RISKS RELATING TO OUR BUSINESS AND INDUSTRY

The industry in which we operate is highly competitive and rapidly evolving and may not develop as anticipated. Our business success closely ties to the development of this industry and our ability to compete effectively against existing or potential competitors in this industry.

We mainly operate in the cosmetics industry that is rapidly evolving and highly competitive. The growth and success of our business is influenced by the development of this industry, which is subject to factors beyond our control. The growth of the cosmetics industry may slow down or even stop, and we may also fail to promptly and effectively respond to industry developments and changes.

We face strong competition from our existing competitors as well as new industry entrants, including domestic and international players. The China's cosmetics industry is relatively fragmented, with the top five brands accounting for 8.6% of market share in 2025, according to Frost & Sullivan. Our ability to compete also depends on the continued strength of our brands and products, the success of our marketing strategies and operational execution, the efficient management of our new brand and product innovations and our success in entering new markets and expanding our business in existing geographies. Some of our competitors may have greater financial, technical or marketing resources, broader brand recognition, longer operating histories and more established R&D capabilities and sales channels than we do and may be able to respond more effectively to evolving market conditions. In addition, it is difficult for us to accurately predict the timing and scale of our competitors' activities or whether new competitors will emerge in the cosmetics industry. Moreover, further technological breakthroughs, including new and enhanced technologies that increase competition in the online retail market, new product offerings by competitors and the strength and success of our competitors' marketing programs may impede our growth and the implementation of our business strategy. We cannot assure you that we will maintain our competitive advantages and compete successfully against our competitors and any new future industry entrants.

Our success is dependent on the continued popularity of our products and our ability to timely develop or upgrade these products in response to changes in industry trends and consumer preferences. Any shift in consumer demand or unexpected situation may adversely affect the demand for our products.

We operate in an industry characterized by constant and unpredictable changes in consumer demand and trends. The success of our business and operations depends largely on our ability to anticipate and respond promptly to these evolving demands and trends and to continually deliver products that appeal to consumers. Such task involves risks and require substantial planning, effective execution and investment. We rely on big data analytics and market surveys to anticipate changes and trends in consumer demand and adjust our product portfolio accordingly. However, we cannot assure you that these efforts will be successful.

We may encounter challenges in multiple areas when developing or upgrading our products in response to industry trends and consumer preferences, including formulating effective products, scaling production for new products and executing successful marketing strategies. In addition, the launch of new products may potentially lead to a decline in sales of certain existing products. We may also face difficulties or delays in the development, testing or commercialization of new or improved products. The launch of new products and entry into new product categories involves inherent risks such as those relating to incorrect judgments regarding consumer preferences and market demand. If we are unable to accurately anticipate or respond in a timely manner to consumer preferences, the appeal of our new products may decline among consumers. Failure to renovate and expand our product offerings in line with market expectations could lead to decreased consumer interest, loss of market share and reduced competitiveness.

Our business and prospects depend on our reputation and the market's recognition of our brands. If we fail to reinforce the popularity and image of our existing brands or promote new brands, we may not be able to retain or expand our consumer base. Any negative publicity of our Company generally, and our brand and products more specifically, may also impair our brand image.

Market recognition and our brand's reputation are critical to our business success and prospects. Our ability to attract and retain consumers relies on our success in maintaining and enhancing the popularity and image of our core brands, particularly PROYA (珀莱雅), as well as effectively introducing and promoting new brands. Our brand portfolio covers product segments from skincare to makeup and personal care. If we fail to reinforce the appeal of our existing brands, or if new brand initiatives do not gain sufficient consumer acceptance or fail to form effective synergies with our existing brands, we may be unable to sustain or grow our consumer base. In addition, if there were to be any negative publicity concerning our Company, our founder, senior management, shareholder and other key personnel, our brand reputation and image might be damaged. Moreover, disparaging comments, reviews or misinformation about our brands or products on social media platforms could negatively affect consumer perception and confidence in our brands and products. Any such negative publicity may lead to declining sales, difficulties in acquiring new customers and increased costs related to public relations and crisis management. Any prolonged reputational damage may undermine our competitive positioning.

Product quