The original authorized number of ordinary shares was 50,000 shares with par value of US\$1.00 per share and 50,000 shares were issued. On August 7, 2020, the Company amended its Memorandum of Association to increase the authorized number of shares to 100,000,000 shares with par value of \$0.003125 per share, and subdivide the original issued shares from 50,000 shares at par value of \$1.00 per share to 16,000,000 ordinary shares with par value of \$0.003125 per share. As a result of this forward split of the outstanding ordinary shares at a ratio of 320-for-1 share, a total of 16,000,000 shares were issued and outstanding after the split. The issuance of these 16,000,000 shares is considered as a part of the Reorganization of the Company, which was retroactively applied as if the transaction occurred at the beginning of the period presented (see Note 1).

#### *Initial Public Offering*

On March 25, 2021, the Company closed its IPO of 5,000,000 ordinary shares at a public offering price of \$5.00 per share. On March 29, 2021, the underwriter exercised in full its over-allotment option to purchase an additional 750,000 ordinary shares. The closing for the sale of the over-allotment shares took place on March 31, 2021. Gross proceeds of the IPO, including the proceeds from the sale of the over-allotment shares, totaled \$28.75 million, before deducting underwriting discounts and other related expenses. Net proceeds of our IPO, including over-allotment shares, were approximately \$25.6 million. In connection with the IPO, the Company's ordinary shares began trading on the Nasdaq Global Market under the symbol "UPC" on March 23, 2021.

As of September 30, 2022 and 2021, the Company had a total of 21,750,000 ordinary shares issued and outstanding.

#### *Underwriter warrants*

In connection with the Company's IPO, the Company also agreed to issue warrants to the underwriter, for a nominal consideration of \$0.001 per warrant, to purchase 300,000 ordinary shares of the Company (equal to 6% of the total number of ordinary shares sold in the IPO, not including any ordinary shares sold in the over-allotment option) (the "Underwriter Warrants"). The Underwriter Warrants have a term of five years, with an exercise price of \$5.50 per share (equal to 110% of the Company's IPO offering price of \$5.00 per share). The Underwriter Warrants may be purchased in cash or via cashless exercise, will be exercisable for five (5) years, and will terminate on the fifth anniversary of the closing of the IPO. Management determined that the Underwriter Warrants meet the requirements for equity classification under ASC 815-40 because they are indexed to its own stock. As of September 30, 2022, the Underwriter Warrants were issued and outstanding, but none of them has been exercised. For the years ended September 30, 2022 and 2021, the Underwriter Warrants were antidilutive and accordingly were not included in the diluted EPS calculation based on treasury stock method.

#### *Cash dividends*

On September 21, 2016, September 13, 2017, February 2, 2018, September 20, 2018 and February 21, 2019, the board of directors of Jiangxi Universe approved resolutions to pay cash dividends of RMB40 million, RMB30 million, RMB20 million, RMB10 million and RMB30 million, respectively, to its shareholders at the time of record out of the retained earnings balance of Jiangxi Universe, to be paid to these shareholders when there are sufficient available earnings and the Company has sufficient funds. A total of RMB130 million (approximately \$19.1 million) cash dividend was declared from September 2016 to February 2019, among which, approximately RMB20 million (\$3.1 million) was paid in cash to its shareholders in 2018 and the remaining RMB110 million (\$16 million) was paid to its shareholders in 2019. There were no additional cash dividends paid during the years ended September 30, 2022, 2021 and 2020.

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**UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 17 — SHAREHOLDERS' EQUITY (continued)**

Except for the dividends declared mentioned above, the Company has not declared or paid dividends to its shareholders in the past, and may not choose to make additional distributions in the future. Any decision as to the payment of dividends will depend on the available earnings, the capital requirements of the Company, the Company's general financial condition and other factors deemed pertinent by the board of directors.

***Statutory reserve and restricted net assets***

The Company's PRC subsidiaries are restricted in their ability to transfer a portion of their net assets to the Company. The payment of dividends by entities organized in China is subject to limitations, procedures and formalities. Regulations in the PRC currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in China.

The Company is required to make appropriations to certain reserve funds, comprising the statutory surplus reserve and the discretionary surplus reserve, based on after-tax net income determined in accordance with generally accepted accounting principles of the PRC ("PRC GAAP"). Appropriations to the statutory surplus reserve are required to be at least 10% of the after-tax net income determined in accordance with PRC GAAP until the reserve is equal to 50% of the entity's registered capital. Appropriations to the discretionary surplus reserve are made at the discretion of the board of directors. The statutory reserve may be applied against prior year losses, if any, and may be used for general business expansion and production or increase in registered capital, but are not distributable as cash dividends.

Relevant PRC laws and regulations restrict the Company's PRC subsidiaries from transferring a portion of their net assets, equivalent to their statutory reserves and their share capital, to the Company in the form of loans, advances or cash dividends. Only PRC entities' accumulated profits may be distributed as dividends to the Company without the consent of a third party. As of September 30, 2022 and 2021, the restricted amounts as determined pursuant to PRC statutory laws totaled \$2,439,535, and total restricted net assets amounted to \$31,786,663.

***Cash transfer between the Company and its subsidiaries***

For the year ended September 30, 2022, the Company received cash in the amount of \$303,746 from its subsidiary in Hong Kong, and the WFOE transferred cash in the amount of \$5,211,231 to Jiangxi Universe. For the year ended September 30, 2021, the Company transferred cash in the amount of \$11,358,764 to its subsidiary in Hong Kong, and the Company's Hong Kong subsidiary, via the WFOE, further transferred cash in the amount of \$6,807,507 to the PRC subsidiaries. For the year ended September 30, 2020, there was no cash transferred from the Company to its PRC subsidiaries. The assets transfer was for business operation purpose. There was no distribution of earnings by the PRC operating subsidiaries to the Company during the years ended September 30, 2022, 2021 and 2020, respectively.

**NOTE 18 — COMMITMENTS AND CONTINGENCIES**

From time to time, the Company is a party to various legal actions arising in the ordinary course of business. The Company accrues costs associated with these matters when they become probable and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. For the years ended September 30, 2022, 2021 and 2020, the Company did not have any material legal claims or litigation that, individually or in aggregate, could have a material adverse impact on the Company's consolidated financial position, results of operations and cash flows.

The Company has an ongoing CIP project associated with the construction of a new manufacturing facility. As of September 30, 2022, future minimum capital expenditures on the Company's CIP project amounted to approximately \$13.5 million, among which, approximately \$3.5 million is required for the next 12 months from the date of this report (see Note 11).

UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 19 — SEGMENT REPORTING**

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, and is identified on the basis of the internal financial reports that are provided to, and regularly reviewed by, the Company's chief operating decision maker in order to allocate resources and assess performance of the segment.

The management of the Company concludes that it has only one reporting segment. The Company develops, manufactures and sells TCMD products targeted to the elderly to address their physical conditions in the aging process and to promote their general well-being. In addition, the Company also sells biochemical drugs, medical instruments, Traditional Chinese Medicine Pieces products and dietary supplements manufactured by third-party pharmaceutical companies. All of these products are currently sold in China.

The Company's products have similar economic characteristics with respect to raw materials, vendors, marketing and promotions, customers and methods of distribution. The Company's chief operating decision maker has been identified as the Chief Executive Officer, who reviews consolidated results when making decisions about allocating resources and assessing performance of the Company, rather than by product types or geographic area; hence the Company has only one reporting segment.

**Revenue by product source**

	<b>For Years ended September 30,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
Sales of TCMD products manufactured by the Company	\$23,988,177	\$29,559,286	\$18,374,751
Sales of third-party products	16,154,974	18,422,745	12,329,209
Total revenue	<u>\$40,143,151</u>	<u>\$47,982,031</u>	<u>\$30,703,960</u>

**Revenue by product categories**

The summary of our total revenues by product categories for the years ended September 30, 2022, 2021 and 2020 was as follows:

	<b>For Years ended September 30,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
<b>Sales of TCMD products:</b>			
Medicinal liquor products	1,095,336	1,951,679	1,616,080
Other chronic condition treatment products	19,140,419	22,978,001	14,059,403
Cold and flu medicines	3,752,422	4,629,606	2,699,268
Sub-total of TCMD products sales	<u>23,988,177</u>	<u>29,559,286</u>	<u>18,374,751</u>

<b>Sales of third-party products</b>			
Biochemical drugs	13,730,424	16,082,546	10,325,411
Traditional Chinese medicine pieces	30,202	20,705	47,097
Medical instruments	2,394,348	2,318,536	1,950,238
Dietary supplements	-	958	6,463
Subtotal of third-party products sales	<u>16,154,974</u>	<u>18,422,745</u>	<u>12,329,209</u>
<b>Total revenue</b>	<u>\$40,143,151</u>	<u>\$47,982,031</u>	<u>\$30,703,960</u>

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**UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 20 — SUBSEQUENT EVENTS**

The Company evaluated the subsequent event through the date of this report, and concluded that there are no material reportable subsequent events need to be disclosed.

**NOTE 21 — CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY**

Pursuant to the requirements of Rule 12-04(a), 5-04(c) and 4-08(e)(3) of Regulation S-X, the condensed financial information of the parent company shall be filed when the restricted net assets of consolidated subsidiaries exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year. The Company performed a test on the restricted net assets of consolidated subsidiaries in accordance with such requirement and concluded that it was applicable to the Company as the restricted net assets of the Company's subsidiaries exceeded 25% of the consolidated net assets of the Company. Therefore, the condensed financial statements for the parent company are included herein.

For purposes of the above test, restricted net assets of consolidated subsidiaries shall mean that amount of the Company's proportionate share of net assets of consolidated subsidiaries (after intercompany eliminations) which as of the end of the most recent fiscal year may not be transferred to the parent company by subsidiaries in the form of loans, advances or cash dividends without the consent of a third party.

The condensed financial information of the parent company has been prepared using the same accounting policies as set out in the Company's consolidated financial statements except that the parent company used the equity method to account for investment in its subsidiaries. Such investment is presented on the condensed balance sheets as "Investment in subsidiaries" and the respective profit or loss as "Equity in earnings of subsidiaries" on the condensed statements of income.

The footnote disclosures contain supplemental information relating to the operations of the Company and, as such, these statements should be read in conjunction with the notes to the consolidated financial statements of the Company. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S GAAP have been condensed or omitted.

As of September 30, 2022 and 2021, there were no material contingencies, significant provisions for long-term obligations, or guarantees of the Company, except for those which have been separately disclosed in the consolidated financial statements, if any.

## UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES

## PARENT COMPANY BALANCE SHEETS

	September 30, 2022	September 30, 2021
Current assets		
Cash	28,917	110,393
Short-term investments	13,148,594	13,725,204
Total current assets	<u>13,177,511</u>	<u>13,835,597</u>
Non-current assets		
Investment in subsidiaries	<u>33,264,812</u>	<u>45,098,756</u>
Total assets	<u><u>46,442,323</u></u>	<u><u>58,934,353</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES	<u>-</u>	<u>-</u>
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Ordinary shares, \$0.003125 par value, 100,000,000 shares authorized, 21,750,000 shares issued and outstanding as of September 30, 2021 and 2020	67,969	67,969
Additional paid-in capital	29,279,159	29,279,159
Retained earnings	18,761,900	27,498,466
Accumulated other comprehensive income	(1,666,705)	2,088,759
Total shareholders' equity	<u>46,442,323</u>	<u>58,934,353</u>
Total liabilities and shareholders' equity	<u><u>46,442,323</u></u>	<u><u>58,934,353</u></u>

## UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES

**PARENT COMPANY STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

	<b>For the Years Ended September 30,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
Operating costs and expenses:			
General and administrative expenses	\$ (384,214)	\$ (1,177,869)	\$ -
Other income (expenses):			
Income from short-term investments	(470,477)	239,549	-
Other expenses	(420)	(60,751)	-
Equity in earnings of subsidiaries	(7,881,455)	12,319,023	7,558,222
Net income	(8,736,566)	11,319,952	7,558,222
Foreign currency translation adjustments	(3,755,464)	1,193,369	860,623
Comprehensive income attributable to the Company	<u><u>\$ (12,492,030)</u></u>	<u><u>\$ 12,513,321</u></u>	<u><u>\$ 8,418,845</u></u>

**UNIVERSE PHARMACEUTICALS INC. AND SUBSIDIARIES**

**PARENT COMPANY STATEMENTS OF CASH FLOWS**

	<b>For the Years Ended September 30,</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ (8,736,566)	\$ 11,319,952	\$ 7,558,222
Adjustments to reconcile net cash flows from operating activities:			
Equity in earnings of subsidiary	7,881,455	(12,319,027)	(7,558,222)
Short-term investment income	470,477	-	-
Net cash used in operating activities	<u><u>(384,634)</u></u>	<u><u>(999,075)</u></u>	<u><u>-</u></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Payment for short-term investments	-	(15,330,660)	-
Redemption of short-term investments	-	1,801,927	-
Net cash used in investing activities	<u><u>-</u></u>	<u><u>(13,528,733)</u></u>	<u><u>-</u></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net proceeds from issuance of ordinary shares in IPO	-	25,957,457	-
Cash lent to subsidiaries	-	(11,358,764)	-
Cash repayment from subsidiaries	303,746	-	-
Net cash provided by financing activities	<u><u>303,746</u></u>	<u><u>14,598,693</u></u>	<u><u>-</u></u>
<b>EFFECT OF CHANGES OF FOREIGN EXCHANGE RATES ON CASH</b>	<u><u>(588)</u></u>	<u><u>39,508</u></u>	<u><u>-</u></u>
<b>CHANGES IN CASH</b>	<u><u>(81,476)</u></u>	<u><u>110,393</u></u>	<u><u>-</u></u>
CASH, beginning of year	<u><u>110,393</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
CASH, end of year	<u><u>\$ 28,917</u></u>	<u><u>\$ 110,393</u></u>	<u><u>\$ -</u></u>

**Description of Rights of Each Class of Securities  
Registered under Section 12 of the Securities Exchange Act of 1934, as Amended (the “Exchange Act”)**

The share capital of Universe Pharmaceuticals INC (“we,” “our,” “our company,” or “us”) is US\$312,500 divided into 90,000,000 Ordinary Shares of par value US\$0.003125 each (“Ordinary Shares”) and 10,000,000 Preferred Shares of par value US\$0.003125 each (“Preferred Shares”, and together with the Ordinary Shares, the “Shares”). As of September 30, 2022, we had one class of securities registered under Section 12(b) of the Exchange Act and our Ordinary Shares are listed and traded on the Nasdaq Global Market.

**Description of Shares**

The following is a summary of material provisions of our currently effective amended and restated memorandum of association and articles of association (the “Memorandum and Articles of Association” and the “Articles”), as well as the Companies Act (Revised) of the Cayman Islands (the “Cayman Companies Act”) insofar as they relate to the material terms of our Shares. Notwithstanding this, because it is a summary, it may not contain all the information that you may otherwise deem important. For more complete information, you should read the entire Memorandum and Articles of Association, which have been filed with the U.S. Securities and Exchange Commission as exhibits to our Registration Statement on Form F-3 (File No. 333-268028), as amended, initially filed with the U.S. Securities and Exchange Commission on October 27, 2022.

***Type and Class of Securities (Item 9.A.5 of Form 20-F)***

We had one class of securities, our Ordinary Shares, registered pursuant to Section 12 of the Exchange Act. Each Ordinary Share has a par value of \$0.003125 each. The number of Ordinary Shares that have been issued as of the last day of the financial year ended September 30, 2022 is provided on the cover of the annual report on Form 20-F filed on February 10, 2023. Our Ordinary Shares may be held in either certificated or uncertificated form.

Each Preferred Share has a par value of \$0.003125 each. No Preferred Shares were issued as of the last day of the financial year ended September 30, 2022.

***Preemptive Rights (Item 9.A.3 of Form 20-F)***

Our Ordinary Shares are not subject to any pre-emptive or similar rights under the Cayman Companies Act or pursuant to the Memorandum and Articles of Association.

***Limitations or Qualifications (Item 9.A.6 of Form 20-F)***

Each Ordinary Share entitles the holder thereof to one vote on all matters subject to the vote at general meetings of our company, voting together as one class.

***Rights of Other Types of Securities (Item 9.A.7 of Form 20-F)***

Not applicable.

***Rights of Ordinary Shares (Item 10.B.3 of Form 20-F)***

***Ordinary Shares***

Our authorized share capital is \$312,500 divided into 90,000,000 Ordinary Shares and 10,000,000 Preferred Shares, par value \$0.003125 per share. All of our issued and outstanding Ordinary Shares are fully paid and non-assessable. Shareholders who are non-residents of the Cayman Islands may freely hold and transfer their Ordinary Shares.



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### *Dividends*

Subject to the provisions of the Cayman Companies Act and any rights attaching to any class or classes of shares under and in accordance with the Articles:

- (a) the directors may declare dividends or distributions out of our funds which are lawfully available for that purpose; and
- (b) the Company's shareholders may, by ordinary resolution, declare dividends but no such dividend shall exceed the amount recommended by the directors.

Subject to the requirements of the Cayman Companies Act regarding the application of a company's share premium account and with the sanction of an ordinary resolution, dividends may also be declared and paid out of any share premium account. The directors when paying dividends to shareholders may make such payment either in cash or in specie.

Unless provided by the rights attached to a share, no dividend shall bear interest.

### *Voting Rights*

Subject to any rights or restrictions as to voting attached to any shares, unless any share carries special voting rights, on a show of hands every shareholder who is present in person and every person representing a shareholder by proxy shall have one vote per Ordinary Share. On a poll, every shareholder who is present in person and every person representing a shareholder by proxy shall have one vote for each share of which he or the person represented by proxy is the holder. In addition, all shareholders holding shares of a particular class are entitled to vote at a meeting of the holders of that class of shares. Votes may be given either personally or by proxy.

### *Calls on shares and forfeiture*

Subject to the terms of allotment, the directors may make calls on the shareholders in respect of any monies unpaid on their shares including any premium and each shareholder shall (subject to receiving at least 14 clear days' notice specifying when and where payment is to be made), pay to us the amount called on his shares. Shareholders registered as the joint holders of a share shall be jointly and severally liable to pay all calls in respect of the share. If a call remains unpaid after it has become due and payable the person from whom it is due and payable shall pay interest on the amount unpaid from the day it became due and payable until it is paid at the rate fixed by the terms of allotment of the share or in the notice of the call or if no rate is fixed, at the rate of ten percent per annum. The directors may, at their discretion, waive payment of the interest wholly or in part.

We have a first and paramount lien on all shares (whether fully paid up or not) registered in the name of a shareholder (whether solely or jointly with others). The lien is for all monies payable to us by the shareholder or the shareholder's estate:

- (a) either alone or jointly with any other person, whether or not that other person is a shareholder; and
- (b) whether or not those monies are presently payable.

At any time the directors may declare any share to be wholly or partly exempt from the lien on shares provisions of the Articles.

We may sell, in such manner as the directors may determine, any share on which the sum in respect of which the lien exists is presently payable, if due notice that such sum is payable has been given (as prescribed by the Articles) and,

within 14 days of the date on which the notice is deemed to be given under the Articles, such notice has not been complied with.

#### *Unclaimed Dividend*

A dividend that remains unclaimed for a period of six years after it became due for payment shall be forfeited to, and shall cease to remain owing by, the company.

#### *Forfeiture or Surrender of Shares*

If a shareholder fails to pay any capital call, the directors may give to such shareholder not less than 14 clear days' notice requiring payment and specifying the amount unpaid including any interest which may have accrued, any expenses which have been incurred by us due to that person's default and the place where payment is to be made. The notice shall also contain a warning that if the notice is not complied with, the shares in respect of which the call is made will be liable to be forfeited.

If such notice is not complied with, the directors may, before the payment required by the notice has been received, resolve that any share the subject of that notice be forfeited (which forfeiture shall include all dividends or other monies payable in respect of the forfeited share and not paid before such forfeiture).

A forfeited share may be sold, re-allotted or otherwise disposed of on such terms and in such manner as the directors determine and at any time before a sale, re-allotment or disposition the forfeiture may be cancelled on such terms as the directors think fit.

A person whose shares have been forfeited shall cease to be a shareholder in respect of the forfeited shares, but shall, notwithstanding such forfeiture, remain liable to pay to us all monies which at the date of forfeiture were payable by him to us in respect of the shares, together with all expenses and interest from the date of forfeiture or surrender until payment, but his liability shall cease if and when we receive payment in full of the unpaid amount.

A declaration, whether statutory or under oath, made by a director or the secretary shall be conclusive evidence that the person making the declaration is our director or secretary and that the particular shares have been forfeited or surrendered on a particular date.

Subject to the execution of an instrument of transfer, if necessary, the declaration shall constitute good title to the shares.

#### *Share Premium Account*

The directors shall establish a share premium account and shall carry the credit of such account from time to time to a sum equal to the amount or value of the premium paid on the issue of any share or capital contributed or such other amounts required by the Cayman Companies Act.

#### *Redemption and Purchase of Own Shares*

Subject to the Cayman Companies Act and any rights for the time being conferred on the shareholders holding a particular class of shares, we may by action of our directors:

- (a) issue shares that are to be redeemed or liable to be redeemed, at our option or the shareholder holding those redeemable shares, on the terms and in the manner our directors determine before the issue of those shares;

- (b) with the consent by special resolution of the shareholders holding shares of a particular class, vary the rights attaching to that class of shares so as to provide that those shares are to be redeemed or are liable to be redeemed at our option on the terms and in the manner which the directors determine at the time of such variation; and
- (c) purchase all or any of our own shares of any class including any redeemable shares on the terms and in the manner which the directors determine at the time of such purchase.

We may make a payment in respect of the redemption or purchase of its own shares in any manner authorized by the Cayman Companies Act, including out of any combination of capital, our profits and the proceeds of a fresh issue of shares.

When making a payment in respect of the redemption or purchase of shares, the directors may make the payment in cash or in specie (or partly in one and partly in the other) if so authorized by the terms of the allotment of those shares or by the terms applying to those shares, or otherwise by agreement with the shareholder holding those shares.

#### *Transfer of Shares*

Provided that a transfer of Ordinary Shares complies with applicable rules of the Nasdaq Global Market, a shareholder may transfer Ordinary Shares to another person by completing an instrument of transfer in a common form or in a form prescribed by Nasdaq or in any other form approved by the directors, executed:

- (a) where the Ordinary Shares are fully paid, by or on behalf of that shareholder; and
- (b) where the Ordinary Shares are partly paid, by or on behalf of that shareholder and the transferee.

The transferor shall be deemed to remain the holder of an Ordinary Share until the name of the transferee is entered into the register of members of the Company.

Our board of directors may, in its absolute discretion, decline to register any transfer of any Ordinary Share that has not been fully paid up or is subject to a company lien. Our board of directors may also decline to register any transfer of such Ordinary Share unless:

- (a) the instrument of transfer is lodged with the Company, accompanied by the certificate for the Ordinary Shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of Ordinary Shares;
- (c) the instrument of transfer is properly stamped, if required;
- (d) the Ordinary Share transferred is fully paid and free of any lien in favor of us;
- (e) any fee related to the transfer has been paid to us; and
- (f) the transfer is not to more than four joint holders.

If our directors refuse to register a transfer, they are required, within three months after the date on which the instrument of transfer was lodged, to send to each of the transferor and the transferee notice of such refusal.

This, however, is unlikely to affect market transactions of the Ordinary Shares purchased by investors in the public offering. Once the Ordinary Shares have been listed, the legal title to such Ordinary Shares and the registration details of those Ordinary Shares in our register of members will remain with Depository Trust Company (“DTC”)/Cede & Co. All market transactions with respect to those Ordinary Shares will then be carried out without the need for any kind of registration by the directors, as the market transactions will all be conducted through the DTC systems.

The registration of transfers may, on 14 calendar days’ notice being given by advertisement in such one or more newspapers or by electronic means, be suspended and our register of members closed at such times and for such periods as our board of directors may from time to time determine. The registration of transfers, however, may not be suspended, and the register may not be closed, for more than 30 days in any year.

#### *Capitalization of Profits*

The directors may resolve to capitalize:

- (a) any part of our profits not required for paying any preferential dividend (whether or not those profits are available for distribution); or
- (b) any sum standing to the credit of our share premium account or capital redemption reserve, if any.

The amount resolved to be capitalized must be appropriated to the shareholders who would have been entitled to it had it been distributed by way of dividend and in the same proportions.

#### *Liquidation Rights*

If we are wound up, the shareholders may, subject to the Articles and any other sanction required by the Cayman Companies Act, pass a special resolution allowing the liquidator to do either or both of the following:

- (a) to divide in specie among the shareholders the whole or any part of our assets and, for that purpose, to value any assets and to determine how the division shall be carried out as between the shareholders or different classes of shareholders; and
- (b) to vest the whole or any part of the assets in trustees for the benefit of shareholders and those liable to contribute to the winding up.

The directors have the authority to present a petition for our winding up to the Grand Court of the Cayman Islands on our behalf without the sanction of a resolution passed at a general meeting.

#### ***Requirements to Change the Rights of Holders of Ordinary Shares (Item 10.B.4 of Form 20-F)***

##### *Variations of Rights of Shares*

Whenever our capital is divided into different classes of shares, the rights attaching to any class of share (unless otherwise provided by the terms of issue of the shares of that class) may be varied either with the consent in writing of the holders of not less than two-thirds of the issued shares of that class, or with the sanction of a resolution passed by a majority of not less than two-thirds of the holders of shares of the class present in person or by proxy at a separate general meeting of the holders of shares of that class.

Unless the terms on which a class of shares was issued state otherwise, the rights conferred on the shareholder holding shares of any class shall not be deemed to be varied by the creation or issue of further shares ranking pari passu with the existing shares of that class.

***Limitations on the Rights to Own Ordinary Shares (Item 10.B.6 of Form 20-F)***

There are no limitations under the laws of the Cayman Islands or under the Memorandum and Articles of Association that limit the right of non-resident or foreign owners to hold or vote ordinary shares.

***Provisions Affecting Any Change of Control (Item 10.B.7 of Form 20-F)***

*Anti-Takeover Provisions*

Some provisions of the Memorandum and Articles of Association may discourage, delay, or prevent a change in control of our company or management that shareholders may consider favorable, including, among other things, the following:

- provisions that authorize our board of directors to issue shares with preferred, deferred, or other special rights or restrictions without any further vote or action by our shareholders; and
- provisions that restrict the ability of our shareholders to call meetings and to propose special matters for consideration at shareholder meetings.

Under the Cayman Companies Act, our directors may only exercise the rights and powers granted to them under the Articles for what they believe in good faith to be in the best interests of our company and for a proper purpose.

***Ownership Threshold (Item 10.B.8 of Form 20-F)***

There are no provisions under the Cayman Companies Act or under the Memorandum and Articles of Association that govern the ownership threshold above which shareholder ownership must be disclosed.

***Differences Between the Law of Different Jurisdictions (Item 10.B.9 of Form 20-F)***

The Cayman Companies Act is derived, to a large extent, from the older Companies Acts of England and Wales but does not follow recent United Kingdom statutory enactments, and accordingly there are significant differences between the Cayman Companies Act and the current Companies Act of the UK. In addition, the Cayman Companies Act differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of certain significant differences between the provisions of the Cayman Companies Act applicable to us and the comparable laws applicable to companies incorporated in the State of Delaware in the United States.

	<u>Delaware</u>	<u>Cayman Islands</u>
<i>Title of Organizational Documents</i>	Certificate of Incorporation and Bylaws	Certificate of Incorporation and Memorandum and Articles of Association
<i>Duties of Directors</i>	Under Delaware law, the business and affairs of a corporation are managed by or under the direction of its board of directors. In exercising their powers, directors are charged with a	As a matter of Cayman Islands law, a director owes three types of duties to the company: (i) statutory duties, (ii) fiduciary duties, and (iii) common law duties. The Cayman Companies Act imposes a

fiduciary duty of care to protect the interests of the corporation and a fiduciary duty of loyalty to act in the best interests of its shareholders. The duty of care requires that directors act in an informed and deliberative manner and inform themselves, prior to making a business decision, of all material information reasonably available to them. The duty of care also requires that directors exercise care in overseeing and investigating the conduct of the corporation's employees. The duty of loyalty may be summarized as the duty to act in good faith, not out of self-interest, and in a manner which the director reasonably believes to be in the best interests of the shareholders.

number of statutory duties on a director. A Cayman Islands director's fiduciary duties are not codified, however the courts of the Cayman Islands have held that a director owes the following fiduciary duties (a) a duty to act in what the director bona fide considers to be in the best interests of the company, (b) a duty to exercise their powers for the purposes they were conferred, (c) a duty to avoid fettering his or her discretion in the future and (d) a duty to avoid conflicts of interest and of duty. The common law duties owed by a director are those to act with skill, care and diligence that may reasonably be expected of a person carrying out the same functions as are carried out by that director in relation to the company and, also, to act with the skill, care and diligence in keeping with a standard of care commensurate with any particular skill they have which enables them to meet a higher standard than a director without those skills. In fulfilling their duty of care to us, our directors must ensure compliance with our amended articles of association, as amended and restated from time to time. We have the right to seek damages if a duty owed by any of our directors is breached.

*Limitations on Personal Liability of Directors*

Subject to the limitations described below, a certificate of incorporation may provide for the elimination or limitation of the personal liability of a director to the corporation or its shareholders for monetary damages for a breach of fiduciary duty as a director. Such provision cannot limit liability for breach of loyalty, bad faith, intentional misconduct, unlawful payment of dividends or unlawful share purchase or redemption. In addition, the certificate of incorporation cannot limit liability for any act or omission occurring prior to the date when such provision becomes effective.

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime.

*Indemnification of Directors, Officers, Agents, and Others*

A corporation has the power to indemnify any director, officer, employee, or agent of corporation who was, is, or is threatened to be made a party who acted in good faith and in a manner he believed to be in the best interests of the corporation, and if with respect to a criminal proceeding, had no reasonable cause to believe his conduct would be unlawful, against amounts actually and reasonably incurred.

Cayman Islands law does not limit the extent to which a company's memorandum and articles of association may provide for indemnification of directors and officers, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against the consequences of committing a crime, or against the indemnified person's own fraud or dishonesty.

Our articles of association provide to the extent permitted by law, we shall indemnify each existing or former secretary, director (including alternate director), and any of our other officers (including an investment adviser or an administrator or liquidator) and their personal representatives against: (a) all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred or sustained by the existing or former director (including alternate director), secretary or officer in or about the conduct of our business or affairs or in the execution or discharge of the existing or former director (including alternate director), secretary's or officer's duties, powers, authorities or discretions; and (b) without limitation to paragraph (a) above, all costs, expenses, losses or liabilities incurred by the existing or former director (including alternate director), secretary or officer in defending (whether successfully or otherwise) any civil, criminal, administrative or investigative proceedings (whether threatened, pending or completed) concerning us or our affairs in any court or tribunal, whether in the Cayman Islands or elsewhere.

No such existing or former director (including alternate director), secretary or officer, however, shall be indemnified in respect of any matter arising out of his own dishonesty.

To the extent permitted by law, we may make a payment, or agree to make a payment, whether by way of advance, loan or otherwise, for any legal costs incurred by an existing or former director (including alternate director), secretary or any of our officers in respect of any matter identified in above on condition that the director (including alternate director), secretary or officer must repay the amount paid by us to the extent that it is ultimately found not liable to indemnify the director (including alternate director), the secretary or that officer for those legal costs.

*Interested Directors*

Under Delaware law, a transaction in which a director who has an interest in such transaction would not be voidable if (i) the material facts as to such interested director's relationship or interests are disclosed or are known to the board of directors and the board in good faith authorizes the transaction by the affirmative vote of a majority of the disinterested directors, even though the disinterested directors are less than a quorum, (ii) such material facts are disclosed or are known to the shareholders entitled to vote on such transaction and the transaction is specifically approved in good faith

Interested director transactions are governed by the terms of a company's memorandum and articles of association.

by vote of the shareholders, or (iii) the transaction is fair as to the corporation as of the time it is authorized, approved or ratified. Under Delaware law, a director could be held liable for any transaction in which such director derived an improper personal benefit.

<i>Voting Requirements</i>	<p>The certificate of incorporation may include a provision requiring supermajority approval by the directors or shareholders for any corporate action.</p> <p>In addition, under Delaware law, certain business combinations involving interested shareholders require approval by a supermajority of the non-interested shareholders.</p>	<p>For the protection of shareholders, certain matters must be approved by special resolution of the shareholders as a matter of Cayman Islands law, including alteration of the memorandum or articles of association, appointment of inspectors to examine company affairs, reduction of share capital (subject, in relevant circumstances, to court approval), change of name, authorization of a plan of merger or transfer by way of continuation to another jurisdiction or consolidation or voluntary winding up of the company.</p> <p>The Cayman Companies Act requires that a special resolution be passed by a majority of at least two-thirds or such higher percentage as set forth in the memorandum and articles of association, of shareholders being entitled to vote and do vote in person or by proxy at a general meeting, or by unanimous written consent of shareholders entitled to vote at a general meeting.</p>
<i>Voting for Directors</i>	<p>Under Delaware law, unless otherwise specified in the certificate of incorporation or bylaws of the corporation, directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors.</p>	<p>The Cayman Companies Act defines “special resolutions” only. A company’s memorandum and articles of association can therefore tailor the definition of “ordinary resolutions” as a whole, or with respect to specific provisions.</p>
<i>Cumulative Voting</i>	<p>No cumulative voting for the election of directors unless so provided in the certificate of incorporation.</p>	<p>No cumulative voting for the election of directors unless so provided in the memorandum and articles of association.</p>
<i>Directors’ Powers Regarding Bylaws</i>	<p>The certificate of incorporation may grant the directors the power to adopt, amend or repeal bylaws.</p>	<p>The memorandum and articles of association may only be amended by a special resolution of the shareholders.</p>



*Nomination and Removal of Directors and Filling Vacancies on Board* Shareholders may generally nominate directors if they comply with advance notice provisions and other procedural requirements in company bylaws. Holders of a majority of the shares may remove a director with or without cause, except in certain cases involving a classified board or if the company uses cumulative voting. Unless otherwise provided for in the certificate of incorporation, directorship vacancies are filled by a majority of the directors elected or then in office.

Nomination and removal of directors and filling of board vacancies are governed by the terms of the memorandum and articles of association.

*Mergers and Similar Arrangements* Under Delaware law, with certain exceptions, a merger, consolidation, exchange or sale of all or substantially all the assets of a corporation must be approved by the board of directors and a majority of the outstanding shares entitled to vote thereon. Under Delaware law, a shareholder of a corporation participating in certain major corporate transactions may, under certain circumstances, be entitled to appraisal rights pursuant to which such shareholder may receive cash in the amount of the fair value of the shares held by such shareholder (as determined by a court) in lieu of the consideration such shareholder would otherwise receive in the transaction.

The Cayman Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) a “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of the shareholders of each constituent company, and (b) such other authorization, if any, as may be specified in such constituent company’s articles of association. The plan must be filed with the Registrar of Companies together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the shareholders and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

Delaware law also provides that a parent corporation, by resolution of its board of directors, may merge with any subsidiary, of which it owns at least 90% of each class of capital stock without a vote by shareholders of such subsidiary. Upon any such merger, dissenting shareholders of the subsidiary would have appraisal rights.

A merger between a Cayman Islands parent company and its Cayman Islands subsidiary or subsidiaries does not require authorization by a resolution of shareholders. For this purpose a subsidiary is a company of which at least 90% of the issued shares entitled to vote are owned by the parent company.

The consent of each holder of a fixed or floating security interest of a constituent company is

required unless this requirement is waived by a court in the Cayman Islands.

Except in certain limited circumstances, a dissenting shareholder of a Cayman Islands constituent company is entitled to payment of the fair value of his or her shares upon dissenting from a merger or consolidation. The exercise of such dissenter rights will preclude the exercise by the dissenting shareholder of any other rights to which he or she might otherwise be entitled by virtue of holding shares, except for the right to seek relief on the grounds that the merger or consolidation is void or unlawful.

In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must, in addition, represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that: (a) the statutory provisions as to the required majority vote have been met; (b) the shareholders have been fairly represented at the meeting in question and the statutory majority are acting bona fide without coercion of the minority to promote interests adverse to those of the class; (c) the arrangement is such that may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and (d) the arrangement is not one that would more properly be sanctioned under some other provision of the Cayman Companies Act.

When a takeover offer is made and accepted by holders of 90% of the shares affected within four months the offeror may, within a two-month period commencing on the expiration of such four month period, require the holders of the remaining

shares to transfer such shares on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed in the case of an offer which has been so approved unless there is evidence of fraud, bad faith or collusion.

If an arrangement and reconstruction is thus approved, or if a takeover offer is made and accepted, a dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of Delaware corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

<i>Shareholder Suits</i>	Class actions and derivative actions generally are available to shareholders under Delaware law for, among other things, breach of fiduciary duty, corporate waste and actions not taken in accordance with applicable law. In such actions, the court generally has discretion to permit the winning party to recover attorneys' fees incurred in connection with such action.	In principle, we will normally be the proper plaintiff and as a general rule a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, the Cayman Islands courts can be expected to follow and apply the common law principles (namely the rule in <i>Foss v. Harbottle</i> and the exceptions thereto) so that a non-controlling shareholder may be permitted to commence a class action against or derivative actions in the name of the company to challenge: (a) an act which is illegal or ultra vires with respect to the company and is therefore incapable of ratification by the shareholders; (b) an act which, although not ultra vires, requires authorization by a qualified (or special) majority (that is, more than a simple majority) which has not been obtained; and (c) an act which constitutes a "fraud on the minority" where the wrongdoers are themselves in control of the company.
<i>Inspection of Corporate Records</i>	Under Delaware law, shareholders of a Delaware corporation have the right during normal business hours to inspect for any proper purpose, and to obtain copies of list(s) of shareholders and other books and records of the corporation and its subsidiaries, if any, to the extent the books and records of such subsidiaries are available to the corporation.	Shareholders of a Cayman Islands exempted company have no general right under Cayman Islands law to inspect or obtain copies of a list of shareholders or other corporate records (other than the register of mortgages or charges) of the company. However, these rights may be provided in the company's memorandum and articles of association.
<i>Shareholder Proposals</i>	Unless provided in the corporation's certificate of incorporation or bylaws, Delaware law does not include a provision restricting the manner in	The Cayman Companies Act provides shareholders with only limited rights to requisition a general meeting, and does not

which shareholders may bring business before a meeting.

provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. Our articles of association provide that general meetings shall be convened on the written requisition of one or more of the shareholders entitled to attend and vote at our general meetings who (together) hold not less than 10 percent of the rights to vote at such general meeting in accordance with the notice provisions in the articles of association, specifying the purpose of the meeting and signed by each of the shareholders making the requisition. If the directors do not convene such meeting for a date not later than twenty-one clear days' after the date of receipt of the written requisition, those shareholders who requested the meeting may convene the general meeting themselves within three months after the end of such period of twenty-one clear days in which case reasonable expenses incurred by them as a result of the directors failing to convene a meeting shall be reimbursed by us. Our articles of association provide no other right to put any proposals before annual general meetings or extraordinary general meetings. As a Cayman Islands exempted company, we are not obligated by law to call shareholders' annual general meetings. However, our corporate governance guidelines require us to call such meetings every year.

<i>Approval of Corporate Matters by Written Consent</i>	Delaware law permits shareholders to take action by written consent signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting of shareholders.	The Cayman Companies Act allows a special resolution to be passed in writing if signed by all the voting shareholders (if authorized by the memorandum and articles of association).
<i>Calling of Special Shareholders Meetings</i>	Delaware law permits the board of directors or any person who is authorized under a corporation's certificate of incorporation or bylaws to call a special meeting of shareholders.	The Cayman Companies Act does not have provisions governing the proceedings of shareholders meetings which are usually provided in the memorandum and articles of association. Please see above.
<i>Dissolution; Winding Up</i>	Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors	Under the Cayman Companies Act and our articles of association, the Company may be wound up by a special resolution of our shareholders, or if the winding up is initiated by our board of directors, by either a special resolution of our members or, if our company is

may it be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board of directors.

unable to pay its debts as they fall due, by an ordinary resolution of our members. In addition, a company may be wound up by an order of the courts of the Cayman Islands. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

#### ***Changes in Capital (Item 10.B.10 of Form 20-F)***

Subject to the Cayman Companies Act, we may, by ordinary resolution:

- (a) increase our share capital by new shares of the amount fixed by that ordinary resolution and with the attached rights, priorities and privileges set out in that ordinary resolution;

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- (b) consolidate and divide all or any of our share capital into shares of larger amount than our existing shares;
- (c) convert all or any of our paid up shares into stock, and reconvert that stock into paid up shares of any denomination;
- (d) sub-divide our shares or any of them into shares of an amount smaller than that fixed, so, however, that in the sub-division, the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in case of the share from which the reduced share is derived; and
- (e) cancel shares which, at the date of the passing of that ordinary resolution, have not been taken or agreed to be taken by any person and diminish the amount of our share capital by the amount of the shares so cancelled or, in the case of shares without nominal par value, diminish the number of shares into which our capital is divided.

Subject to the Cayman Companies Act and to any rights for the time being conferred on the shareholders holding a particular class of shares, our shareholders may, by special resolution, reduce our share capital in any way.

#### **Debt Securities (Item 12.A of Form 20-F)**

Not applicable.

#### **Warrants and Rights (Item 12.B of Form 20-F)**

Not applicable.

#### **Other Securities (Item 12.C of Form 20-F)**

Not applicable.

#### **Description of American Depositary Shares (Items 12.D.1 and 12.D.2 of Form 20-F)**

Not applicable.

## Working Capital Loan Contract

Borrower Jiangxi Universe Pharmaceuticals Commerce and Trade Co., Ltd.

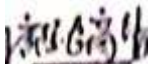
Lender Jiangxi Luling Rural Commercial Bank Co., Ltd.



**Jiangxi Rural Commercial Bank**

Special Notice: In order to protect the legitimate rights and interests of the Borrower, the Lender hereby requests the Borrower to give full attention to all provisions concerning the rights and obligations of the parties, especially those shown in bold. If the Borrower has any objection, it shall raise the objection to the Lender. Otherwise, after this Contract is entered into by and between the Borrower and the Lender, all the terms and conditions herein represent the true intention of both parties, are protected by law, and shall be legally binding on both parties herein.

### Working Capital Loan Contract

[2022]  LJZ No.: 17229202203141003001

Borrower: Jiangxi Universe Pharmaceuticals Commerce and Trade Co., Ltd.

Business License No.: \_\_\_\_\_

Legal Representative / Person in Charge: LAI Gang

Business Address: No. 265, Jingjiu Avenue, Jinggangshan Economic and Technological Development Zone, Ji'an County

Mailing Address: \_\_\_\_\_

Postal Code: 343100 Tel.: \_\_\_\_\_

Electronic Contact Information (Email and WeChat Account No.):

Lender: Jiangxi Luling Rural Commercial Bank Co., Ltd.

Legal Representative / Person in Charge: HU Fushan

Business Address: No. 205, Fuchuan Road, Ji'an County

Postal Code: 343100

Tel.: \_\_\_\_\_ Fax: \_\_\_\_\_

Pursuant to the laws and regulations of the People's Republic of China and other relevant regulations, the Borrower and the Lender have reached an agreement with respect to the matter that the Lender grants a working capital loan to the Borrower, and hereby execute this Contract by consensus, which shall be binding on both parties.

### Chapter 1 Execution Provisions

#### Article 1 Loan Amount and Currency

Loan Amount (in words): CNY Eight Million.

(In Figures) CNY 8,000,000.00.

The loan amount under this Contract is:  revolving borrowing limit  non-revolving loan amount.

#### Article 2 Loan Term

The valid loan term under this Contract shall be: 12 months from March 14, 2022 to March 13, 2023.

- In the event that the loan amount hereunder is a revolving borrowing limit, the term of borrowing limit shall be the same as the valid loan term as agreed herein. The term of each loan shall be subject to the term recorded in the loan note.
- In the event that the loan amount hereunder is a non-revolving borrowing limit, the loan term shall be the same as the valid loan term as agreed herein. The specific loan term shall be subject to the term recorded in the loan note.

**If the Borrower has any default circumstance listed in Article 19 of this Contract, and the Borrower agrees that the Lender may recover the loan in advance, then the Lender may announce that the date of recovering the loan in advance is the due date of the loan.**

### **Article 3 Loan Purpose**

The loan borrowed hereunder shall be used for turnover of working capital.

Without the written consent of the Lender, the Borrower may neither change the loan purpose nor use the loan for any other purposes. The Lender shall have the right to supervise the Borrower's use of the loan.

### **Article 4 Loan Interest Rate, Interest Calculation and Settlement**

#### **1. Loan Interest Rate**

The method as described in following Item (1) shall apply for the determination of loan interest rate and a **simple interest calculation** shall be applied:

**(1) Fixed Interest Rate. The annual interest rate shall be 4.62%.**

The loan prime rate (LPR) recently published on  the date of signature hereof  withdrawal date for 1 years' loan, which is 3.70, and  increased percentage points  decreased percentage points, which is 92 bp (1bp = 0.01%). The annual interest rate shall be 4.62%. The interest rate shall remain unchanged during the loan term.

**(2) Floating Interest Rate.**

The loan interest rate shall be determined by the loan prime rate (LPR) recently published on the working day before the withdrawal date for \_\_\_\_\_ years' loan and  increased percentage points  decreased percentage points, which is \_\_\_\_\_ bp. **The increased or decreased percentage points shall remain unchanged during the term of this Contract. In case of any adjustment to the LPR, its loan interest rate determination method shall be handled according to the following Item and the Lender will not give a further notice to the Borrower:**

① Annual Adjustment. From January 1 of the next year, the loan interest rate shall be adjusted, on the basis of the LPR recently published, in accordance with the increased or decreased percentage points agreed herein;

② Annual Adjustment. From the corresponding date of the corresponding month in the corresponding year, the loan interest rate shall be adjusted, on the basis of the LPR recently published, in accordance with the increased or decreased percentage points agreed herein;

③ Quarterly Adjustment. From the corresponding date of the first month in the corresponding quarter, the loan interest rate shall be adjusted, on the basis of the LPR recently published, in accordance with the increased or decreased percentage points agreed herein;



④ Quarterly Adjustment. From the first day of the first month in the corresponding quarter, the loan interest rate shall be adjusted, on the basis of the LPR recently published, in accordance with the increased or decreased percentage points agreed herein;

⑤ Monthly Adjustment. From the corresponding date of the corresponding month, the loan interest rate shall be adjusted, on the basis of the LPR recently published, in accordance with the increased or decreased percentage points agreed herein (If there is no corresponding day in the month of adjustment, the last day of such month shall be treated as the corresponding day);

⑥ Monthly Adjustment. From the corresponding date of the corresponding month, the loan interest rate shall be adjusted, on the basis of the LPR recently published, in accordance with the increased or decreased percentage points agreed herein;

⑦ Immediate Adjustment. From the date immediately following the date of the LRP recently published, the loan interest rate shall be adjusted, on the basis of the new LPR, in accordance with the increased or decreased percentage points agreed herein.

(3) The loan interest rate shall be determined by other methods: \_\_\_\_\_/\_\_\_\_\_.

**If the Borrower chooses the “(2) floating interest rate” method, and when the loan prime rate (LPR) of the loan market increases, the monthly repayment amount of the Borrower will increase. If the Borrower still makes the repayment according to the repayment amount before adjustment, the monthly repayment amount will be insufficient, resulting in penalty interest and compound interest and affecting the credit record of the Borrower.**

## **2. Interest Settlement Method**

The Borrower will settle the interest in a method as described in following Item (2):

(1) Quarterly Interest Settlement. The 20<sup>th</sup> day of the last month of each quarter shall be the interest settlement date, and the 21<sup>st</sup> day shall be the interest payment date.

(2) Monthly Interest Settlement. The 20<sup>th</sup> day of each month shall be the interest settlement date, and the 21<sup>st</sup> day shall be the interest payment date.

(3) The interest shall be settled by other methods: \_\_\_\_\_/\_\_\_\_\_.

In the event that the repayment date of the last installment of loan principal is not the interest payment date, such repayment date of the last installment of loan principal shall be the interest payment date on which the Borrower shall pay off all the interests payable.

## **3. Penalty Interest Rate**

(1) In the event that the Borrower fails to repay the loan within the agreed time limit, interest shall be calculated and charged over the overdue part at the penalty interest rate for overdue loan from the overdue day, until the principal and interest are paid off;

(2) In the event that the Borrower uses the loan for any purposes other than those agreed herein, interest shall be calculated and charged over the misappropriated part at the penalty interest rate for misappropriated loan from the misappropriation date, until the principal and interest are paid off;

(3) In the event that the loan is overdue and misappropriated, interest shall be calculated and charged at the penalty interest rate for misappropriated loan;

(4) With respect to the interest and penalty interest that the Borrower fails to pay as scheduled, compound interest shall be calculated and charged at the penalty interest rate agreed in this paragraph in the interest settlement method as agreed in Paragraph 2 hereof;

(5) In case of any adjustment to the loan interest rate agreed herein, the penalty interest and compound interest shall be calculated at the adjusted interest rate from the adjustment date;

(6) Penalty Interest Rate

The penalty interest rate for overdue loan shall be 50% higher than the loan interest rate agreed in Paragraph 1 hereof; the penalty interest rate for misappropriated loan shall be 100% higher than the loan interest rate agreed in Paragraph 1 hereof.

**Article 5 Loan Disbursement and Repayment Account**

The Borrower shall open an account as follows with the Lender as the loan disbursement and repayment account, which shall be used for loan disbursement, payment and repayment.

Bank of deposit: Luling Rural Commercial Bank

Account Name: Jiangxi Universe Pharmaceuticals Commerce and Trade Co., Ltd.

Account Number: 172299201000027947

**Article 6 Repayment**

Unless otherwise agreed by the parties, the Borrower shall repay the loan hereunder in accordance with the repayment schedule as set forth in Item 1 below:

1. Repay the loan hereunder in full upon the expiration of the loan term.
2. Repay the loan hereunder in accordance with the following repayment schedule:

<b>Repayment Time</b>	<b>Repayment Amount</b>
1.	
2.	
3.	
4.	
5.	
6.	
7.	
8.	
9.	
Total	

3. Other Repayment Schedule: \_\_\_\_\_ / \_\_\_\_\_.

4. Where the Borrower makes repayment in advance, it shall obtain the consent from the Lender 1 banking days in advance.

#### **Article 7 Guarantee**

The loan hereunder shall be a guaranteed (credit/ guaranteed) loan. The guarantee type shall be guarantee (guarantee/ mortgage/ pledge), and the guarantee contract shall be executed separately.

#### **Article 8 Contract Agreements on the Borrower's Financial Indicators: N/A**

#### **Article 9 Dispute Resolution**

1. After this Contract takes effect, any dispute arising from the execution or performance hereof or in connection with this Contract shall be settled by both parties through negotiation. If such negotiation fails, either party may file a lawsuit with the People's Court having jurisdiction over the place of the Lender in accordance with the law.

2. During the dispute resolution, in the event that the dispute does not affect the performance of the remaining provisions of this Contract, such remaining provisions shall continue to be performed.

3. After negotiation between the parties, the parties may conduct notarization for the compulsory enforcement of this Contract. The Borrower agrees that this Contract shall have the compulsory enforcement effect after it is notarized. In the event that the Borrower fails to perform its obligations under this Contract, the Lender may apply to the People's Court having jurisdiction for compulsory enforcement according to law.

#### **Article 10 Effectiveness of the Contract**

This Contract shall take effect from the date when both parties affix their signatures and seals hereto.

This Contract is made out in triplicate, with the Borrower, the Lender and the Guarantor holding one counterpart each. Each counterpart shall have the same legal effect.

#### **Article 11 Other Agreements**

N/A

### **Chapter 2 Standard Provisions**

#### **Article 12 Interest Calculation**

The interest shall be calculated from the Borrower's actual withdrawal date and shall be calculated according to the actual withdrawal amount and use days of loan.

Interest Formula: Interest = Principal × Actual Days × Daily Interest Rate.

The daily interest rate is calculated on a base of 360 days a year. Conversion Formula: Daily Interest Rate = Annual Interest Rate / 360.

#### **Article 13 Loan Disbursement Conditions**

**1. The Borrower must meet all the following conditions for loan disbursement, otherwise the Lender shall have no obligation to disburse any loan to the Borrower, unless the Lender agrees to disburse the loan in advance:**

- (1) The Contract and its appendixes have become effective;
  - (2) The Borrower has reserved to the Lender the Borrower's documents, receipts, seals, lists of persons and specimen signatures in relation to the execution and performance of this Contract and filled in the relevant vouchers;
  - (3) The Borrower has, according to the Lender's requirements, opened an account necessary for the performance of this Contract;
  - (4) The Borrower, within 3 banking days prior to the withdrawal, has submitted to the Lender the written withdrawal notice and the relevant supporting documents for loan purpose which is consistent with the purpose as agreed herein, and has completed the relevant withdrawal procedures;
  - (5) The Borrower has submitted to the Lender the resolution and letter of authorization of the board of directors or other competent authorities, which agree to the execution and performance of this Contract;
  - (6) In accordance with relevant regulatory provisions and management requirements of the Lender, if the loan exceeds a certain amount or meets other conditions, the Lender shall, according to the Borrower's withdrawal application and payment authorization, pay the loan to the payment object conforming to the purpose agreed herein in a manner of authorized payment by the Lender;
  - (7) In addition to the credit loan, the Borrower has provided the corresponding guarantee as required by the Lender and has completed the relevant guarantee procedures, and the guarantee is legal and valid;
  - (8) The Borrower has not breached this Contract or any other contracts executed by and between the Borrower and the Lender;
2. In the event that the Borrower fails to make any withdrawal for 3 consecutive months from the contract execution date, the Lender shall be entitled to cancel the borrowing limit.

**Article 14 Special Arrangements on Revolving Loan (Maximum Loan)**

1. During the term of revolving borrowing limit, the sum of the loan principal balance of at any time shall not exceed the revolving borrowing limit; the repayment date of any withdrawal shall not exceed the term of revolving borrowing limit.

2. As agreed by both parties, the Lender shall reasonably set the amount and term of each revolving loan according to the scale and cycle of the Borrower's production and operation.

**Article 15 Loan Amount Payment**

1. The authorized payment by the Lender means that the Lender pays the loan fund to the Borrower's counter-party in a transaction conforming to the purpose agreed herein according to the Borrower's withdrawal notice and payment authorization.

Payment of the Borrower's loan fund for which the amount of a single payment under this Contract exceeds the specified amount shall be made in a manner of authorized payment by the Lender.

In the event of the authorized payment by the Lender, the Borrower shall make express payment authorization and provide other necessary payment information (including name of counter-party who receives payment, account number of such counter-party, and amount of payment) in the withdrawal notice, and submit to the Lender the supporting documents for loan purpose such as business contracts required for the examination. In this case, the Lender shall pay the loan fund to the counter-party of the Borrower via the Borrower's account upon examination and approval. In the event of the Lender's failure to perform its obligation to pay upon authorization resulting from untruthfulness, incorrectness, and incompleteness of the information of payment authorization and relevant transactions furnished by the Borrower, the Lender shall not be held liable for such failure whatsoever and the Borrower's obligation to repay under the Contract shall not be affected. The Lender will make payment to the account of the Borrower's counter-party in accordance with the Borrower's withdrawal notice and the payment certificate as required by the Lender.

In the event that the Lender, upon examination, discovers that the supporting documents for loan purpose such as business contracts furnished by the Borrower fail to comply with the Contract or there is any other defects, the Lender shall be entitled to request the Borrower to supplement, replace, explain or re-furnish such documents, and the Lender may suspend granting or paying of such loans until the Borrower has furnished the supporting documents such as business contracts to the satisfaction of the Lender.

In the event that the account-holding bank of the counterparty returns such payments, resulting in the Lender's failure to transfer such loans to the Borrower's counterparty as authorized by the Borrower in a timely manner, the Lender shall not be liable for such failure whatsoever and the Borrower's obligation to repay under the Contract shall not be affected. With respect to the funds returned by the account-holding bank of the counterparty, the Borrower shall re-furnish the payment authorization and the supporting documents for loan purpose such as business contracts required for the examination, and the Lender shall pay the loan fund to the counterparty of the Borrower via the Borrower's account upon examination and approval.

All the expenses incurred by the payment of loan to the counterparty designated by the Borrower in a manner of authorized payment under this Contract shall be borne by the Borrower. The Borrower shall pay the above expenses to the Lender at the time of the authorized payment of each loan.

The Borrower shall not violate the above provisions to dodge the authorized payment by the Lender by way of breaking up a large amount into several small amounts.

2. Except for the cases where the authorized payment by the Lender must be adopted as stipulated in the preceding paragraph, unless otherwise agreed by both parties, payment of other loans shall be made by the Borrower itself, namely, after the Lender disburses the loans to the Borrower's account pursuant to the withdrawal application submitted by the Borrower, the Borrower pay by itself to the its counterparty that complies with the purpose as agreed in the Contract.

In the event that the Borrower needs to change the aforesaid repayment schedule, it shall submit a written application to the Lender 10 banking days prior to the maturity date of the loan, and the changed repayment schedule is subject to the written confirmation by the Parties.

3. In the event that the Borrower needs to extend the loan term agreed herein, it shall submit a written application of extension to the Lender 30 banking days prior to the maturity date of the loan, and the Lender shall decide whether to approve the extension. In applying for the extension of a guaranteed loan, mortgage loan or pledged loan, the guarantor, mortgagor or pledgor shall also issue a written certificate of approval. the parties shall enter into a renewal agreement after the Lender approves the extension. In the event that the Borrower's application for extension is not approved by the Lender, the Borrower shall still repay the loan in full according to the repayment term agreed herein.

**4. Unless otherwise agreed by the Parties, if both the principal and the interests are overdue by the Borrower, the Lender shall be entitled to decide on the sequences for repaying the principal or the interests; under the condition of installment repayment, if several mature installments and overdue installments exist under this Contract, the Lender shall be entitled to decide the sequences of repayment; if several outstanding loan contracts exist between the Parties, the Lender shall be entitled to decide the sequences for repaying any contract.**

5. The Borrower shall repay the loan principal, interests and other amounts payable in full and on time according to provisions stated herein. The Borrower shall, before the end of counter business on the repayment date and each interest settlement date, deposit in full the current interests, principal and other amounts payable to the repayment account opened with the Lender, and the Borrower shall authorize the Lender to collect the funds on the repayment date or the interest settlement date or the Borrower shall be required to cooperate in handling the relevant transfer procedures. In the event that the amount in the repayment account is insufficient to pay the full amount due from the Borrower, the Borrower shall agree that Lender is entitled to decide the sequences for repayment.

6. The Lender shall be entitled to collect the loan in advance on the basis of the capital withdrawal of the Borrower.

7. Loan Note: The loan note shall be an integral part of this Contract. In the event that there is no record in this Contract, or the loan amount, withdrawal amount, repayment amount, borrow date and maturity date of the loan, loan term, loan interest rate and loan purpose as recorded in this Contract is inconsistent with those recorded in the loan note, the loan note shall prevail.

#### **Article 16 Guarantee**

In the event that any event occurs to the Borrower or the guarantor, and causes the Lender to believe that it may affect the performing capability of the Borrower or the guarantor; or the guarantee contracts are deemed as invalid, canceled or resolved; or the performing capability of the Borrower or guarantor may be affected due to the deterioration in their financial condition or that the Borrower and the guarantor are involved in substantial lawsuit or arbitration or other reasons; or the guarantor breaches the guarantee contracts or other contracts with the Lender; or the collateral value decreases or gets lost due to the devaluation, damage, lost or sequestration of the collateral; the Lender shall be entitled to require, and the Borrower shall have the obligation to provide new guarantee, supplement or replace the guarantor to guarantee the liabilities under this Contract.

#### **Article 17 Representations and Undertakings**

1. The Borrower is a legal entity incorporated, registered and existing under the administration for industry and commerce or other competent authorities and has full capacity of civil rights and conduct to conclude and perform the Contract, and capacity of loan repayment.

2. The Borrower fully agrees to the contents and terms of this Contract, executes and performs this Contract out of true intention, has obtained all legal and valid authorizations required by the Borrower's Articles of Association and bylaws, and will not be in violation of any agreement, contract, or other legal documents with binding force to the Borrower. The Borrower has obtained or will obtain all the required approval, consent, documentation or registration for executing and performing this Contract.

3. The Borrower is in good faith and all the documents, financial statements, certifications and other information provided by the Borrower to the Lender under this Contract are true, complete, accurate and valid, and free from false records, material omissions or misleading statements. The financial and accounting reports provided to the Lender are prepared in accordance with Chinese accounting standards, and truly, fairly and completely present the Borrower's operating and liability condition.

4. The transaction background that the Borrower represents to the Lender is real and legal, not for any illegal purposes such as money laundering. The loan purpose and the source of repayment are clear and legal. The loan purpose and the source of repayment are clear and legal.

5. The Borrower has a good credit status, does not have material bad credit record, and does not conceal from the Lender any fact that may affect the Borrower's and the Guarantor's financial condition and performance capability. The Borrower does not conceal from the Lender any litigation, arbitration or claim in which it is involved.

6. The borrower has repaid other debts payable as scheduled and has not maliciously defaulted on the payment of principal and interest of the bank loan.

**7. The Borrower shall withdraw and use the loan in accordance with the term and purpose agreed herein. The loan borrowed hereunder shall neither be used for the investment in fixed asset and equity and other investments, nor flow into the securities market or the futures market in any form, or be used for other purposes prohibited or restricted by relevant laws and regulations.**

8. The Borrower shall deliver its financial statements (including but not limited to annual, quarterly and monthly reports) and other relevant documents to the Lender on a regularly and timely basis in accordance with the requirements of the Lender; the Borrower shall ensure that the financial indicators will comply with the Contract all the time. If the production and operation qualification/license is subject to the annual audit, such qualification/license will pass the annual examination as scheduled.

9. The Borrower shall withdraw, repay and use the loan as stipulated herein.

10. If the Borrower has executed or will execute with the guarantor under this Contract a counter-guarantee agreement or similar agreement regarding its guarantee obligations, this counter-guarantee agreement or similar agreement will not prejudice any Lender's right under this Contract.

11. The Borrower shall accept the credit inspection and supervision conducted by the Lender, and provide sufficient assistance and cooperation; from the effective date of this Contract and prior to discharge of the principal and interests and related expenses hereunder, the Borrower agrees and authorizes the Lender to monitor the account opened with the Lender, examine and analyze the Borrower's production and operation (including but not limited to the construction and operation of the Borrower's projects), and make dynamic monitoring on the income cash flow and overall fund flow of the Borrower; **the Borrower shall accept and actively cooperate with the examination and supervision made by the Lender on the usage of the loan funds including the loan purpose by account analysis, proof inspection and site investigation**, and make summary report in a periodic manner as required by the Lender.

**12. The Borrower's merger, division, decrease of capital, equity transfer, external investment, substantial increase of debt financing, transfer of material assets and claims and other events which may have adverse effect on the solvency of the Borrower shall be subject to the written consent of the Lender.**

The Borrower shall give a notice to the Lender within 7 days after it becomes or should have become aware of any of the following circumstances:

(1) Change of the Articles of Association, business scope, registered capital, legal representative of the Borrower or the guarantor;

(2) Change of management mode such as joint management in any form, cooperation with foreign enterprises, cooperation, contracting management, reorganization, reform and planned listing;

(3) Involved in material litigation or arbitration cases, sequestration, attachment or supervision of properties or collateral, or establishment of new material liabilities on the collateral;

(4) Winding up, dissolution, liquidation, stopping business for rectification, cancellation, revocation of business license, (applied for) applying for bankruptcy;

(5) Shareholders, directors and current senior managers are suspected of being involved in material cases or economic disputes; or the legal representative/person in charge and current senior executives are found to be in bad health or other material conditions that they are unqualified for their job;

(6) Events of default by the Borrower under other contracts;

(7) Difficulty in business operation and deterioration of financial position;

(8) In the event that the Borrower is closed, suspended, merged or changes the line of production due to change, restructuring and contracting or with the approval of the competent departments, the Borrower undertakes to give a notice to the Lender in writing within one month prior to the occurrence of the above events and to discharge all debts owed to the Lender immediately. Subject to the consent of the Lender, the Borrower may transfer the debts to the receiving entity or the newly incorporated entity (The Borrower shall, in the process of debt transfer, present and submit to the Lender the documents issued by its competent authority or the contract-issuing party or relevant documents); however, the debt receiving entity must execute a new loan contract with Lender and submit a written certificate of the corresponding guarantor's approval or implement new guarantee measures, and before the execution of the new contract, the Lender shall have the right to recover the debts from the Borrower, the Guarantor or the Borrower's receiver at any time.

13. Liquidation of the debts owed by the Borrower to the Lender shall have priority to the loan extended by the shareholders of the Borrower, and precede the debts of the same kind owed by the Borrower to other creditors. In addition, from the effectiveness of the Contract to the time when all the principal, interests and relative fees under the Contract are paid off, the Borrower shall not return the loan from its shareholders.

14. In respect of the loan hereunder, the loan conditions such as guarantee conditions, loan rate pricing, discharge sequence provided by the Borrower for the Lender shall be no less than the current or future conditions provided for any other financial institution.

**15. The Borrower shall bear the expenses incurred in connection with the execution and performance of this Contract and the expenses paid and payable by the Lender for realization of its creditor's right hereunder, including but not limited to litigation or arbitration fees, property preservation costs, attorney fees, enforcement fees, evaluation fees, auction fees, and announcement fees.**

## **16. Account Management**

(1) The repayment account opened by the Borrower with the Lender (the account stipulated in Article 5) is a special capital withdrawal account, which is used to collect the corresponding sales revenue or the planned repayment fund. Where the corresponding sales revenue is settled in a non-cash manner, the Borrower shall ensure that it will be promptly transferred into the capital withdrawal account upon receipt.

(2) The Lender shall have the right to supervise the capital withdrawal account, including but not limited to the understanding and supervision of the fund income and expenditure of the account, and the Borrower shall provide



relevant cooperation. At the request of the Lender, the Borrower shall execute a special account supervision agreement with the Lender.

17. The Borrower shall dispose the assets in a manner that will not reduce its repayment capability. The Borrower undertakes that the total amount of the Borrower's external guarantee is equal to or less than \_\_\_\_\_ times of its net asset, and the total amount of external guarantee as well as the amount of a single guarantee may not exceed the limit as stipulated in its Articles of Association; without the consent of the Lender, the Borrower shall not provide guarantee to any third party or the loans borrowed by the Borrower from any other financial institution with the assets formed by the loans under the Contract.

### **Article 18 the Related-party Transaction within the Borrower**

1. The Borrower is not identified by the Lender as the group client in accordance with the Guidelines on the Management of Risks of Credits Granted by Commercial Banks to Group Clients (hereinafter referred to the "Guidelines").

2. If the Borrower is identified by the Lender as the group client in accordance with the Guidelines, it shall report to the Lender any of the related-party transaction in a timely manner.

3. The Borrower is subject to such events as major merger, acquisition or reorganization, which in the opinion of the Lender may affect the safety of the loan.

### **Article 19 Breach of Contract and Settlement**

1. The Borrower shall constitute or be deemed to have breached the Contract and shall be liable for breach of contract under any of the following circumstances:

(1) The Borrower fails to perform the obligations of payment and liquidation to the Lender according to the stipulations of the Contract;

(2) The Borrower fails to use the loan in a purpose and way stipulated in this Contract or fails to use the loan borrowed hereunder for the purpose stipulated in the Contract; or the Borrower fails to go through the withdrawal procedures as scheduled according to the withdrawal plan, or changes the withdrawal plan without the Lender's consent; or the Borrower is in violation of this Contract and dodges the authorized payment by the Lender by way of breaking up a large amount into several small amounts;

(3) The Borrower provides an untrue representation or violates the undertaking it made in this Contract;

(4) If any circumstance under Subparagraph 12 of Article 17 arises, and the Lender believes that may affect the financial condition and performing capability of the Borrower or guarantor, but the Borrower refuses to provide new guarantee or change a guarantor according to this Contract;

(5) The Borrower violates any stipulation under any other contract between the Borrower and the Lender; the Borrower violates any stipulation under any Credit Extension Contract between the Borrower and any other financial institution;

(6) The guarantor violates the stipulations of the guarantee contract, or any default events arise under other contract between the guarantor and the Lender;

(7) The Borrower closes down or is dissolved, withdraw or bankrupted;

(8) Where the Borrower involves in or possibly involves in material economic disputes, litigation, arbitration, or its capital is sealed up, seized or enforced for execution, or the administrative organs such as judicial organs or taxation authorities, and industrial and commercial administration file for investigation or adopt punishment measures on the Borrower according to law which has influenced or may influence the performance of the liabilities under this Contract;

(9) Where the main individual investors and key managerial personnel of the Borrower are changed abnormally, disappear or are investigated or the personal freedom thereof is limited by judicial organs according to law which has influenced or may influence the performance of the liabilities under this Contract;

(10) Where the credit circumstances of the Borrower lowers or finance indexes of the Borrower such as profitability, debt-paying ability, operating capacity and cash flow seriously deteriorate and break through the index binding of this Contract or other financial agreements;

(11) The Borrower takes advantage of the false contracts between the Borrower and the affiliated party to obtain funds or credit from the Lender through transactions without true transaction background, and the affiliated party is subject to such events as major merger, acquisition or reorganization which in the opinion of the Lender may affect the safety of the loan; or the Borrower intends to evade the creditor's right of the Lender through related-party transactions;

(12) The Borrower causes any liability accident due to its violation of food safety, production safety, environmental protection and other relevant laws and regulations, regulatory provisions or industrial standards which has influenced or may influence the performance of the liabilities under this Contract;

(13) In the event that the loan under this Contract is granted on the basis of credit rating, the Borrower's credit rating, profitability, asset-liability ratio, net cash flow from operating activities and other indicators do not meet the Lender's credit loan conditions; or the Borrower, without the written consent of the Lender, establishes mortgage/pledge guarantee or provide guarantee to others with its valid operating assets, which has influenced or may influence the performance of the liabilities under this Contract;

(14) Other circumstances that may have adverse effect on the realization of the creditor's rights of the Lender under this Contract.

2. When the aforesaid breaches arise, as the case maybe, the Borrower agrees that the Lender may take following measures respectively or simultaneously:

(1) Require the Borrower and guarantor to rectify their breach within time limit.

(2) Decrease, suspend or terminate all or part of the credit lines of the Borrower.

(3) Suspend or terminate all or part of the business application (such as withdrawal) of the Borrower under this Contract or other contracts between the Borrower and the Lender; partly or totally suspend or cancel to issue, pay and transact the unissued loans.

(4) Declare that all or part of the outstanding principal and interest of the loan and other amounts payable of the Borrower under this Contract and other contracts between the Borrower and the Lender shall become due immediately.

(5) Negotiate with the Borrower to supplement the terms of loan issuance and payment; or the Lender shall have the right to change the loan disbursement and payment conditions in accordance with the credit status of the Borrower

such as lowering the minimum amount of authorized payment of the Borrower; or the Lender shall have the right to transfer back the loan fund which the Borrower has paid for default.

(6) Terminate or dissolve this Contract, partly or totally terminate or dissolve other contracts between the Borrower and the Lender.

(7) Require the Borrower to compensate the Lender for the Lender's loss caused by the Borrower's default.

**(8) Deduct from the Borrower's account which is opened in the Rural Commercial Bank system within the jurisdiction of Jiangxi with notice before or after the deduction, so as to discharge all or part of the Borrower's debts to the Lender hereunder. The undue deposit in the account shall be deemed to become due in advance.**

(9) Exercise security interest; and require the guarantor to take guarantee responsibility.

**(10) In the event that the Borrower fails to repay the principal, interest (including penalty interest and compound interest) or other amounts payable as scheduled, the Lender may disclose the default information of the Borrower and the Guarantor and make an announcement for collection through the media or other forms.**

**(11) Have the right to deduct and debit the deposits and dividends within any account opened by the Borrower in the Rural Commercial Bank system within the jurisdiction of Jiangxi, and to dispose of the Borrower's equities.**

(12) Other measures stipulated by laws and regulations and deemed necessary and possible by the Lender.

#### **Article 20 Reservation of Rights**

Any failure by a party to exercise all or part of its rights hereunder or to require the other party to perform or assume all or part of obligations or responsibilities shall not constitute a waiver of such rights or release of the obligations and responsibilities of such party.

Any tolerance, grace or postponement for exercising the rights under this Contract of one Party shall not affect its rights stipulated by this Contract, laws and regulations, and shall not be deemed as a waiver of such rights.

#### **Article 21 Confidentiality**

Each party undertakes to keep confidential the trade secrets, technical information, business information and other business secrets obtained from the other party which are not available through public channels. Without the consent of the original provider of the trade secret, neither party shall disclose all or part of the trade secret to any third party, unless otherwise stipulated by laws and regulations or otherwise agreed by both parties.

In the event that either party is in violation of the aforesaid confidentiality obligation, it shall assume the corresponding liability for breach of contract and compensate for the losses caused thereby.

## **Article 20 Force Majeure**

The term Force Majeure as specified in this Contract refers to the objective events that cannot be foreseen, overcome, or avoided and have a significant impact on one party, including but not limited to the natural disasters such as flood, earthquake, fire and storm, as well as the social events such as war and turmoil.

In the event that the Contract cannot be performed as a result of the occurrence of force majeure events, the party affected by the force majeure shall immediately notify the other party of the event in writing, and within 7 days, provide written documents certifying the details of accident and the reasons for non-performance or delay in performance hereof. Upon consensus through negotiation, both Parties may terminate or temporarily delay the performance of the Contract.

## **Article 23 Alteration, Amendment and Termination**

This Contract can be altered and amended in written form upon consensus through negotiation of the Parties, and any alternation and amendment agreed on by the Parties shall constitute an integral part of this Contract.

This Contract may not be terminated until all the rights and obligations are fully preformed, unless otherwise stipulated in laws and regulations or agreed by the both Parties.

The invalidity of any provision of this Contract shall not affect the legal validity of other provisions, unless otherwise stipulated in laws and regulations or agreed by the both Parties.

## **Article 24 Agreements on Service**

1. The contact information (including mailing address, telephone number, fax number, etc.) provided by the Borrower in this Contract shall be true and valid and shall be the address for service of any notice of the Lender for the Borrower. In case of any change to the contact information, the Borrower shall immediately send/mail the change information in writing to the mailing address provided by the Lender in this Contract. Such information change shall become effective upon the Lender's receipt of the change notice.

2. Unless otherwise expressly provided for in this Contract, the Lender shall be entitled to give notice to the Borrower in any of the following methods. The Lender shall be entitled to choose the notification method as it thinks fit and shall not be held liable for any error, omission or delay in delivery by mail, fax, telephone, WeChat or any other communication system. Where the Lender simultaneously chooses several notification methods, the one by which the notice is served to the Borrower earlier shall prevail.

(1) By announcement. The notice shall be deemed to be served on the date on which the Lender publishes the announcement on its website, online banking, telephone banking or business outlets;

(2) By hand. The notice shall be deemed to be served on the date on which the Borrower signs for the receipt, or if the Borrower refuses to sign for the receipt, the date on which the server makes a record on the proof of service on the spot;

(3) By mail (including express mail, surface mail or registered mail). The notice, when addressed to the Borrower's mailing address last known to the Lender, shall be deemed to be served on the date on which the Borrower signs for the receipt, or if the Borrower fails to sign for the receipt, the date on which the mail is returned;

(4) By fax, mobile phone SMS, WeChat or other electronic communication methods. The notice, when sent to the Borrower's fax number, the mobile phone number, WeChat account number or email address designated by the Borrower which is last known to the Lender, shall be deemed to be served on the date on which the notice is sent.

3. Borrower agrees that, unless the Lender receives from the Borrower a written notice concerning the change of mailing address, the Borrower's domicile stated in this Contract is the correspondence and contact address. In the future, the delivery addresses of bank statements, collection statements, relevant legal instruments and litigation documents related to the loans under this Contract shall prevail. The Borrower promises to notify the Lender in time when the communication and contact information change, otherwise the documents delivered by the Lender according to the communication and contact information stated in this Contract will be effectively delivered, and the relevant economic and legal responsibilities arising therefrom will be borne by the Borrower and the Mortgagor. During the dispute settlement, if the court serves the judicial documents or other written documents by mail (including express mail, surface mail or registered mail) to the Borrower mailing address last known to the Lender, such documents shall be deemed to be served on the date on which the Borrower signs for receipt of the proof of service; or if Borrower fails to sign for receipt of the proof of service, the date on which the mail is returned;

The court or notary organ shall be entitled to give any notice to the Borrower by any methods of communication agreed in this Paragraph 2. The court or notary organ shall be entitled to choose the communication method as it thinks fit and shall not be held liable for any error, omission or delay in delivery by mail, fax, telephone, telex or any other communication system. Where the court or notary organ simultaneously chooses several communication methods, the one by which the notice is served on the Borrower earlier shall prevail.

#### **Article 25 Appendix**

The appendixes confirmed by both parties shall constitute an integral part of this Contract and shall have the same legal effect as this Contract.

#### **Article 26 Other Agreements**

1. The Borrower shall not transfer any rights and obligations under this Contract to the third party without written consent of the Lender.

2. The Lender has the right to transfer the creditor's rights under this Contract to the third party, and shall notify the Borrower.

3. This Contract shall be legally binding upon both Parties and their successors and assignees without prejudice to other provisions of this Contract.

4. All the transactions under this Contract are carried out for each Party's independent benefits. If, in accordance with relevant laws, regulations and regulatory provisions, other parties to the transaction become the related parties or affiliated persons of the Lender, no Party may seek to affect the fairness of the transaction out of this related-party relationship.

5. The headings and business names in this Contract are used only for convenient reference, which shall not be used to interpret the provisions or the rights and obligations of both Parties.

6. In accordance with relevant laws, regulations and regulatory provisions, the Lender shall have the right to provide the information related to this Contract and other relevant information of the Borrower to the credit reference system of the People's Bank of China and other credit information database established according to law for reference and use by the institutions or individuals with proper qualification according to law. The Lender shall also have the right

to refer the relevant information of the Borrower through credit reference system of the People's Bank of China and other credit information database established according to law for the purpose of the execution and performance of this Contract.

The parties acknowledge that the Borrower and the Lender have made a full negotiation in connection with all the terms of this Contract. The Lender has requested the Borrower to give special attention to and make a comprehensive and accurate understanding of all provisions concerning the rights and obligations of the parties, and has made explanations to the relevant provisions upon the Borrower's request. The Borrower has carefully read and fully understood all the contents and provisions of the Contract. The Borrower confirms that there is no misunderstanding or doubt about all the contents and terms of the Contract. Both the Borrower and the Lender have the same understanding of the contents and provisions of the Contract and have no objection to the contents and provisions of the Contract.

The Borrower and the Lender have made a full negotiation in connection with all the provisions of this Contract. The Lender has requested the Borrower to give special attention to and make a comprehensive and accurate understanding of all provisions concerning the rights and obligations of the parties, and has made explanations to the relevant provisions upon the Borrower's request. The Borrower has carefully read and fully understood all the contents and terms of the Contract. The **Borrower** confirms that there is **no misunderstanding or ambiguity** about all the contents and provisions of the **Contract**. Both the Borrower and the Lender have the same understanding of the contents and provisions of the Contract and have no objection to the contents and provisions of the Contract.

(The Borrower shall fill in the following by contrast)

(The remainder of this page is intentionally left blank for signatures)



Borrower (Official Seal): \_\_\_\_\_



Legal Representative or Authorized Agent (Signature & Seal): Lai Gang (Signature) \_\_\_\_\_

March 14, 2022



Lender (Seal): \_\_\_\_\_

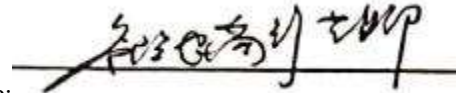
Legal Representative or Authorized Agent (Signature & Seal):



(Signature)

March 14, 2022

Contract Execution Place:



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**Exhibit 4.12**

[2022] L.L.N.S.H.L.J.Z. No.: 17229202206151003001

## Working Capital Loan Contract

Borrower Jiangxi Universe Pharmaceuticals Co., Ltd.

Lender Jiangxi Luling Rural Commercial Bank Co., Ltd.

 **Jiangxi Rural Commercial Bank**

Special Notice: In order to protect the legitimate rights and interests of the Borrower, the Lender hereby requests the Borrower to give full attention to all provisions concerning the rights and obligations of the parties, especially those shown in bold. If the Borrower has any objection, it shall raise the objection to the Lender. Otherwise, after this

Contract is entered into by and between the Borrower and the Lender, all the terms and conditions herein represent the true intention of both parties, are protected by law, and shall be legally binding on both parties herein.

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### Working Capital Loan Contract

[2022] LJZ No.: 17229202206151003001

Borrower: Jiangxi Universe Pharmaceutical Co., Ltd.

Business License No.:

Legal Representative / Person in Charge: LAI Gang

Business Address: No. 265, Jingjiu Avenue, Jinggangshan Economic and Technological Development Zone, Ji'an County

Mailing Address: The same as above

Postal Code: 343100 Tel.:

Electronic Contact Information (Email and WeChat Account No.):

Lender: Jiangxi Luling Rural Commercial Bank Co., Ltd.

Legal Representative / Person in Charge: HU Fushan

Business Address: No. 205, Fuchuan Road, Ji'an County

Postal Code: 343100

Tel.: \_\_\_\_\_ Fax:

Pursuant to the laws and regulations of the People's Republic of China and other relevant regulations, the Borrower and the Lender have reached an agreement with respect to the matter that the Lender grants a working capital loan to the Borrower, and hereby execute this Contract by consensus, which shall be binding on both parties.

### Chapter 1 Execution Provisions

#### Article 1 Loan Amount and Currency



Loan Amount (in words): CNY Ten Million.

(In figures) CNY 10,000,000.00.

The loan amount under this Contract is:  revolving borrowing limit  non-revolving loan amount.

## Article 2 Loan Term

The valid loan term under this Contract shall be: 12 months from June 15, 2022 to June 14, 2023.

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In the event that the loan amount hereunder is a revolving borrowing limit, the term of borrowing limit shall be the same as the valid loan term as agreed herein. The term of each loan shall be subject to the term recorded in the loan note.

In the event that the loan amount hereunder is a non-revolving borrowing limit, the loan term shall be the same as the valid loan term as agreed herein. The specific loan term shall be subject to the term recorded in the loan note.

**If the Borrower has any default circumstance listed in Article 19 of this Contract, and the Borrower agrees that the Lender may recover the loan in advance, then the Lender may announce that the date of recovering the loan in advance is the due date of the loan.**

## Article 3 Loan Purpose

The loan borrowed hereunder shall be used for turnover of working capital.

Without the written consent of the Lender, the Borrower may neither change the loan purpose nor use the loan for any other purposes. The Lender shall have the right to supervise the Borrower's use of the loan.

## Article 4 Loan Interest Rate, Interest Calculation and Settlement

### 1. Loan Interest Rate

The method as described in following Item (1) shall apply for the determination of loan interest rate and a **simple interest calculation** shall be applied:

**(1) Fixed interest rate. The annual interest rate shall be 4.62%.**

The loan prime rate (LPR) recently published on  the date of signature hereof  withdrawal date for 1 years' loan, which is 3.70, and  increased percentage points  decreased percentage points, which is 92 bp (1bp = 0.01%). The annual interest rate shall be 4.62%. The interest rate shall remain unchanged during the loan term.

**(2) Floating Interest Rate.**

The loan interest rate shall be determined by the loan prime rate (LPR) recently published on the working day before the withdrawal date for \_\_\_\_\_ years' loan and  increased percentage points  decreased percentage points, which is \_\_\_\_\_ bp. **The increased or decreased percentage points shall remain unchanged during the term of this Contract. In case of any adjustment to the LPR, its loan interest rate determination method shall be handled according to the following Item and the Lender will not give a further notice to the Borrower:**

① Annual Adjustment. From January 1 of the next year, the loan interest rate shall be adjusted, on the basis of the LPR recently published, in accordance with the increased or decreased percentage points agreed herein;

② Annual Adjustment. From the corresponding date of the corresponding month in the corresponding year, the loan interest rate shall be adjusted, on the basis of the LPR recently published, in accordance with the increased or decreased percentage points agreed herein;

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③ Quarterly Adjustment. From the corresponding date of the first month in the corresponding quarter, the loan interest rate shall be adjusted, on the basis of the LPR recently published, in accordance with the increased or decreased percentage points agreed herein;

④ Quarterly Adjustment. From the first day of the first month in the corresponding quarter, the loan interest rate shall be adjusted, on the basis of the LPR recently published, in accordance with the increased or decreased percentage points agreed herein;

⑤ Monthly Adjustment. From the corresponding date of the corresponding month, the loan interest rate shall be adjusted, on the basis of the LPR recently published, in accordance with the increased or decreased percentage points agreed herein (If there is no corresponding day in the month of adjustment, the last day of such month shall be treated as the corresponding day);

⑥ Monthly Adjustment. From the corresponding date of the corresponding month, the loan interest rate shall be adjusted, on the basis of the LPR recently published, in accordance with the increased or decreased percentage points agreed herein;

⑦ Immediate Adjustment. From the date immediately following the date of the LRP recently published, the loan interest rate shall be adjusted, on the basis of the new LPR, in accordance with the increased or decreased percentage points agreed herein.

(3) The loan interest rate shall be determined by other methods: \_\_\_\_\_ / \_\_\_\_\_.

**If the Borrower chooses the “(2) floating interest rate” method, and when the loan prime rate (LPR) of the loan market increases, the monthly repayment amount of the Borrower will increase. If the Borrower still makes the repayment according to the repayment amount before adjustment, the monthly repayment amount will be insufficient, resulting in penalty interest and compound interest and affecting the credit record of the Borrower.**

## 2. Interest Settlement Method

The Borrower will settle the interest in a method as described in following Item (2):

(1) Quarterly Interest Settlement. The 20<sup>th</sup> day of the last month of each quarter shall be the interest settlement date, and the 21<sup>st</sup> day shall be the interest payment date.

(2) Monthly Interest Settlement. The 20<sup>th</sup> day of each month shall be the interest settlement date, and the 21<sup>st</sup> day shall be the interest payment date.

(3) The interest shall be settled by other methods: \_\_\_\_\_ / \_\_\_\_\_.

In the event that the repayment date of the last installment of loan principal is not the interestpayment date, such repayment date of the last installment of loan principal shall be the interest payment date on which the Borrower shall pay off all the interests payable.

### **3. Penalty Interest Rate**

(1) In the event that the Borrower fails to repay the loan within the agreed time limit, interest shall be calculated and charged over the overdue part at the penalty interest rate for overdue loan from the overdue day, until the principal and interest are paid off;

(2) In the event that the Borrower uses the loan for any purposes other than those agreed herein, interest shall be calculated and charged over the misappropriated part at the penalty interest rate for misappropriated loan from the misappropriation date, until the principal and interest are paid off;

(3) In the event that the loan is overdue and misappropriated, interest shall be calculated and charged at the penalty interest rate for misappropriated loan;

(4) With respect to the interest and penalty interest that the Borrower fails to pay as scheduled, compound interest shall be calculated and charged at the penalty interest rate agreed in this paragraph in the interest settlement method as agreed in Paragraph 2 hereof;

(5) In case of any adjustment to the loan interest rate agreed herein, the penalty interest and compound interest shall be calculated at the adjusted interest rate from the adjustment date;

#### **(6) Penalty Interest Rate**

The penalty interest rate for overdue loan shall be 50% higher than the loan interest rate agreed in Paragraph 1 hereof; the penalty interest rate for misappropriated loan shall be 100% higher than the loan interest rate agreed in Paragraph 1 hereof.

### **Article 5 Loan Disbursement and Repayment Account**

The Borrower shall open an account as follows with the Lender as the loan disbursement and repayment account, which shall be used for loan disbursement, payment and repayment.

Bank of deposit: Luling Rural Commercial Bank

Account Name: Jiangxi Universe Pharmaceuticals Co., Ltd.

Account Number: 17229920100001758

### **Article 6 Repayment**

Unless otherwise agreed by the parties, the Borrower shall repay the loan hereunder in accordance with the repayment schedule as set forth in Item 1 below:

1. Repay the loan hereunder in full upon the expiration of the loan term.
2. Repay the loan hereunder in accordance with the following repayment schedule:

Repayment Time	Repayment Amount
1.	
2.	
3.	
4.	
5.	
6.	
7.	
8.	
9.	
Total	

6

3. Other Repayment Schedule: \_\_\_\_\_ / \_\_\_\_\_.

4. Where the Borrower makes repayment in advance, it shall obtain the consent from the Lender 1 banking days in advance.

**Article 7 Guarantee**

The loan hereunder shall be a guaranteed (credit/ guaranteed) loan. The guarantee type shall be guarantee (guarantee/ mortgage/ pledge), and the guarantee contract shall be executed separately.

**Article 8 Contract Agreements on the Borrower's Financial Indicators:**

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

**Article 9 Dispute Resolution**

1. After this Contract takes effect, any dispute arising from the execution or performance hereof or in connection with this Contract shall be settled by both parties through negotiation. If such negotiation fails, either party may file a lawsuit with the People's Court having jurisdiction over the place of the Lender in accordance with the law.

2. During the dispute resolution, in the event that the dispute does not affect the performance of the remaining provisions of this Contract, such remaining provisions shall continue to be performed.

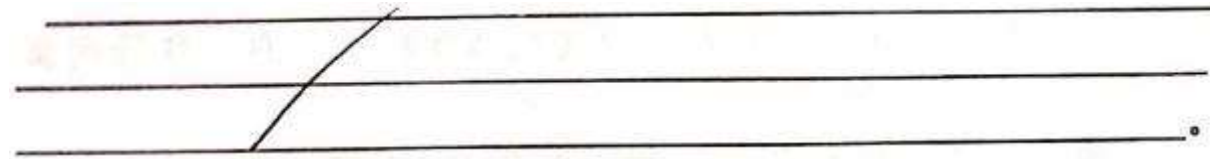
3. After negotiation between the parties, the parties may conduct notarization for the compulsory enforcement of this Contract. The Borrower agrees that this Contract shall have the compulsory enforcement effect after it is notarized. In the event that the Borrower fails to perform its obligations under this Contract, the Lender may apply to the People's Court having jurisdiction for compulsory enforcement according to law.

**Article 10 Effectiveness of the Contract**

This Contract shall take effect from the date when both parties affix their signatures and seals hereto.

This Contract is made out in triplicate, with the Borrower, the Lender and the Guarantor holding one counterpart each. Each counterpart shall have the same legal effect.

### Article 11 Other Agreements



## Chapter 2 Standard Provisions

### Article 12 Interest Calculation

1. The interest shall be calculated from the Borrower's actual withdrawal date and shall be calculated according to the actual withdrawal amount and use days of loan.

Interest Formula:  $\text{Interest} = \text{Principal} \times \text{Actual Days} \times \text{Daily Interest Rate}$ .

The daily interest rate is calculated on a base of 360 days a year. Conversion Formula:  $\text{Daily Interest Rate} = \text{Annual Interest Rate} / 360$ .

### Article 13 Loan Disbursement Conditions

**1. The Borrower must meet all the following conditions for loan disbursement, otherwise the Lender shall have no obligation to disburse any loan to the Borrower, unless the Lender agrees to disburse the loan in advance:**

- (1) The Contract and its appendixes have become effective;
- (2) The Borrower has reserved to the Lender the Borrower's documents, receipts, seals, lists of persons and specimen signatures in relation to the execution and performance of this Contract and filled in the relevant vouchers;
- (3) The Borrower has, according to the Lender's requirements, opened an account necessary for the performance of this Contract;
- (4) The Borrower, within 3 banking days prior to the withdrawal, has submitted to the Lender the written withdrawal notice and the relevant supporting documents for loan purpose which is consistent with the purpose as agreed herein, and has completed the relevant withdrawal procedures;
- (5) The Borrower has submitted to the Lender the resolution and letter of authorization of the board of directors or other competent authorities, which agree to the execution and performance of this Contract;
- (6) In accordance with relevant regulatory provisions and management requirements of the Lender, if the loan exceeds a certain amount or meets other conditions, the Lender shall, according to the Borrower's withdrawal application and payment authorization, pay the loan to the payment object conforming to the purpose agreed herein in a manner of authorized payment by the Lender;
- (7) In addition to the credit loan, the Borrower has provided the corresponding guarantee as required by the Lender and has completed the relevant guarantee procedures, and the guarantee is legal and valid;

(8) The Borrower has not breached this Contract or any other contracts executed by and between the Borrower and the Lender;

2. In the event that the Borrower fails to make any withdrawal for 3 consecutive months from the contract execution date, the Lender shall be entitled to cancel the borrowing limit.

#### **Article 14 Special Arrangements on Revolving Loan (Maximum Loan)**

1. During the term of revolving borrowing limit, the sum of the loan principal balance of at any time shall not exceed the revolving borrowing limit; the repayment date of any withdrawal shall not exceed the term of revolving borrowing limit.

2. As agreed by both parties, the Lender shall reasonably set the amount and term of each revolving loan according to the scale and cycle of the Borrower's production and operation.

#### **Article 15 Loan Amount Payment**

1. The authorized payment by the Lender means that the Lender pays the loan fund to the Borrower's counter-party in a transaction conforming to the purpose agreed herein according to the Borrower's withdrawal notice and payment authorization.

Payment of the Borrower's loan fund for which the amount of a single payment under this Contract exceeds the specified amount shall be made in a manner of authorized payment by the Lender.

In the event of the authorized payment by the Lender, the Borrower shall make express payment authorization and provide other necessary payment information (including name of counter-party who receives payment, account number of such counter-party, and amount of payment) in the withdrawal notice, and submit to the Lender the supporting documents for loan purpose such as business contracts required for the examination. In this case, the Lender shall pay the loan fund to the counter-party of the Borrower via the Borrower's account upon examination and approval. In the event of the Lender's failure to perform its obligation to pay upon authorization resulting from untruthfulness, incorrectness, and incompleteness of the information of payment authorization and relevant transactions furnished by the Borrower, the Lender shall not be held liable for such failure whatsoever and the Borrower's obligation to repay under the Contract shall not be affected. The Lender will make payment to the account of the Borrower's counter-party in accordance with the Borrower's withdrawal notice and the payment certificate as required by the Lender.

In the event that the Lender, upon examination, discovers that the supporting documents for loan purpose such as business contracts furnished by the Borrower fail to comply with the Contract or there is any other defects, the Lender shall be entitled to request the Borrower to supplement, replace, explain or re-furnish such documents, and the Lender may suspend granting or paying of such loans until the Borrower has furnished the supporting documents such as business contracts to the satisfaction of the Lender.

In the event that the account-holding bank of the counterparty returns such payments, resulting in the Lender's failure to transfer such loans to the Borrower's counterparty as authorized by the Borrower in a timely manner, the Lender shall not be liable for such failure whatsoever and the Borrower's obligation to repay under the Contract shall not be affected. With respect to the funds returned by the account-holding bank of the counterparty, the Borrower shall re-furnish the payment authorization and the supporting documents for loan purpose such as business contracts required for the examination, and the Lender shall pay the loan fund to the counterparty of the Borrower via the Borrower's account upon examination and approval.

All the expenses incurred by the payment of loan to the counterparty designated by the Borrower in a manner of authorized payment under this Contract shall be borne by the Borrower. The Borrower shall pay the above expenses to the Lender at the time of the authorized payment of each loan.

The Borrower shall not violate the above provisions to dodge the authorized payment by the Lender by way of breaking up a large amount into several small amounts.

2. Except for the cases where the authorized payment by the Lender must be adopted as stipulated in the preceding paragraph, unless otherwise agreed by both parties, payment of other loans shall be made by the Borrower itself, namely, after the Lender disburses the loans to the Borrower's account pursuant to the withdrawal application submitted by the Borrower, the Borrower pay by itself to the its counterparty that complies with the purpose as agreed in the Contract.

In the event that the Borrower needs to change the aforesaid repayment schedule, it shall submit a written application to the Lender 10 banking days prior to the maturity date of the loan, and the changed repayment schedule is subject to the written confirmation by the Parties.

3. In the event that the Borrower needs to extend the loan term agreed herein, it shall submit a written application of extension to the Lender 30 banking days prior to the maturity date of the loan, and the Lender shall decide whether to approve the extension. In applying for the extension of a guaranteed loan, mortgage loan or pledged loan, the guarantor, mortgagor or pledgor shall also issue a written certificate of approval. the parties shall enter into a renewal agreement after the Lender approves the extension. In the event that the Borrower's application for extension is not approved by the Lender, the Borrower shall still repay the loan in full according to the repayment term agreed herein.

**4. Unless otherwise agreed by the Parties, if both the principal and the interests are overdue by the Borrower, the Lender shall be entitled to decide on the sequences for repaying the principal or the interests; under the condition of installment repayment, if several mature installments and overdue installments exist under this Contract, the Lender shall be entitled to decide the sequences of repayment; if several outstanding loan contracts exist between the Parties, the Lender shall be entitled to decide the sequences for repaying any contract.**

5. The Borrower shall repay the loan principal, interests and other amounts payable in full and on time according to provisions stated herein. The Borrower shall, before the end of counter business on the repayment date and each interest settlement date, deposit in full the current interests, principal and other amounts payable to the repayment account opened with the Lender, and the Borrower shall authorize the Lender to collect the funds on the repayment date or the interest settlement date or the Borrower shall be required to cooperate in handling the relevant transfer procedures. In the event that the amount in the repayment account is insufficient to pay the full amount due from the Borrower, the Borrower shall agree that Lender is entitled to decide the sequences for repayment.

6. The Lender shall be entitled to collect the loan in advance on the basis of the capital withdrawal of the Borrower.

7. Loan Note: The loan note shall be an integral part of this Contract. In the event that there is no record in this Contract, or the loan amount, withdrawal amount, repayment amount, borrow date and maturity date of the loan, loan term, loan interest rate and loan purpose as recorded in this Contract is inconsistent with those recorded in the loan note, the loan note shall prevail.

## Article 16 Guarantee

In the event that any event occurs to the Borrower or the guarantor, and causes the Lender to believe that it may affect the performing capability of the Borrower or the guarantor; or the guarantee contracts are deemed as invalid, canceled or resolved; or the performing capability of the Borrower or guarantor may be affected due to the deterioration in their financial condition or that the Borrower and the guarantor are involved in substantial lawsuit or arbitration or other reasons; or the guarantor breaches the guarantee contracts or other contracts with the Lender; or the collateral value decreases or gets lost due to the devaluation, damage, lost or sequestration of the collateral; the Lender shall be entitled to require, and the Borrower shall have the obligation to provide new guarantee, supplement or replace the guarantor to guarantee the liabilities under this Contract.

## Article 17 Representations and Undertakings

1. The Borrower is a legal entity incorporated, registered and existing under the administration for industry and commerce or other competent authorities and has full capacity of civil rights and conduct to conclude and perform the Contract, and capacity of loan repayment.
2. The Borrower fully agrees to the contents and terms of this Contract, executes and performs this Contract out of true intention, has obtained all legal and valid authorizations required by the Borrower's Articles of Association and bylaws, and will not be in violation of any agreement, contract, or other legal documents with binding force to the Borrower. The Borrower has obtained or will obtain all the required approval, consent, documentation or registration for executing and performing this Contract.
3. The Borrower is in good faith and all the documents, financial statements, certifications and other information provided by the Borrower to the Lender under this Contract are true, complete, accurate and valid, and free from false records, material omissions or misleading statements. The financial and accounting reports provided to the Lender are prepared in accordance with Chinese accounting standards, and truly, fairly and completely present the Borrower's operating and liability condition.
4. The transaction background that the Borrower represents to the Lender is real and legal, not for any illegal purposes such as money laundering. The loan purpose and the source of repayment are clear and legal. The loan purpose and the source of repayment are clear and legal.
5. The Borrower has a good credit status, does not have material bad credit record, and does not conceal from the Lender any fact that may affect the Borrower's and the Guarantor's financial condition and performance capability. The Borrower does not conceal from the Lender any litigation, arbitration or claim in which it is involved.
6. The borrower has repaid other debts payable as scheduled and has not maliciously defaulted on the payment of principal and interest of the bank loan.
- 7. The Borrower shall withdraw and use the loan in accordance with the term and purpose agreed herein. The loan borrowed hereunder shall neither be used for the investment in fixed asset and equity and other investments, nor flow into the securities market or the futures market in any form, or be used for other purposes prohibited or restricted by relevant laws and regulations.**

8. The Borrower shall deliver its financial statements (including but not limited to annual, quarterly and monthly reports) and other relevant documents to the Lender on a regularly and timely basis in accordance with the



requirements of the Lender; the Borrower shall ensure that the financial indicators will comply with the Contract all the time. If the production and operation qualification/license is subject to the annual audit, such qualification/license will pass the annual examination as scheduled.

9. The Borrower shall withdraw, repay and use the loan as stipulated herein.

10. If the Borrower has executed or will execute with the guarantor under this Contract a counter-guarantee agreement or similar agreement regarding its guarantee obligations, this counter-guarantee agreement or similar agreement will not prejudice any Lender's right under this Contract.

11. The Borrower shall accept the credit inspection and supervision conducted by the Lender, and provide sufficient assistance and cooperation; from the effective date of this Contract and prior to discharge of the principal and interests and related expenses hereunder, the Borrower agrees and authorizes the Lender to monitor the account opened with the Lender, examine and analyze the Borrower's production and operation (including but not limited to the construction and operation of the Borrower's projects), and make dynamic monitoring on the income cash flow and overall fund flow of the Borrower; **the Borrower shall accept and actively cooperate with the examination and supervision made by the Lender on the usage of the loan funds including the loan purpose by account analysis, proof inspection and site investigation**, and make summary report in a periodic manner as required by the Lender.

**12. The Borrower's merger, division, decrease of capital, equity transfer, external investment, substantial increase of debt financing, transfer of material assets and claims and other events which may have adverse effect on the solvency of the Borrower shall be subject to the written consent of the Lender.**

The Borrower shall give a notice to the Lender within 7 days after it becomes or should have become aware of any of the following circumstances:

- (1) Change of the Articles of Association, business scope, registered capital, legal representative of the Borrower or the guarantor;
- (2) Change of management mode such as joint management in any form, cooperation with foreign enterprises, cooperation, contracting management, reorganization, reform and planned listing;
- (3) Involved in material litigation or arbitration cases, sequestration, attachment or supervision of properties or collateral, or establishment of new material liabilities on the collateral;
- (4) Winding up, dissolution, liquidation, stopping business for rectification, cancellation, revocation of business license, (applied for) applying for bankruptcy;
- (5) Shareholders, directors and current senior managers are suspected of being involved in material cases or economic disputes; or the legal representative/person in charge and current senior executives are found to be in bad health or other material conditions that they are unqualified for their job;

(6) Events of default by the Borrower under other contracts;

(7) Difficulty in business operation and deterioration of financial position;

(8) In the event that the Borrower is closed, suspended, merged or changes the line of production due to change, restructuring and contracting or with the approval of the competent departments, the Borrower undertakes to give a notice to the Lender in writing within one month prior to the occurrence of the above events and to discharge all debts owed to the Lender immediately. Subject to the consent of the Lender, the Borrower may transfer the debts to the

receiving entity or the newly incorporated entity (The Borrower shall, in the process of debt transfer, present and submit to the Lender the documents issued by its competent authority or the contract-issuing party or relevant documents); however, the debt receiving entity must execute a new loan contract with Lender and submit a written certificate of the corresponding guarantor's approval or implement new guarantee measures, and before the execution of the new contract, the Lender shall have the right to recover the debts from the Borrower, the Guarantor or the Borrower's receiver at any time.

13. Liquidation of the debts owed by the Borrower to the Lender shall have priority to the loan extended by the shareholders of the Borrower, and precede the debts of the same kind owed by the Borrower to other creditors. In addition, from the effectiveness of the Contract to the time when all the principal, interests and relative fees under the Contract are paid off, the Borrower shall not return the loan from its shareholders.

14. In respect of the loan hereunder, the loan conditions such as guarantee conditions, loan rate pricing, discharge sequence provided by the Borrower for the Lender shall be no less than the current or future conditions provided for any other financial institution.

**15. The Borrower shall bear the expenses incurred in connection with the execution and performance of this Contract and the expenses paid and payable by the Lender for realization of its creditor's right hereunder, including but not limited to litigation or arbitration fees, property preservation costs, attorney fees, enforcement fees, evaluation fees, auction fees, and announcement fees.**

#### **16. Account Management**

(1) The repayment account opened by the Borrower with the Lender (the account stipulated in Article 5) is a special capital withdrawal account, which is used to collect the corresponding sales revenue or the planned repayment fund. Where the corresponding sales revenue is settled in a non-cash manner, the Borrower shall ensure that it will be promptly transferred into the capital withdrawal account upon receipt.

(2) The Lender shall have the right to supervise the capital withdrawal account, including but not limited to the understanding and supervision of the fund income and expenditure of the account, and the Borrower shall provide relevant cooperation. At the request of the Lender, the Borrower shall execute a special account supervision agreement with the Lender.

17. The Borrower shall dispose the assets in a manner that will not reduce its repayment capability. The Borrower undertakes that the total amount of the Borrower's external guarantee is equal to or less than \_\_\_\_\_ times of its net asset, and the total amount of external guarantee as well as the amount of a single guarantee may not exceed the limit as stipulated in its Articles of Association; without the consent of the Lender, the Borrower shall not provide guarantee to any third party or the loans borrowed by the Borrower from any other financial institution with the assets formed by the loans under the Contract.

#### **Article 18 the Related-party Transaction within the Borrower**

1. The Borrower is not identified by the Lender as the group client in accordance with the Guidelines on the Management of Risks of Credits Granted by Commercial Banks to Group Clients (hereinafter referred to the "Guidelines").

2. If the Borrower is identified by the Lender as the group client in accordance with the Guidelines, it shall report to the Lender any of the related-party transaction in a timely manner.

3. The Borrower is subject to such events as major merger, acquisition or reorganization, which in the opinion of the Lender may affect the safety of the loan.

#### **Article 19 Breach of Contract and Settlement**

1. The Borrower shall constitute or be deemed to have breached the Contract and shall be liable for breach of contract under any of the following circumstances:

(1) The Borrower fails to perform the obligations of payment and liquidation to the Lender according to the stipulations of the Contract;

(2) The Borrower fails to use the loan in a purpose and way stipulated in this Contract or fails to use the loan borrowed hereunder for the purpose stipulated in the Contract; or the Borrower fails to go through the withdrawal procedures as scheduled according to the withdrawal plan, or changes the withdrawal plan without the Lender's consent; or the Borrower is in violation of this Contract and dodges the authorized payment by the Lender by way of breaking up a large amount into several small amounts;

(3) The Borrower provides an untrue representation or violates the undertaking it made in this Contract;

(4) If any circumstance under Subparagraph 12 of Article 17 arises, and the Lender believes that may affect the financial condition and performing capability of the Borrower or guarantor, but the Borrower refuses to provide new guarantee or change a guarantor according to this Contract;

(5) The Borrower violates any stipulation under any other contract between the Borrower and the Lender; the Borrower violates any stipulation under any Credit Extension Contract between the Borrower and any other financial institution;

(6) The guarantor violates the stipulations of the guarantee contract, or any default events arise under other contract between the guarantor and the Lender;

(7) The Borrower closes down or is dissolved, withdraw or bankrupted;

(8) Where the Borrower involves in or possibly involves in material economic disputes, litigation, arbitration, or its capital is sealed up, seized or enforced for execution, or the administrative organs such as judicial organs or taxation authorities, and industrial and commercial administration file for investigation or adopt punishment measures on the Borrower according to law which has influenced or may influence the performance of the liabilities under this Contract;

(9) Where the main individual investors and key managerial personnel of the Borrower are changed abnormally, disappear or are investigated or the personal freedom thereof is limited by judicial organs according to law which has influenced or may influence the performance of the liabilities under this Contract;

(10) Where the credit circumstances of the Borrower lowers or finance indexes of the Borrower such as profitability, debt-paying ability, operating capacity and cash flow seriously deteriorate and break through the index binding of this Contract or other financial agreements;

(11) The Borrower takes advantage of the false contracts between the Borrower and the affiliated party to obtain funds or credit from the Lender through transactions without true transaction background, and the affiliated party is subject to such events as major merger, acquisition or reorganization which in the opinion of the Lender may affect the safety of the loan; or the Borrower intends to evade the creditor's right of the Lender through related-party transactions;

(12) The Borrower causes any liability accident due to its violation of food safety, production safety, environmental protection and other relevant laws and regulations, regulatory provisions or industrial standards which has influenced or may influence the performance of the liabilities under this Contract;

(13) In the event that the loan under this Contract is granted on the basis of credit rating, the Borrower's credit rating, profitability, asset-liability ratio, net cash flow from operating activities and other indicators do not meet the Lender's credit loan conditions; or the Borrower, without the written consent of the Lender, establishes mortgage/pledge guarantee or provide guarantee to others with its valid operating assets, which has influenced or may influence the performance of the liabilities under this Contract;

(14) Other circumstances that may have adverse effect on the realization of the creditor's rights of the Lender under this Contract.

2. When the aforesaid breaches arise, as the case maybe, the Borrower agrees that the Lender may take following measures respectively or simultaneously:

(1) Require the Borrower and guarantor to rectify their breach within time limit.

(2) Decrease, suspend or terminate all or part of the credit lines of the Borrower.

(3) Suspend or terminate all or part of the business application (such as withdrawal) of the Borrower under this Contract or other contracts between the Borrower and the Lender; partly or totally suspend or cancel to issue, pay and transact the unissued loans.

(4) Declare that all or part of the outstanding principal and interest of the loan and other amounts payable of the Borrower under this Contract and other contracts between the Borrower and the Lender shall become due immediately.

(5) Negotiate with the Borrower to supplement the terms of loan issuance and payment; or the Lender shall have the right to change the loan disbursement and payment conditions in accordance with the credit status of the Borrower such as lowering the minimum amount of authorized payment of the Borrower; or the Lender shall have the right to transfer back the loan fund which the Borrower has paid for default.

(6) Terminate or dissolve this Contract, partly or totally terminate or dissolve other contracts between the Borrower and the Lender.

(7) Require the Borrower to compensate the Lender for the Lender's loss caused by the Borrower's default.

**(8) Deduct from the Borrower's account which is opened in the Rural Commercial Bank system within the jurisdiction of Jiangxi with notice before or after the deduction, so as to discharge all or part of the Borrower's debts to the Lender hereunder. The undue deposit in the account shall be deemed to become due in advance.**

(9) Exercise security interest; and require the guarantor to take guarantee responsibility.

**(10) In the event that the Borrower fails to repay the principal, interest (including penalty interest and compound interest) or other amounts payable as scheduled, the Lender may disclose the default information of the Borrower and the Guarantor and make an announcement for collection through the media or other forms.**

**(11) Have the right to deduct and debit the deposits and dividends within any account opened by the Borrower in the Rural Commercial Bank system within the jurisdiction of Jiangxi, and to dispose of the Borrower's equities.**

(12) Other measures stipulated by laws and regulations and deemed necessary and possible by the Lender.

#### **Article 20 Reservation of Rights**

Any failure by a party to exercise all or part of its rights hereunder or to require the other party to perform or assume all or part of obligations or responsibilities shall not constitute a waiver of such rights or release of the obligations and responsibilities of such party.

Any tolerance, grace or postponement for exercising the rights under this Contract of one Party shall not affect its rights stipulated by this Contract, laws and regulations, and shall not be deemed as a waiver of such rights.

#### **Article 21 Confidentiality**

Each party undertakes to keep confidential the trade secrets, technical information, business information and other business secrets obtained from the other party which are not available through public channels. Without the consent of the original provider of the trade secret, neither party shall disclose all or part of the trade secret to any third party, unless otherwise stipulated by laws and regulations or otherwise agreed by both parties.

In the event that either party is in violation of the aforesaid confidentiality obligation, it shall assume the corresponding liability for breach of contract and compensate for the losses caused thereby.

#### **Article 20 Force Majeure**

The term Force Majeure as specified in this Contract refers to the objective events that cannot be foreseen, overcome, or avoided and have a significant impact on one party, including but not limited to the natural disasters such as flood, earthquake, fire and storm, as well as the social events such as war and turmoil.

In the event that the Contract cannot be performed as a result of the occurrence of force majeure events, the party affected by the force majeure shall immediately notify the other party of the event in writing, and within 7 days, provide written documents certifying the details of accident and the reasons for non-performance or delay in performance hereof. Upon consensus through negotiation, both Parties may terminate or temporarily delay the performance of the Contract.

#### **Article 23 Alteration, Amendment and Termination**

This Contract can be altered and amended in written form upon consensus through negotiation of the Parties, and any alteration and amendment agreed on by the Parties shall constitute an integral part of this Contract.

This Contract may not be terminated until all the rights and obligations are fully performed, unless otherwise stipulated in laws and regulations or agreed by the both Parties.

The invalidity of any provision of this Contract shall not affect the legal validity of other provisions, unless otherwise stipulated in laws and regulations or agreed by the both Parties.

#### **Article 24 Agreements on Service**

1. The contact information (including mailing address, telephone number, fax number, etc.) provided by the Borrower in this Contract shall be true and valid and shall be the address for service of any notice of the Lender for the Borrower. In case of any change to the contact information, the Borrower shall immediately send/mail the change information in writing to the mailing address provided by the Lender in this Contract. Such information change shall become effective upon the Lender's receipt of the change notice.

2. Unless otherwise expressly provided for in this Contract, the Lender shall be entitled to give notice to the Borrower in any of the following methods. The Lender shall be entitled to choose the notification method as it thinks fit and shall not be held liable for any error, omission or delay in delivery by mail, fax, telephone, WeChat or any other communication system. Where the Lender simultaneously chooses several notification methods, the one by which the notice is served to the Borrower earlier shall prevail.

(1) By announcement. The notice shall be deemed to be served on the date on which the Lender publishes the announcement on its website, online banking, telephone banking or business outlets;

(2) By hand. The notice shall be deemed to be served on the date on which the Borrower signs for the receipt, or if the Borrower refuses to sign for the receipt, the date on which the server makes a record on the proof of service on the spot;

(3) By mail (including express mail, surface mail or registered mail). The notice, when addressed to the Borrower's mailing address last known to the Lender, shall be deemed to be served on the date on which the Borrower signs for the receipt, or if the Borrower fails to sign for the receipt, the date on which the mail is returned;

(4) By fax, mobile phone SMS, WeChat or other electronic communication methods. The notice, when sent to the Borrower's fax number, the mobile phone number, WeChat account number or email address designated by the Borrower which is last known to the Lender, shall be deemed to be served on the date on which the notice is sent.

3. Borrower agrees that, unless the Lender receives from the Borrower a written notice concerning the change of mailing address, the Borrower's domicile stated in this Contract is the correspondence and contact address. In the future, the delivery addresses of bank statements, collection statements, relevant legal instruments and litigation documents related to the loans under this Contract shall prevail. The Borrower promises to notify the Lender in time when the communication and contact information change, otherwise the documents delivered by the Lender according to the communication and contact information stated in this Contract will be effectively delivered, and the relevant economic and legal responsibilities arising therefrom will be borne by the Borrower and the Mortgagor. During the dispute settlement, if the court serves the judicial documents or other written documents by mail (including express mail, surface mail or registered mail) to the Borrower mailing address last known to the Lender, such documents shall be deemed to be served on the date on which the Borrower signs for receipt of the proof of service; or if Borrower fails to sign for receipt of the proof of service, the date on which the mail is returned;

The court or notary organ shall be entitled to give any notice to the Borrower by any methods of communication agreed in this Paragraph 2. The court or notary organ shall be entitled to choose the communication method as it thinks fit and shall not be held liable for any error, omission or delay in delivery by mail, fax, telephone, telex or any other communication system. Where the court or notary organ simultaneously chooses several communication methods, the one by which the notice is served on the Borrower earlier shall prevail.

#### **Article 25 Appendix**

The appendixes confirmed by both parties shall constitute an integral part of this Contract and shall have the same legal effect as this Contract.

## Article 26 Other Agreements

1. The Borrower shall not transfer any rights and obligations under this Contract to the third party without written consent of the Lender.
2. The Lender has the right to transfer the creditor's rights under this Contract to the third party, and shall notify the Borrower.
3. This Contract shall be legally binding upon both Parties and their successors and assignees without prejudice to other provisions of this Contract.
4. All the transactions under this Contract are carried out for each Party's independent benefits. If, in accordance with relevant laws, regulations and regulatory provisions, other parties to the transaction become the related parties or affiliated persons of the Lender, no Party may seek to affect the fairness of the transaction out of this related-party relationship.

5. The headings and business names in this Contract are used only for convenient reference, which shall not be used to interpret the provisions or the rights and obligations of both Parties.
6. In accordance with relevant laws, regulations and regulatory provisions, the Lender shall have the right to provide the information related to this Contract and other relevant information of the Borrower to the credit reference system of the People's Bank of China and other credit information database established according to law for reference and use by the institutions or individuals with proper qualification according to law. The Lender shall also have the right to refer the relevant information of the Borrower through credit reference system of the People's Bank of China and other credit information database established according to law for the purpose of the execution and performance of this Contract.

**The parties acknowledge that the Borrower and the Lender have made a full negotiation in connection with all the terms of this Contract. The Lender has requested the Borrower to give special attention to and make a comprehensive and accurate understanding of all provisions concerning the rights and obligations of the parties, and has made explanations to the relevant provisions upon the Borrower's request. The Borrower has carefully read and fully understood all the contents and provisions of the Contract. The Borrower confirms that there is no misunderstanding or doubt about all the contents and terms of the Contract. Both the Borrower and the Lender have the same understanding of the contents and provisions of the Contract and have no objection to the contents and provisions of the Contract.**

**The Borrower and the Lender have made a full negotiation in connection with all the provisions of this Contract. The Lender has requested the Borrower to give special attention to and make a comprehensive and accurate understanding of all provisions concerning the rights and obligations of the parties, and has made explanations to the relevant provisions upon the Borrower's request. The Borrower has carefully read and fully understood all the contents and terms of the Contract. The Borrower confirms that there is no misunderstanding or ambiguity about all the contents and provisions of the Contract. Both the Borrower and the Lender have the same understanding of the contents and provisions of the Contract and have no objection to the contents and provisions of the Contract.**

**(The Borrower shall fill in the following by contrast)**

(The remainder of this page is intentionally left blank for signatures)

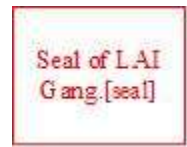
Borrower (Official Seal):



Legal Representative or Authorized Agent (Signature & Seal):



Lai Gang (Signature)



June 15, 2022

Lender (Seal):

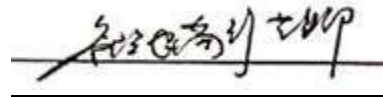
Legal Representative or Authorized Agent (Signature & Seal):



(Signature) \_\_\_\_\_

June 15, 2022

Contract Execution Place:





# Working Capital Loan Contract

Bank of Communications Co., Ltd.

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Working Capital Loan Contract

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No.:

## Working Capital Loan Contract

### Important Notice

**The borrower is requested to read the full text of this contract carefully, especially the provisions marked with ▲▲. Please ask the Lender to explain in time in case of any doubt.**

In view of the Borrower's application for working capital loan line of credit from the Lender, and in order to clarify the rights and obligations of both parties, the Borrower and the Lender hereby conclude this contract through negotiation.

#### Article 1 Definition

“Line of credit” refers to the maximum amount of loan balance (under revolving line of credit) or total loan (under lump-sum line of credit) that the Lender may issue to the Borrower according to the contract, and the line of credit can be revolving line of credit or lump-sum line of credit (only used once or can be used several times) according to the contract.

“Revolving line of credit” means that the Borrower can apply for using the line of credit several times as agreed in this contract to obtain the loan, but the loan balance cannot exceed the agreed line of credit.

“Lump-sum line of credit” means that the Borrower can apply for using the line of credit at one time or several times as agreed in this contract to obtain the loan, but the total amount of loans withdrawn cumulatively cannot exceed the agreed line of credit.

“Loan balance” refers to the sum of the loan principal amount obtained by the Borrower under this contract and not yet paid off.

Working Capital Loan Contract

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“Line of credit balance” refers to the amount after deducting the loan balance (under the revolving line of credit) or the total loan (under the lump-sum line of credit) from the line of credit.

“Credit period” refers to the period during which the Lender grants the loan to the Borrower according to the Borrower’s application and the agreement in this contract, and which belongs to the loan occurrence period rather than the loan term.

“Loan term” refers to the term of each loan determined by both parties in the corresponding Application for Use of Loan Line of Credit of Bank of Communications (hereinafter referred to as “Application for Use of Line of Credit”).

“Pricing benchmarks” refers to the benchmark chosen by the Borrower and the Lender to determine the lending rate, including but not limited to the following specific pricing benchmarks and other types.

“Loan prime rate (LPR)” refers to the loan prime rate released by the National Interbank Funding Center on the 20th day of each month (postponed in case of holidays).

“Secured Overnight Financing Rate (SOFR)” refers to the secured overnight financing rate governed by the Federal Reserve Bank of New York (or other entities that take over its pricing benchmark), displayed on certain pages of financial telecommunication terminals Bloomberg/Refinitiv (or other pages of information service institutions recognized by Lender showing this pricing benchmark) that can be applied to loans of the dollar.

“Term SOFR Reference Rate” refers to the term SOFR reference rate governed and published by CME Group Benchmark Administration Limited (or other entities that take over its pricing benchmark), and displayed on certain pages of financial telecommunication terminals Bloomberg/Refinitiv (or other pages of information service institutions recognized by Lender showing this pricing benchmark) that can be applied to loans of the dollar.

“Euro Interbank Offered Rate (EURIBOR)” refers to the Euro interbank offered rate governed by the European Money Markets Institute (or other entities that take over its pricing benchmark), displayed on certain pages of financial telecommunication terminals Bloomberg/Refinitiv (or other pages of information service institutions recognized by Lender showing this pricing benchmark) that can be applied to loans of the euro.

“Hong Kong Interbank Offered Rate (HIBOR)” refers to the Hong Kong interbank offered rate governed by the Hong Kong Association of Banks (or other entities that take over its pricing benchmark), displayed on certain pages of financial telecommunication terminals Bloomberg/Refinitiv (or other pages of information service institutions recognized by Lender showing this pricing benchmark) that can be applied to loans of the Hong Kong dollar.

“Tokyo Term Risk Free Rate (TORF)” refers to the Tokyo term risk free rate governed by QUICK Benchmarks Co., Ltd (or other entities that take over its pricing benchmark), displayed on certain pages of financial telecommunication terminals Bloomberg/Refinitiv (or other pages of information service institutions recognized by Lender showing this pricing benchmark) that can be applied to loans of the Japanese yen.

## Working Capital Loan Contract

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“Term SONIA Reference Rate (TSRR)” refers to the term SONIA reference rate governed and published by Intercontinental Exchange Benchmark Administration Limited (or other entities that take over its pricing benchmark), displayed on certain pages of financial telecommunication terminals Bloomberg/Refinitiv (or other pages of information service institutions recognized by Lender showing this pricing benchmark) that can be applied to loans of the British pound.

“London Interbank Offered Rate (LIBOR)” refers to London interbank offered rate governed by Intercontinental Exchange, Inc. (or other entities that take over its pricing benchmark), displayed on certain pages of financial telecommunication terminals Bloomberg/Refinitiv (or other pages of information service institutions recognized by Lender showing this pricing benchmark) that can be applied to loans of the dollar.

“Bank working day” and “working day” refer to the opening day of the bank’s corporate business in the place where the Lender is located, excluding legal holidays and rest days (except for business due to holiday adjustment). If the loan date, repayment date, interest payment date, maturity date and other obligation fulfillment dates meet non-bank working day, it shall be postponed to the next bank working day accordingly.

“Foreign currency working day” refers to the bond trading days of the U.S. government (excluding Saturdays and Sundays) recommended by the Securities Industry and Financial Markets Association (or its successor) to the Fixed Income divisions of its members for SOFR or Term SOFR Reference Rate; refers to the normal opening day (excluding Saturdays and Sundays) of the commercial banks in London for LIBOR or TSRR; refers to Euro payment cleaning days of TARGET 2 for EURIBOR; refers to the normal opening day (excluding Saturdays and Sundays) of banks in Hong Kong for HIBOR; and refers to the normal opening day (excluding Saturdays and Sundays) of banks in Tokyo for TORF.

“Related parties” refer to the authorized handler, agent, legal representative, person in charge, controlling shareholder or actual controller, beneficial owner and other related parties directly or indirectly of the Borrower.

“Business related parties” refer to all parties to the transaction under the basic transaction contract, other related entities other than the parties to the transaction, as well as the parties to the transaction, authorized handlers, agents, legal representatives, persons in charge, controlling shareholders or actual controllers, beneficial owners and other parties.

## Working Capital Loan Contract

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Related parties, related party transactions, individual major investors and other words have the same meanings as those in Accounting Standards for Business Enterprises No.36 - Related Party Disclosure (CAI KUAI No.3 [2006]) and subsequent amendments to the standards.

### Article 2 Use of Line of Credit

2.1 The Borrower should apply to the Lender at least 5 banking days in advance when it needs to use the line of credit. When applying, the Borrower should fill in the Application for Use of Line of Credit, which can only be used after being examined and approved by the Lender.

▲▲ 2.2 Every use of the line of credit is subject to all the following conditions:

- (1) The loan balance (under the revolving line of credit) or the total loan (under the lump-sum line of credit) does not exceed the line of credit;
- (2) The applied loan amount does not exceed the balance of the line of credit;
- (3) The application date and loan date are within the credit period;
- (4) The loan term and maturity date of the loan are in line with this contract;
- (5) The guarantee contract under this contract (if any) has come into force and continues to be valid. If the guarantee contract is a mortgage contract and/or pledge contract, the real rights granted by way of security have been established and continue to be valid;
- (6) The Borrower has completed the government permission, approval, registration and other procedures that must be handled by law when applying for the loan, and the permission, approval or registration continues to be valid;
- (7) After the contract comes into effect, the Borrower's operating and financial conditions have no significant adverse changes;
- (8) The application of the Borrower meets the requirements of relevant rules and regulations of the Lender;
- (9) The Borrower has not violated the contract;

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Working Capital Loan Contract

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- (10) The payment method of the loan is in accordance with this contract. If the Lender is entrusted to pay, the Lender agrees to pay;
- (11) In case of drawing foreign currency loans, the Borrower has provided proof documents that the loans comply with relevant foreign exchange management policies, including but not limited to valid foreign exchange purpose certificates or registration documents;
- (12) The Borrower has designated a special fund withdrawal account and signed an account management agreement as required by the Lender.

▲▲ 2.3 If the Lender agrees to grant the loan, the final loan information shall be subject to the contents of the bank print column of the Application for Use of Line of Credit. The Application for Use of Line of Credit is also used as the Loan Voucher.

▲▲ 2.4 If the currency of the Application for Use of Line of Credit is inconsistent with the currency of the line of credit, only for the purpose of determining the line of credit balance, it shall be converted according to the exchange rate published by Bank of Communications Co., Ltd. at the beginning of each day; if there is no directly applicable exchange rate, it shall be converted by Bank of Communications Co., Ltd. according to the exchange rate determined in a reasonable way.

▲▲2.5 After the Borrower becomes the shareholder of the guarantor or the “actual controller” as defined in the Company Law, the Lender has the right to suspend or cancel the unused loan line of credit of the Borrower before the guarantor provides the resolution on agreeing to provide guarantee for the Borrower by its shareholders’ meeting (General Meeting of Shareholders) accepted by the Lender.

### Article 3 Interest Rate, Interest Calculation and Payment

#### 3.1 Basic rules for determining the interest rate

3.1.1 The annual loan interest rate (simple interest) under this contract shall be agreed by both parties in the Application for Use of Line of Credit after negotiation every time the Borrower uses its line of credit, determined according to the pricing benchmark, and calculated according to the pricing benchmark agreed in the Application for Use of Line of Credit plus (minus) points (1 basis point is 0.01 percent, 1 percentage point is 100 basis points).

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### Working Capital Loan Contract

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3.1.2 If both parties agree to apply the fixed interest rate in the Application for Use of Line of Credit, and the specific value is recorded in the fixed interest rate value field, the specific interest rate of each loan shall be subject to the value recorded in the fixed interest rate value field in the Application for Use of Line of Credit (If the currency of the loan is RMB, the specific value will be determined based on the specific value of the pricing benchmark applicable to the applicable date of the pricing benchmark agreed in the Application for Use of Line of Credit (hereinafter referred to as “pricing benchmark value”) and according to the value of plus (minus) points agreed in the Application for Use of Line of Credit.). If the specific value is not recorded in the fixed interest rate value field, the specific interest rate of each loan shall be determined based on the pricing benchmark value applicable to the applicable date of the pricing benchmark agreed in the Application for Use of Line of Credit and according to the value of plus (minus) points agreed in the Application for Use of Line of Credit.

If both parties agree to apply the floating interest rate in the Application for Use of Line of Credit, the specific interest rate of each loan will be determined based on the LPR value applicable to the applicable date of the pricing benchmark agreed in the Application for Use of Line of Credit, the value of the plus (minus) points, the interest rate fluctuation rules, the interest rate fluctuation period, the unit of interest rate fluctuation period and the floating start date of a specific date (if necessary) agreed in the Application for Use of Line of Credit.

3.1.3 If the currency is RMB, the daily interest rate = interest rate/30, and the monthly interest rate = annual interest rate/12; If the currency is Hong Kong dollars, British pounds and Australian dollars, the daily interest rate = annual interest rate/365; If the currency is USD, Euro, Japanese yen and other foreign currencies accepted by the Lender, the daily interest rate = annual interest rate/360.

#### ▲▲3.2 Loan interest rate

If both parties agree to apply the fixed interest rate in the Application for Use of Line of Credit, and the specific value is recorded in the fixed interest rate value field, the interest rate of each loan shall be subject to the value recorded in the fixed interest rate value field. If both parties agree to apply the fixed interest rate in the Application for Use of Line of Credit, and the specific value is not recorded in the fixed interest rate value field and both parties agree to apply the floating interest rate in the Application for Use of Line of Credit, the loan interest rate for each loan is determined based on the applicable LPR value of the “applicable date of the pricing benchmark” agreed in the corresponding Application for Use of Line of Credit, and according to the plus (minus) point value agreed in the Application for Use of Line of Credit. Take the “applicable date of the pricing benchmark” as the T-day, and value

rules for the applicable pricing benchmark value on T-day shall be executed according to Article 3.5.1 of this contract.

### 3.3 Adjustment of the interest rate

3.3.1 If a fixed interest rate is recorded in the Application for Use of Line of Credit, the recorded interest rate will be implemented for the loan within the loan term.

▲▲ 3.3.2 If a floating interest rate is recorded in the Application for Use of Line of Credit, the loan interest rate adjustment date shall be determined according to the interest rate fluctuation rules, interest rate fluctuation period, unit of interest rate fluctuation period and floating start date of specific date (if necessary) agreed in the Application for Use of Line of Credit, and the adjusted interest rate shall apply from the loan interest rate adjustment date.

3.3.2.1 During the loan period, the period of adjustment of the loan interest rate will be calculated from the “loan entry date” or the “floating start date of the specific date” according to the “floating by loan entry date” or “floating on specific starting date” selected in “interest rate fluctuation rules”. The blank column of interest rate floating cycle shall be filled with the number of interest rate floating cycles, and the unit of interest rate floating cycle can be selected as daily or monthly. If “1” is filled in the number of interest rate floating cycles and “daily” is selected as the floating cycle unit, every day from the “loan entry date” or the “floating start date of the specific date” will be taken as the adjustment date of loan interest rate; If “3” is filled in the number of interest rate floating cycles and “daily” is selected as the floating cycle unit, the loan interest rate adjustment date will be the date every 3 days from the “loan entry date” or “floating start date of specific date”; If “1” is filled in the number of interest rate floating cycles and “monthly” is selected as the floating cycle unit, the loan interest rate adjustment date will be the date of every month from the “loan entry date” or “floating start date of specific date”; If “3” is filled in the number of interest rate floating cycles and “monthly” is selected as the floating cycle unit, the loan interest rate adjustment date will be every 3 months from the “loan entry date” or “floating start date of specific date”, and so on.

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3.3.2.2 The loan interest rate on the loan interest rate adjustment date is determined on the basis of the applicable pricing benchmark value on the loan interest rate adjustment date, and the value of interest rate plus (minus) points shall be executed according to the value of interest rate plus (minus) points agreed in the Application for Use of Line of Credit, except for the value of plus (minus) points adjusted by both parties through consultation in this contract. Take the “loan interest rate adjustment date” as the T-day, and the applicable pricing benchmark value on the T-day shall be executed according to Article 3.5.1 of this contract.

▲▲ 3.3.3 If applicable pricing benchmark of certain loan is canceled or the corresponding publishing institution stops publishing, both parties shall negotiate and adjust the loan interest rate separately, but the adjusted interest rate shall not be lower than the applicable interest rate at that time; If the two parties still fail to reach an agreement on the adjusted interest rate after more than one month from the date when the pricing benchmark is canceled or stopped publishing, the Lender has the right to declare the loan to expire in advance.

▲▲ 3.3.4 Both parties can adjust the value of the plus (minus) points of the corresponding loan interest rate after consensus on each loan interest rate adjustment date.

3.4 The penalty interest rate of overdue loans will be increased by 50% according to the interest rate agreed in this contract, and the penalty interest rate of misappropriated loans will be increased by 100% according to the interest rate agreed in this contract. In case of adjustment of pricing benchmark for floating rate loans, the Lender has

the right to adjust the applicable penalty interest rate for each loan accordingly, and apply the new penalty interest rate from the adjustment date of loan interest rate agreed in the corresponding Application for Use of Line of Credit.

### 3.5 Calculation of interest

3.5.1 According to different applicable pricing benchmarks, the value rules for applicable pricing benchmark in T-day (namely, “applicable date of the pricing benchmark”, “loan interest rate adjustment date”, and “re-pricing day”) agreed in Article 3.2, Article 3.3.2.2 and Article 9. 3.3.2 are as follow:

If the pricing benchmark is LPR, the pricing benchmark value applicable for T-day will be the latest published value of LPR before T-day.

If the pricing benchmark is SOFR and the T-day is a foreign currency working day, the pricing benchmark value applicable for T-day will be the value of SOFR displayed on the corresponding financial telecommunication terminal page on the fifth foreign currency working days before T-day; If the T-day is not a foreign currency working day, the pricing benchmark value applicable for T-day will be the value of SOFR of the latest foreign currency working day (which is the value of SOFR displayed on the corresponding financial telecommunication terminal page on the fifth foreign currency working days before the latest foreign currency working day).

If the pricing benchmark is Term SONIA Reference Rate, LIBOR, EURIBOR, TORF, or TSRR, and the T-day is a foreign currency working day, the pricing benchmark value applicable for T-day will be the value of the pricing benchmark displayed on the corresponding financial telecommunication terminal page on the second foreign currency working days before T-day; if the T-day is not a foreign currency working day, the pricing benchmark value applicable for T-day will be the value of the pricing benchmark of the latest foreign currency working day (which is the value of the pricing benchmark displayed on the corresponding financial telecommunication terminal page on the second foreign currency working days before the latest foreign currency working day).

If the pricing benchmark is HIBOR, and the T-day is a foreign currency working day, the pricing benchmark value applicable for T-day will be the value of HIBOR displayed on the corresponding financial telecommunication terminal page on T-day; if the T-day is not a foreign currency working day, the pricing benchmark value applicable for T-day will be the value of HIBOR of the latest foreign currency working day (which is the value of HIBOR displayed on the corresponding financial telecommunication terminal page on the latest foreign currency working days).

If the pricing benchmark value displayed on the corresponding financial telecommunication terminal page is larger than or equal to 0, the value of the pricing benchmark for determining the loan rate of this contract will be determined based on the pricing benchmark value displayed on the corresponding financial telecommunication terminal page; If pricing benchmark value displayed on the corresponding financial telecommunication terminal page is smaller than 0, the value of the pricing benchmark for determining the loan rate of this contract will be determined as 0.

3.5.2 Normal interest = interest rate agreed in this contract × loan amount × occupied days

The occupied days are calculated from the loan date (inclusive) to the expiration date (exclusive), which will be postponed when the expiration date is not a working day. The postponed period will be counted as occupied days, and the interest will still be calculated according to the contract.

3.5.3 The penalty interest for overdue loans and misappropriated loans is calculated according to the overdue or misappropriated amount and actual days (from the overdue or misappropriated date (inclusive) to the date of repayment of principal and interest (exclusive)).

3.5.4 If the calculated interest/penalty interest has a large number of decimal places, the Lender will keep two decimal places by rounding.

▲▲3.6 If the Borrower repays the loan in advance or the Lender withdraws the loan in advance according to this contract, the corresponding interest rate grade will not be adjusted, and the interest rate agreed in this contract will still be applied.

3.7 If the loan currency is a currency rather than RMB, US dollar, Euro, Hong Kong dollar, Japanese yen, and British pound, the determination of the pricing benchmark of the loan, the calculation rule of daily interest rate and applicable date of pricing benchmark, the adjustment date of loan interest and the pricing benchmark value on repricing date shall be subject to the agreement in Article 17 of this contract.

#### Article 4 Payment of Loan

4.1 If the loan account designated by the Borrower is a special loan issuance account opened at the Lender, the issuance and payment of the loan shall be handled through this account. This account is only used for the issuance of loan funds and external payment, only for the sale of “Application for Settlement Business” vouchers; It cannot be used for handling checks, bills of exchange, bank acceptance bills and other businesses, and cannot be used for other settlements. When the Borrower pays for the loan fund allocation independently, it must be handled at the counter of the account opening outlet. The deposit interest of this account is included in the Borrower’s repayment account.

4.2 When the Borrower withdraws the loan according to this contract, it should specify the payment method (the Lender’s entrusted payment or the Borrower’s independent payment), and only one payment method can be used for each withdrawal.

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4.3 The Lender’s entrusted payment means that the Lender directly pays the loan funds to the Borrower’s counterparty that meets the purpose agreed in this contract through the Borrower’s account after issuing the loan according to the Borrower’s entrusted payment power of attorney.

If the single payment amount exceeds the independent payment line of credit or meets one of the conditions agreed in Article 19.3, the entrusted loan payment method shall be adopted.

In case of the Lender’s entrusted payment, the Borrower shall submit to the Lender the Application for Use of Line of Credit, the corresponding entrusted payment power of attorney and other information required by the Lender (including but not limited to business contracts, invoices, receipt documents and other transaction information), and specify the amount of the loan to withdraw and the object and amount of payment, and the amount of the loan to withdraw should be equal to the total amount to be paid.

▲▲If the payment to be made by the Borrower does not conform to this contract or the corresponding commercial contract or has other defects, the Lender has the right to refuse the payment and return the entrusted payment power of attorney submitted by the Borrower.



▲▲ If the Lender agrees to pay, and if it can't be paid or it is refunded due to the wrong information provided by the Borrower, the Borrower must resubmit the relevant documents and materials containing the correct information within the time line of credit specified by the Lender, and the Lender will not be responsible for the delay or unsuccessful payment.

4.4 The Borrower's independent payment means that after the Lender grants the loan funds to the Borrower's account according to the agreement in this contract, the Borrower pays the loan funds to the Borrower's counterparty that meets the purpose agreed in this contract.

If the Borrower's independent payment is adopted, the Borrower shall submit to the Lender the Application for Use of Line of Credit, instructions on the use of funds and other materials required by the Lender. The Borrower shall summarize and report the payment of loan funds to the Lender on time. The Lender has the right to check whether the payment of loan funds meets the agreed purpose by means of account analysis, voucher inspection, on-site investigation, etc. The Borrower shall cooperate with the Lender's verification.

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#### Article 5 Repayment of Loan

5.1 The Borrower shall repay the loan according to the repayment date and amount recorded in the corresponding Application for Use of Line of Credit.

▲▲ 5.2 Without the written consent of the Lender, the Borrower cannot repay the loan in advance.

▲▲ 5.3 The repayment arrangement of the principal and interest agreed by the Borrower and the Lender in the Application for Use of Line of Credit is the real intention reached by both parties on a voluntary basis after consultation. Under the repayment arrangement chosen by both parties, whether the principal is repaid before the interest does not affect the Borrower's repayment responsibility for the interest payable, and the Borrower shall not argue against the repayment of the interest payable. Under any repayment arrangement, the Borrower shall bear the repayment responsibility for all the principal and interest payable.

▲▲ 5.4 When the repayment of the Borrower (including the repayment voluntarily repaid by the Borrower and deducted by the Lender according to this contract) cannot fully pay off all the debts of the Borrower:

(1) It should be used to pay off the overdue expenses first. If the principal and interest are overdue for less than 90 days, the balance after offsetting the expenses shall be used to offset the overdue interest or penalty interest and compound interest, and then used to offset the overdue principal; If the principal or interest is overdue for more than 90 days, the balance after offsetting the expenses shall be used to offset the overdue principal first, and then used to offset the overdue interest or penalty interest and compound interest;

(2) If the Borrower has multiple debts (including the debts of the Borrower to the Lender under other contracts), the Lender has the right to decide the repayment and offset order of each debt of the Borrower by itself, as long as the offset order does not violate the mandatory provisions of laws, regulations, rules and regulations as well as relevant regulatory requirements applicable to the Lender. The Lender shall inform the Borrower of the result of debt repayment. Unless otherwise agreed by both parties to this article.

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### Article 6 Statement and Guarantee of the Borrower

6.1 The Borrower is legally established and legally exists; It has all necessary rights and capabilities, and it can perform the obligations of this contract in its own name and bear civil liabilities.

6.2 Signing and performing this contract is the true intention of the Borrower after all necessary consent, approval and authorization, and there is no any legal flaw.

6.3 The Borrower's production and operation are legal and compliant, with the ability of going concern, legal sources of repayment, no major environmental and social risks and no major bad credit record. The senior management of the Borrower has no bad record.

6.4 All documents, statements, data and information provided by the Borrower to the Lender during the signing and performance of this contract are true, accurate, complete and effective. No information that may affect its financial status and repayment ability has been concealed from the Lender, and the financial status of the Borrower has no significant adverse changes since the reporting date of the latest financial statements.

▲▲6.5 The Borrower, its related parties and business related parties are not listed in the sanctions list issued by the United Nations and related countries, organizations and institutions, or the enterprises or individuals listed in the risk list related to terrorism and anti-money laundering issued by Chinese government departments or authorities; They are not located in countries and regions that are not sanctioned by the United Nations and related countries, organizations and institutions.

▲▲6.6 The Borrower promises to abide by the national anti-money laundering laws, regulations and relevant policies, not to engage in illegal activities such as assisting others in money laundering, terrorist financing, tax evasion, evasion of bank debts, cash extraction, telecom fraud, illegal fund-raising, etc., actively cooperate with the Lender to carry out various anti-money laundering work such as customer identification, transaction record keeping, due diligence on customer identity and transaction background, large and suspicious transaction reports, etc., and provide relevant certification materials as required by the Lender.

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### Article 7 Rights and Obligations of the Lender

7.1 The Lender has the right to recover the loan principal and interest (including compound interest, penalty interest for overdue loans and misappropriation of loans, etc.) according to this contract, collect the fees payable by the Borrower, decide to recover the loan in advance according to the Borrower's fund withdrawal, and exercise other rights stipulated by law or this contract.

▲▲7.2 During the performance of this contract, the Lender only conducts formal review on the information provided by the Borrower. If the materials provided by the Borrower are untrue, inaccurate or incomplete, or the Borrower violates the agreement of this contract to make payment, resulting in the Lender's failure to complete the entrusted payment in time, the Lender will not be liable.

▲▲7.3 The Lender shall issue the loan and handle the payment according to this contract. If the Lender fails to issue the loan or make payment on time due to any of the following reasons, the Lender will not be liable, but it will inform the Borrower in time: The loan account designated by the Borrower is frozen, the payment object account is frozen, force majeure, communication or network failure, system failure of the Lender, etc. Unless otherwise agreed in this contract.

▲▲7.4 According to the regulatory requirements for the Lender, the Lender shall conduct a dynamic evaluation of the Borrower's risks of money laundering, terrorist financing, and tax evasion and be entitled to adopt one or all of the measures agreed in Article 9.2 when it the risks of the Borrower or the Borrower's trading instructions of money laundering, terrorist financing, and tax evasion are considered high.

#### Article 8 Obligations of the Borrower

8.1 The Borrower shall repay the loan principal under this contract and pay the interest according to the time, amount, currency and interest rate recorded in this contract and the corresponding Application for Use of Line of Credit.

The fund withdrawal account designated by the Borrower is used to collect the corresponding sales revenue or planned repayment funds. If the corresponding sales revenue is settled in a non-cash manner, the Borrower shall ensure that the money is promptly transferred to the fund withdrawal account after being received. The Borrower shall provide the capital inflow and outflow of the capital withdrawal account as required by the Lender.

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8.2 The Borrower shall use the line of credit according to the purpose agreed in this contract, and use the loan according to the purpose determined in the corresponding Application for Use of Line of Credit, and shall not use the loan for other purposes, or use the loan for fixed assets investment, equity investment, fields and purposes prohibited by the state from production and operation.

The Borrower shall use the loan funds as agreed, and shall not avoid the Lender's entrusted payment by breaking up the whole into parts; If the Borrower's independent payment is adopted, the Borrower shall use the loan within a reasonable time according to the requirements of the Lender's supervisory authority, and the payment of loan funds shall comply with this contract.

▲▲8.3 The Borrower shall bear the settlement fees (if any) for the loan fund payment (including the Lender's entrusted payment and the Borrower's independent payment), and the specific fees shall be implemented according to laws, regulations, rules, regulatory requirements and the Service Charges List of the Bank of Communications effective at that time published by the Lender.

For loan fund payments involving no cross-border payment, when the loan funds are paid (including the Lender's entrusted payment and the Borrower's independent payment), if the collection account does not belong to the account opened in the Bank of Communications, the payment of the funds may be handled through the payment system of the People's Bank of China or the local exchange system. If the loan account is not a special loan issuing account, when the loan funds are paid (including the Lender's entrusted payment and the Borrower's independent payment), if the collection account is an account of another bank in different places, all the payment of funds will be handled through the payment system of the People's Bank of China.

For loan fund payments involving cross-border payment, the loan fund payment may be handled through the SWIFT system or other payment systems.

▲▲ 8.4 The Borrower shall cooperate with the Lender to handle the loan payment and supervise and inspect the loan usage as well as the Borrower's operation; It shall timely provide the financial statements, loan fund usage records and materials, related party and related party transaction information, environmental and social risk reports, other materials and information required by the Lender for post-loan risk management, and ensure that the documents, materials and information provided are true, complete and accurate.

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▲▲ 8.5 In case of any of the following events, the Borrower shall notify the Lender in writing at least 30 days in advance, and shall not take any action before paying off all the loan principal and interest under this contract or providing the repayment scheme and guarantee approved by the Lender:

(1) The Borrower disposes of all or most assets or important assets by selling, donating, leasing, lending, transfer, mortgage, pledge or otherwise;

(2) Significant changes have taken place in the Borrower's management system or property right organization form, including but not limited to the implementation of contract, lease, joint venture, company system reform, joint-stock cooperation system reform, enterprise sale, merger (acquisition), joint venture (cooperation), division, establishment of subsidiaries, equity transfer, property right transfer, capital reduction, etc.

(3) The Borrower's foreign equity or increased debt financing exceeds the agreed line of credit.

▲▲ 8.6 The Borrower shall notify the Lender in writing within 7 days from the date when the following events happen or may happen and submit relevant supporting documents according to laws, regulatory provisions, and the Lender's requirements:

(1) The Borrower or its related party modifies the articles of association, changes the business registration items such as enterprise name, legal representative (person in charge), residence, postal address or business scope, or makes decisions that have a significant impact on finance and personnel;

(2) The Borrower, its related party or guarantor intends to apply for bankruptcy or may have been or has been applied for bankruptcy by creditors;

(3) The Borrower or its related party is involved in major litigation, arbitration and administrative measures, or property preservation or other compulsory measures have been taken for its main assets or collateral under this contract, or the safety and integrity of its main assets or collateral under this contract has been or may be affected, or its value is reduced or may be reduced;

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(4) The Borrower or its related party provides a guarantee for a third party, which has a significant adverse impact on its economic status, financial status or ability to perform its obligations under this contract;

(5) The Borrower or its related party signs a contract that has a significant impact on its operation and financial status;

(6) The Borrower pays off the unexpired debts in advance or gives priority to paying off other due debts, adds any form of guarantee such as pledge for other existing debts, or makes any arrangement or signs relevant documents with similar effect;

(7) The Borrower, its related party or guarantor suspends production, closes down, dissolves or suspends business for rectification, is revoked or its business license is revoked;

(8) The Borrower or its related party, the individual principal investor of the Borrower or its related party, the legal representative (person in charge), director or key management personnel of the Borrower or its related party is missing, involved in violations of laws and regulations or in violation of applicable exchange rules or has any abnormal changes;

(9) The Borrower or its related party has serious difficulties in operation, or its financial situation deteriorates, or other events that have a negative impact on the operation, financial situation, solvency or economic situation of the Borrower or its related parties occur;

(10) Related party transactions occur, and the monthly transaction amount reaches or exceeds 10% of the recently audited net assets;

(11) Before paying off all debts under this contract, the Borrower becomes or may become the shareholder or the “actual controller” as defined in the Company Law of the guarantor;

(12) The Borrower or its related party is exposed by the media because of its violation of laws, regulations, regulatory requirements, national policies or industry standards, etc.;

(13) The Borrower or its related party has any safety or environmental accident;

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(14) The controlling or controlled relationship between the Borrower’s related party and the Borrower changes;

(15) The Borrower or its related party has any significant equity change;

(16) The audit opinion issued by the external auditor of the Borrower on its financial statements is not a standard unqualified opinion;

(17) The Borrower has been or may be investigated, punished or taken other similar measures by the competent authority for violating laws, regulations and/or regulatory requirements;

(18) The Borrower or its related party or business related party is included in the sanctions list issued by the United Nations and related countries, organizations and institutions, and the list of risks related to terrorism and anti-

money laundering issued by Chinese government departments or authorities; Or the country and region where the Borrower or its related person or business related party is located is included in the list of countries and regions sanctioned by the United Nations and related countries, organizations and institutions;

(19) Other major adverse events that affect the solvency of the Borrower or its related party occur.

(20) According to the Lender's environmental and social risk assessments standards, if the Borrower belongs to one of the clients in Category A or B of social risk, any one of the following matters happen or may happen to the Borrower:

① Various permissions, reviews, and approvals concerning environmental and social risk during commencement, construction, operation and shutdown;

② The environmental and social risk assessment and examination of the Borrower by environmental and social risk regulator or other institutions it recognized;

③ Supporting construction and operation of environmental facilities;

④ Emission and compliance of contaminants;

⑤ Safety and health condition of employees;

⑥ Major complaints or protests of the Borrower by neighboring communities;

⑦ Major environmental and social claims;

⑧ Other major situations considered relevant to environmental and social risk by the Lender.

▲▲ 8.7 When the guarantee under this contract changes to the detriment of the Lender's creditor's rights, the Borrower shall provide other guarantees recognized by the Lender in a timely manner as required by the Lender.

The "change" mentioned in this paragraph includes but is not limited to: merger, division, suspension of production, suspension of business, dissolution, suspension of business for rectification, being revoked, revocation of business license, application or being applied for bankruptcy of the guarantor; Significant changes have taken place in the operation or financial status of the guarantor; The guarantor involves major litigation, arbitration, administrative measures, or property preservation or other compulsory measures have been taken for its main assets; The security and integrity of the collateral is or may be affected; The value of collateral is reduced or may be reduced, or compulsory measures such as property preservation such as seizure are taken; The guarantor or its legal representative (person in charge) or key management personnel is involved in violation of laws and regulations or the applicable exchange rules; If the guarantor is an individual, the guarantor is missing or dead (declared dead); The guarantor has breached the contract under the guarantee contract; Disputes between the guarantor and the Borrower occur; The guarantor asks to cancel the guarantee contract; The guarantee contract is ineffective, invalid or revoked; The real rights granted by way of security are not established or invalid; Or other events affecting the security of the Lender's creditor's rights occur, etc.

▲▲ 8.8 The Borrower promises that: from the date of signing this contract until all the loan principal and interest and related expenses under this contract are paid off, the financial indicators, external agency rating and

production and operation qualifications/licenses of the Borrower always comply with the contract, and if the production and operation qualifications/licenses need to be examined annually, they should pass the annual examination on time.

8.9 The Borrower guarantees that the Borrower, the Borrower's employees and agents will not provide, give, ask for or accept material benefits in any form other than those stipulated in this contract (including but not limited to cash, physical cards, travel, etc.) or other non-material benefits to the Lender or the Lender's employees in any form; The Borrower, the Borrower's employees and agents will not directly or indirectly use the funds or services provided by the Lender for activities related to corruption or bribery in any form; If the Borrower is aware of any violation of this article, it should provide clues and relevant information to the Lender in a timely, truthful, complete and accurate manner, and cooperate with relevant matters as required by the Lender.

8.10 According to the Lender's environmental and social risk assessments standards, if the Borrower belongs to one of the clients in Category A or B of social risk, the Borrower shall be borne the following obligations:

(1) Set up a sound internal administrative system for environmental and social risks and set forth detailed responsibility, obligation, and penalty measures of relevant responsible persons;

(2) Set up a sound environmental and social risk emergency mechanism and a set of measures;

(3) Set up a special department and/or assign special personnel to be responsible for environmental and social risk events;

(4) Cooperate with the Lender or a third party recognized by the Lender to carry out environmental and social risk assessments and examinations for the Borrower;

(5) Provide appropriate responses or take necessary actions when the public or other stakeholders express strong suspicion of the Borrower's environmental and social risk performance;

(6) Urge important affiliates of the Borrower to enhance management to prevent the contagion of affiliates' environmental and social risks to the Borrower;

(7) Perform other obligations of controlling environmental and social risks which are considered relevant by the Lender.

#### ▲ ▲ Article 9 Adjustment of the Line of Credit, Premature Expiration of Loan and Risk Repricing

9.1 Any of the following events shall be regarded as the "premature expiration event" of this contract:

(1) The Borrower fails to repay the loan principal or pay interest as agreed in any Application for Use of Line of Credit under this contract;

(2) The statements and guarantees made by the Borrower under this contract are untrue;

(3) Any of the notifiable matters listed in Article 8.6 actually happens, which affects or may affect the security of the Lender's creditor's rights;

(4) The change of laws, regulations and regulatory policies causes that the loan issuance by the Lender as agreed in this contract constitutes or may constitute violations of laws or regulations;

(5) When the Borrower performs other contracts with the Lender or contracts with a third party, there is a breach of contract or the debt may or has been announced to be due in advance;

(6) The Borrower violates other agreements in this contract.

(7) According to the Lender's environmental and social risk assessments standards, if the Borrower belongs to one of the clients in Category A or B of social risk, the following events happen to the Borrower:

① The Borrower is punished by the competent governmental department for poor management of environmental and social risk;

② The Borrower is strongly questioned by the public and/or the media for poor management of environmental and social risk;

③ The Borrower breaches its obligations of the management of environmental and social risk agreed with the Lender in other contracts.

9.2 When any "premature expiration event" occurs, the Lender has the right to take one, several or all of the following measures:

(1) Reduce, suspend or cancel the line of credit under this contract;

(2) Stop issuing loans that have not been drawn by the Borrower;

(3) Stop handle the payment that the Borrower has withdrawn but not yet used;

(4) Require the Borrower to negotiate with the Lender for supplementary loan issuance and payment conditions within a time limit;

(5) Require the Borrower to change the payment method as required by the Lender;

(6) Reprice the risk of loans as agreed in Article 9.3;

(7) Unilaterally declare that all the loan principal issued under the contract is due in advance and require the Borrower to immediately repay all the loan principal due and settle the interest.

9.3 According to the production and operation situation of the Borrower at the time of signing this contract, the interest rate agreed in this contract and its adjustment are determined by both parties through negotiation. The Borrower agrees that in the event of any "premature expiration event", the Lender has the right to reprice the risk of the loan according to this article.

9.3.1 Risk repricing includes negotiated repricing and direct increase of the loan interest rate. The risk repricing method adopted in this contract is agreed by both parties in Article 21.



9.3.2 “Negotiated repricing” means that the Lender has the right to ask the Borrower to negotiate with the Lender to increase the loan interest rate within a time limit, and both parties determine the “repricing date” and the specific agreement on relevant interest rates by means of supplementary agreement.

9.3.3 “Direct increase of the loan interest rate” means that the Lender has the right to directly increase the loan interest rate according to this article and Article 21.

9.3.3.1 Since the “repricing date” notified by the Lender to the Borrower in writing, the increased loan interest rate will be applied to all loans that the borrower has not repaid as of the “repricing date”.

9.3.3.2 If the loan currency is RMB, US dollar, Euro, Hong Kong dollar, Japanese yen, or British pound, on the basis of the applicable pricing benchmark value on the “repricing date”, the loan interest rate after each loan increase shall be determined according to the value of the plus (minus) points agreed in Article 21.2.1.

Take the “repricing date” as the T-day, and the applicable pricing benchmark value on T-day is subject to Article 3.5.1 in this contract.

9.3.3.3 If the loan currency is other currencies rather than RMB, US dollar, Euro, Hong Kong dollar, Japanese yen, or British pound, the loan interest rate after the increase shall be determined according to Article 21.2.2.

9.3.4 After the Lender reprices the risk according to the aforementioned agreement, the new interest rate will be implemented from the “repricing date”. On the basis of this interest rate, it is still subject to the floating adjustment as agreed in Article 3 of this contract. If both parties agree to change the relevant agreement through consultation, the agreement after the change shall prevail. In case of loans overdue (including the Borrower’s failure to repay the loan on time or the Lender’s announcement of premature maturity) or misappropriation, the penalty interest rate for overdue and misappropriation will be determined on the basis of the new interest rate (including the interest rate after floating adjustment as agreed in this contract), and the interest rate for calculating compound interest will also be adjusted accordingly.

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## Working Capital Loan Contract

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9.3.5 The implementation of “risk repricing” shall not be deemed or interpreted as the Lender waiving other rights stipulated by laws and regulations and agreed in this contract. The Lender has the right to take other creditor’s rights protection measures according to laws and regulations and the contract, including but not limited to the measures agreed in Article 9.2.

### ▲ ▲ Article 10 Breach of Contract

10.1 If the Borrower fails to repay the loan principal in full and on time, pay interest or use the loan according to the purpose agreed in this contract, the Lender will charge interest according to the penalty interest rate of overdue loans or the penalty interest rate of misappropriated loans, and calculate compound interest on the unpaid interest payable. If the penalty interest rate is adjusted according to the contract, the interest rate for calculating compound interest will also be adjusted accordingly.

10.2 If the Borrower fails to repay the loan principal and pay the interest in full and on time, it shall bear the urging fees, litigation fees (or arbitration fees), preservation fees, announcement fees, execution fees, legal fees, travel expenses and other fees paid by the Lender to realize the creditor’s rights.

### ▲ ▲ Article 11 Agreement on Deduction

11.1 When the Borrower authorizes and there is the loan principal, interest, penalty interest, compound interest or other fees due and payable, the Lender has the right to deduct the funds in any account opened by the Borrower in all branches of Bank of Communications Co., Ltd. for repayment.

11.2 After deduction, the Lender shall notify the Borrower of the account number, contract number, number of Application for Use of Line of Credit, deduction amount and remaining debt amount involved in deduction.

11.3 If the deduction proceeds are not enough to pay off all the debts of the Borrower, the debts to be paid off and offset shall be determined according to this contract.

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### Working Capital Loan Contract

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11.4 If the currency of deduction proceeds is inconsistent with that of the debt to be offset, it shall be converted into the amount of the debt to be offset according to the exchange rate published by Bank of Communications Co., Ltd. at the time of deduction. If any foreign exchange settlement and sales or foreign exchange conversion procedures need to be handled, the Borrower has the obligation to assist the Lender in handling the formalities as required by the Lender, and the exchange rate risk shall be borne by the Borrower.

#### ▲▲ Article 12 Notice

12.1 The contact information (including postal address, telephone number, fax number, etc.) filled in by the Borrower in this contract is true and valid. In case of any change of the contact information, the Borrower shall immediately mail/send the change information in writing to the postal address filled in by the Lender in this contract. Such information change will take effect after the Lender receives the notice of change.

12.2 Unless otherwise expressly agreed in this contract, the Lender has the right to notice the Borrower in any of the following ways. The Lender has the right to choose the notice method it deems appropriate, and does not need to be responsible for transmission errors, omissions or delays in postal, fax, telephone or any other communication system. If the Lender chooses multiple notice methods at the same time, the one that arrives at the Borrower sooner shall prevail. For the same matter, if the Lender sends more than one notice to the Borrower with different contents, unless otherwise specified in the notice, the later notice shall prevail.

(1) For announcement, the date when the Lender issues an announcement on its website, online banking, telephone banking or business outlets shall be regarded as the date of delivery;

(2) For delivery by special person, the date of receipt by the Borrower shall be regarded as the date of delivery;

(3) For delivery by post (including express mail, ordinary mail and registered mail) to the latest known address of the Borrower, the 3rd day (in the same place)/5th day (in different places) after the date of mailing shall be regarded as the delivery date;

(4) For fax, mobile phone short message or other electronic communication methods to the latest known fax number of the Borrower, the mobile phone number or email address designated by the Borrower to the Lender, the date of sending is regarded as the date of delivery. The aforementioned delivery means that the relevant information enters the server terminal of the service provider without taking the actual display of the relevant information in the client terminal as the standard.

12.3 The Borrower agrees that unless the Lender receives a written notice from the Borrower about changing its postal address, the postal address filled in by the Borrower in this contract is the address where the court will serve judicial documents and other written documents to the Borrower. The applicable scope of the aforementioned service address includes, but is not limited to, civil litigation first instance, jurisdiction objection and reconsideration, second instance, retrial, remand for retrial and execution procedures, etc. If the Borrower responds to the lawsuit and directly submits the confirmation of the service address to the court, and if the confirmed address is inconsistent with the latest known postal address of the Lender, the court has the right to serve according to the address on the confirmation of the service address.

During the settlement of this contract dispute, the court may serve the judgment, ruling and conciliation statement to the Borrower in any of the following ways:

(1) For delivery by post (including express mail, ordinary mail and registered mail), the date of receipt by the Borrower shall be regarded as the date of delivery;

(2) For delivery by special person, the date on which the Borrower signs on the delivery receipt shall be regarded as the date of delivery.

If the court uses delivery by post (including express mail, ordinary mail and registered mail), and if the Borrower fails to sign on the service receipt, or the postal address filled in by the Borrower is inaccurate or actually changed, but the Lender does not receive the written notice from the Borrower about the change of postal address, which leads to the rejection of the judgment, ruling and conciliation statement, the date when the statement is returned shall be regarded as the date of delivery.

If the court uses delivery by special person, and if the Borrower fails to sign on the service receipt, the date on which the server records the situation on the service receipt on the spot shall be regarded as the date of delivery.

Except for the judgment, ruling and conciliation statement, the court has the right to make any notice to the Borrower by any means of communication agreed in Article 12.2. The court has the right to choose the communication method it deems appropriate, and does not need to be responsible for transmission errors, omissions or delays in postal, fax, telephone, telex or any other communication system. If the court chooses multiple modes of communication at the same time, the one that arrives at the Borrower sooner shall prevail.

12.4 The agreement in this article belongs to the independent dispute settlement clause in the contract. The invalidity, cancellation or termination of this contract will not affect the validity of this clause.

▲ ▲ Article 13 Information Disclosure and Confidentiality

13.1 For the undisclosed information and materials of the Borrower obtained and known during the signing and performance of this contract, the use of relevant information and materials by the Lender (including but not limited to collection, storage, use, processing, transmission, provision, disclosure, etc.) shall not violate laws, regulations and regulatory requirements; The Lender shall bear the responsibility of confidentiality according to law, and shall not disclose such information and materials to a third party, except for the following situations:

(1) The disclosure is required by applicable laws and regulations;

(2) The disclosure is required by judicial departments or regulatory agencies according to law;

(3) When the Borrower fails to repay the loan principal and/or pay interest in full and on time, the Lender needs to disclose to the Lender's external professional consultant and allow the Lender's external professional consultant to use it on the basis of confidentiality in order to realize the claims under this contract;

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#### Working Capital Loan Contract

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(4) Other acts are reasonably carried out to safeguard public interests or legitimate rights and interests of the Borrower;

(5) The Borrower agrees or authorizes the Lender to make disclosure.

13.2 The Borrower confirms to have signed the Power of Attorney for Credit Information Inquiry and Provision. The Lender inquires, uses and saves the credit information of the Borrower within the scope specified in the Power of Attorney.

13.3 In addition to the situations specified in Articles 13.1 and 13.2 of this contract, the Borrower further agrees that Bank of Communications Co., Ltd. can use or disclose the Borrower's information and materials in the following situations, including but not limited to the Borrower's basic information, credit transaction information, bad information and other related information and materials, and is willing to bear all the consequences arising therefrom:

To disclose and allow business outsourcing institutions, third-party service providers, other financial institutions and other institutions or individuals deemed necessary by the Lender, including but not limited to other branches of Bank of Communications Co., Ltd., or wholly or partially owned subsidiaries of Bank of Communications Co., Ltd., to use such information and materials on a confidential basis for the following purposes: ① To carry out or be related to bank credit business, such as promoting the credit business of Bank of Communications Co., Ltd., collecting the Borrower's arrears, transferring the creditor's rights of bank credit business, etc.; ② To provide or may provide new products or services or further services for the Lender to the Borrower.

Whether Article 13.3 is applicable or not shall be subject to the agreement of both parties in Article 24.1 of this contract.

#### Article 14 Applicable Law and Dispute Resolution

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Working Capital Loan Contract

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This contract shall be governed by the laws of the People's Republic of China (excluding the laws of Hongkong, Macau and Taiwan for the purpose of this contract). Any dispute under this contract shall be brought to the court with jurisdiction where the Lender is located unless otherwise agreed in this contract. During the dispute, all parties should continue to perform the provisions that are not involved in the dispute.

Article 15 Entry into Force, Loan Attribute, and Composition of Contract

15.1 This contract shall come into force after the legal representative (person in charge) or authorized representative of the Borrower signs (or seals) with the official seal, and the persons in charge or authorized representative of the Lender signs (or seals) with the special contract seal. If the special contract seal of the Lender is the special seal contract for offshore credit business (or any other special contract seal with the word "Offshore"), the loan in this contract is an offshore business loan.

15.2 The Application for Use of Line of Credit signed when using the line of credit under this contract and other relevant documents and materials are integral parts of this contract.

15.3 The Application for Use of Line of Credit is a supplement to this contract. Unless otherwise agreed in the Application for Use of Line of Credit, the rights and obligations and related matters between the Borrower and the Lender shall still be implemented according to the agreement of this contract.

Article 16 Specific Content of the Line of Credit

16.1 Currency of the line of credit:  RMB; Amount in words: Ten Million Yuan; It can be used in  Currency of the line of credit  Currency of the line of credit and other currencies accepted by the Lender; The line of credit belongs to  revolving line of credit  lump-sum line of credit (can be used several times)  lump-sum line of credit (only used once).

16.2 Purpose of the line of credit: Working Capital.

16.3 The term of credit is from 06/24/2022 (MM/DD/YYYY) to 05/26/2023(MM/DD/YYYY).

Article 17 Agreement on Interest Rate

Working Capital Loan Contract

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If the loan currency is other currencies rather than RMB, US dollar, Euro, Hong Kong dollar, Japanese yen, and British pound, the relevant agreements on the determination of the type of pricing benchmark of the loan, the calculation rule of daily interest rate and applicable date of pricing benchmark, the adjustment date of loan interest are as follows:

Article 18 Account Agreement

18.1 The Borrower designates the following account as the loan account, and this account  is  is not a special loan issuing account opened by the Borrower at the Lender. If both parties agree otherwise in the corresponding Application for Use of Line of Credit, the agreement in the Application for Use of Line of Credit shall prevail.

Account Name: Jiangxi Universe Pharmaceuticals Co., Ltd.

Account Number: \_\_\_\_\_

Bank of Deposit: Business Department of Ji'an Branch of Bank of Communications

18.2 Designation of the Borrower: \_\_\_\_\_

(1) The repayment account is

Account Name: Jiangxi Universe Pharmaceuticals Co., Ltd.

Account Number: 368899991011000009036

Bank of Deposit: Business Department of Ji'an Branch of Bank of Communications

(2) The capital withdrawal account is: \_\_\_\_\_

Account Name: Jiangxi Universe Pharmaceuticals Co., Ltd.

Account Number: 368899991011000009036

Bank of Deposit: Business Department of Ji'an Branch of Bank of Communications

Article 19 Specific Agreement on Loan Issuance, Payment and Repayment

19.1 The term of each loan drawn under this contract shall not be longer than 12  months  days, and the maturity date of all loans shall not be later than 07/26/2023 (MM/DD/YYYY).

19.2 The independent payment line of credit under this contract is  RMB     /    (foreign currency)    /    ×10000 Yuan or equivalent in other currencies.

19.3 If one of the following conditions is met, the method of the Lender's entrusted payment shall be adopted:

\_\_\_\_\_

\_\_\_\_\_

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Working Capital Loan Contract

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19.4 If the Borrower's independent payment is adopted, the Borrower shall report the payment of loan funds to the Lender within     days after the loan is issued.

Article 20 Financial Restrictions, External Agency Rating and Production and Operation Qualification/License

20.1 The Borrower's foreign investment line of credit is RMB     ×10000 Yuan; The increase of debt financing line of credit is RMB     ×10000 Yuan.

20.2 Contract agreement on financial indicators of the Borrower:

(1) \_\_\_\_\_

(2) \_\_\_\_\_

(3) \_\_\_\_\_

20.3 Specific agreement on external agency rating:

(1) \_\_\_\_\_

(2) \_\_\_\_\_

20.4 Specific agreement on the Borrower's production and operation qualification/license:

(1) \_\_\_\_\_

(2) \_\_\_\_\_

▲▲ Article 21 Specific Agreement on Risk Repricing

21.1 This contract adopts the following \_\_1\_\_ risk repricing method: (1) negotiated repricing; (2) raising the loan interest rate directly.

21.2 If the method of "raising the loan interest rate directly" is adopted:

21.2.1 If the loan currency is RMB, US dollar, Euro, Hong Kong dollar, Japanese yen, or British pound, the value of the interest rate plus (minus) points after the increase is:  no plus or minus point  plus \_\_\_\_ percentage points  minus \_\_\_\_ percentage points. Unless otherwise agreed in a loan, the value of the interest rate plus (minus) points after the increase of the loan shall be subject to the records in the applicable application for use of line of credit.

21.2.2 If the loan currency is another currency rather than RMB, US dollar, Euro, Hong Kong dollar, Japanese yen, and British pound, the value of the interest rate plus (minus) points after the increase is: \_\_/\_\_

Working Capital Loan Contract

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Article 22 Contact Information

The contact information of the Borrower to receive the notice agreed in Article 12 includes:

Postal Address: Jingjiu Avenue, Jinggangshan Economic and Technological Development Zone, Ji'an County, Ji'an City, Jiangxi Province

Attn: Yang Lin

Postal Code: 34300

Tel.: \_\_\_\_\_

Mobile Phone: \_\_\_\_\_

Fax : \_\_\_\_\_

Email: \_\_\_\_\_

Article 23 Copies of Contract

There are   2   originals of this contract, with   1   copy held by both parties and the guarantor (if any).

Article 24 Other Agreements

24.1 Both parties agree that this contract &check;is  is not applicable to Article 13.3.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_



Borrower: Jiangxi Universe Pharmaceutical Co., Ltd.

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Working Capital Loan Contract

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Legal Representative (Person in Charge): Lai Gang

Legal Address: Jingjiu Avenue, Jinggangshan Economic and Technological Development Zone, Ji'an County

Lender: Bank of Communications Co., Ltd. Ji'an (Sub) Branch

Person in Charge: Tang Haiyan

Postal Address: Jinggangshan Avenue, Jizhou District, Ji'an City



**The Borrower has read through all the terms of the contract, and the Lender has made detailed explanations at the request of the Borrower. When signing the contract, the Borrower has no doubt or objection to all the contents, and understands the meaning and legal consequences of the terms of the contract, especially those marked with ▲▲.**

(This page is for signatures of the Working Capital Loan Contract and is intentionally left blank)

Borrower (Official Seal)



Lender (Special Seal for Contract)



Legal Representative (Person in Charge) or Authorized Representative  
Signature or Seal

Person in Charge or Authorized Representative  
(Signature or Seal)

Date of Signing: 06/22/2022

Date of Signing: 06/22/2022

(MM/DD/YYYY)

(MM/DD/YYYY)

### Letter of Intent for Equity Transfer



Transferee: Jiangxi Universe Pharmaceuticals Co., Ltd. (hereinafter referred to as "Party A")

Unified Social Credit Code: [Redacted]

Address: No.265, Jingjiu Avenue, Jinggangshan Economic and Technological Development Zone, Ji'an County, Ji'an City

Transferor: Liu Xibo (hereinafter referred to as "Party B")  
ID Card No.: [Redacted]

Address: No. 8, 1st Lane, Xianjiangzheng Street, Luogang District, Guangzhou City

Party C: Yunnan Faxi Pharmaceutical Co., Ltd. (hereinafter referred to as the "Target Company")  
Unified Social Credit Code: [Redacted]

Address: No. 495-1, Puji Road, Wuhua District, Kunming City, Yunnan Province

At the time of signing this Letter of Intent:

- 1) Party A is a company registered and validly existing in accordance with the laws of China;
- 2) Party B has full civil capacity for conduct in accordance with the laws of the People's Republic of China;
- 3) Party C is a limited liability company registered and existing in accordance with the laws of China, whose registered capital is RMB 10.8 million and whose business scope includes sales of drugs, medical devices, etc.;
- 4) Party B owns 51% of the equity of the Target Company; the equity ratio is the officially registered equity;
- 5) Party B is willing to transfer all the equity of the Target Company he owns (hereinafter referred to as "Equity for Sale"), and Party A is willing to purchase all the equity of Party B;

To sum up, Party A and Party B reach the following finalized contents of this Letter of Intent, and jointly confirm this Letter of Intent as the preliminary opinion of this acquisition transaction, aiming to make a preliminary agreement on relevant transaction conditions and steps. It is hereby stated that this intent is the basis for the subsequent assistance of all the parties and is not a legally binding document; the specific acquisition rights and responsibilities shall be concluded in the assessment report of a professional institution and determined in the formal Equity Transfer Agreement and other transaction annexes to be signed separately based on conclusive opinions.

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#### 1. Acquisition Subject Matter:

Party A's acquisition subject matter is 51% equity of the Target Company owned by Party B and 51% ownership of the project held by the Target Company.

#### 2. Acquisition Price and Method

- 1) Acquisition Price: The acquisition price initially determined by both parties is intended to be RMB Seventy-Two Million Only, and the final acquisition price shall be determined by both parties through negotiation based on the completion of an assessment report by a professional institution after due diligence.
- 2) Acquisition Method: Both Party A and Party B agree that Party A will complete the acquisition by bank transfer. Within three days after signing the Letter of Intent for Equity Transfer, Party A shall first pay Party B an intent deposit of RMB Twenty-Five Million, which shall be paid to the Target Company's company account.

#### 3. Due Diligence Procedures for Acquisition:

After the signing of this Agreement, all parties agree and will cooperate with Party B to entrust a professional due diligence institution to conduct comprehensive legal due diligence on the subject, qualification, assets, liabilities,

equity, major contracts, litigation, arbitration and other matters of the Target Company. In this regard, the Transferor shall provide full cooperation and assistance, and cause the Target Company to provide full cooperation and assistance, and provide documents and information required for the investigation. The Transferee has the right to entrust a professional institution to carry out due diligence. The professional institution shall exercise all the rights of due diligence granted in this Letter of Intent on behalf of the Transferee.

#### 4. Formal Equity Transfer Agreement

Both parties agree that the Equity Transfer Agreement or any other substantive transaction agreement determined by both parties through negotiation shall be formally signed by both parties within 10 days after all the following preconditions are met;

- 1) Party A has completed the due diligence on the Target Company, and has not found any material fact that has a material impact on this transaction (or such material fact is found but can be settled through friendly negotiation between both parties);
- 2) The content and format of the signed Equity Transfer Agreement or any other agreement (including its annexes) are satisfactory to both parties;
- 3) The higher competent departments of both parties and the shareholders' meetings of both parties and the shareholders' meeting of the Target Company approve or pass the proposal for the acquisition of target equity.

#### 5. Confidentiality Clause

- 1) Both parties agree that all terms of this Letter of Intent and all information obtained from both parties through due diligence are confidential information (except when relevant disclosure is an obligation and responsibility required by law). Both parties warrant that they and their entrusted consultants involved in the acquisition will not use the confidential information for any purpose other than the following circumstances: as required by law, as expressly stipulated in this Agreement, or any litigation, arbitration, or administrative penalty incurred in connection with this Agreement; provided that under the above circumstances, the confidential information shall also be used in strict accordance with relevant legal procedures.
- 2) The above restrictions do not apply to the following:
  - a. Materials and information that have become generally available to the public at the time of disclosure;
  - b. Materials and information that have become generally available to the public after disclosure without the fault of the receiving party;
  - c. Materials that the receiving party can prove that it has mastered before disclosure and are not directly or indirectly obtained from other parties;
  - d. Either party has the obligation to disclose to relevant government departments according to legal requirements, or either party discloses the above confidential information to its direct legal advisers and financial advisers as required for its normal operation;
- 3) If the acquisition project fails to be completed, both parties have the obligation to return or destroy the information and materials provided by the other party.
- 4) The confidentiality obligation stated in this clause shall survive the termination of this Agreement.

## 6. Exclusion Clause and Warranty Clause

- 1) Party B undertakes that during the entire period from the effective date of this Letter of Intent to the date when both parties separately sign the Equity Transfer Agreement or any other transaction document (“Exclusion Period”), without the consent of Party A, Party B shall not consult or negotiate with a third party in any way on the transfer of the equity or assets of the Target Company he holds. In case of termination of the Letter of Intent in Article 7, the Exclusion Period shall be terminated accordingly;
- 2) Any documents and information (written or oral) provided by Party B in connection with this Letter of Intent are true, complete and accurate and are in no way false, omitted or misleading;
- 3) Party B warrants that he has complete and legal rights to the Equity for Sale he holds, and that there is no guarantee or other reason that causes the Target Company and the rights granted above to be limited;

- 4) Both parties have fulfilled their internal approval procedures in signing this Letter of Intent and performing their obligations under this Letter of Intent;
- 5) Both parties have the right to conclude and perform this Agreement, and warrant that all required authorizations have been obtained for the signing and performance of this Letter of Intent.

## 7. Effectiveness, Change and Termination of this Letter of Intent

- 1) This Letter of Intent shall take effect as of the date of signature and sealing by all the parties. The contents of this Letter of Intent may be changed or terminated by mutual agreement;
- 2) In the course of due diligence, if the Transferee finds that the Target Company has any fact that has any material impact on the transaction under this Agreement (including but not limited to any external guarantee, litigation, untrue assets, major business risks, etc. not disclosed by the Target Company), both parties shall negotiate to determine the solution of the matter. If both parties fail to form a solution or reach an agreement on a solution in connection with the matter within 7 days after due diligence, either party may notify the other party in writing to rescind this Letter of Intent. The date when the notice reaches the Transferor is the termination date of the Letter of Intent. If both parties agree to extend the term, the new term shall prevail;
- 3) If Party A and Party B fail to reach a substantive agreement on the acquisition matters listed in this Letter of Intent within six months after the signing of this Letter of Intent, this Letter of Intent will be automatically terminated;
- 4) Before the expiration of the above period, if Party A is not satisfied with the results of due diligence or the materials provided by Party B are false or misleading or involved in any material omission, Party A has the right to unilaterally terminate this Letter of Intent;
- 5) In case of termination of this Letter of Intent, Party B shall unconditionally return the intent deposit paid by Party A.

## 8. Miscellaneous

- 1) In case of termination of this Letter of Intent due to both parties’ failure to sign transaction documents, the relevant expenses caused by this transaction, including but not limited to the expenses of engaging lawyers, industrial and commercial file consultation fees, transportation expenses, etc., shall be shared by both parties.

- 2) The original of this Agreement is made in duplicate, with each party holding one copy, and both copies have the same legal effect.

Party A (Seal):



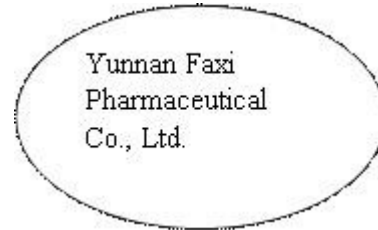
Signature of Legal Representative (Authorized Representative): Date:

Party B (Seal):



Signature of Legal Representative (Authorized Representative): Date: 9/26/2022

Party C (Seal)



Signature of Legal Representative (Authorized Representative): Date:

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, Gang Lai, certify that:

1. I have reviewed this annual report on Form 20-F of Universe Pharmaceuticals INC (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: February 10, 2023

By: /s/ Gang Lai

Name: Gang Lai

Title: Chief Executive Officer

**Exhibit 12.2**

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, Lin Yang, certify that:

1. I have reviewed this annual report on Form 20-F of Universe Pharmaceuticals INC (the "Company");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: February 10, 2023

By: /s/ Lin Yang

Name: Lin Yang

Title: Chief Financial Officer

**Exhibit 13.1**

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 906 OF  
THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Universe Pharmaceuticals INC (the "Company") on Form 20-F for the year ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gang Lai, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 10, 2023

By: /s/ Gang Lai

Name: Gang Lai

Title: Chief Executive Officer

**Exhibit 13.2**

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF  
THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Universe Pharmaceuticals INC (the "Company") on Form 20-F for the year ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lin Yang, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 10, 2023

By: /s/ Lin Yang

Name: Lin Yang

Title: Chief Financial Officer

**Exhibit 15.1**





锦天城律师事务所  
**ALLBRIGHT LAW OFFICES**

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10 February, 2023

To: Universe Pharmaceuticals INC  
265 Jingjiu Avenue, Jingtangshan Economic and Technological Development Zone  
Ji'an, Jiangxi Province  
People's Republic of China

Dear Sir/Madam,

We hereby consent to the references to our firm's name under the headings "Item 3 Key Information—D. Risk Factors—Risks Related to Doing Business in China" and "Item 10. Additional Information—E. Taxation—People's Republic of China Taxation" in Universe Pharmaceuticals INC's annual report on Form 20-F for the year ended September 30, 2022 (the "Annual Report"), which will be filed with the Securities and Exchange Commission (the "SEC") on the date hereof. We also consent to the filing of this consent letter with the SEC as an exhibit to the Annual Report.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Yours sincerely,

  
Zhang Biwang  
Lawyer  
AllBright Law Offices (Fuzhou)  
3501050041041

Exhibit 15.2



**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in this Registration Statement on Form F-3 (“Registration Statement”) of our report dated February 10, 2023, relating to the consolidated financial statements of Universe Pharmaceuticals INC included in its annual report (Form 20-F) for the years ended September 30, 2022 and 2021. We also consent to the reference to us under the heading “Experts” in such Registration Statement.

/s/ YCM CPA, Inc.

PCAOB ID 6781  
Irvine, California  
February 10, 2023

**Exhibit 15.3**

**FRIEDMAN LLP**  
ACCOUNTANTS AND ADVISORS

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference to the Registration Statement on Form F-3 of our report dated February 24, 2021, with respect to the consolidated balance sheet of Universe Pharmaceuticals Inc. as of September 30, 2020, and the related consolidated statements of income and comprehensive income, changes in shareholders’ equity, and cash flows for each of the years in the two-year period ended September 30, 2020, as included in the Company’s 2022 Form 20-F annual report filed February 10, 2023. We also consent to the reference to us under the heading “Experts” in such Registration Statement.

/s/ Friedman LLP

New York, New York  
February 10, 2023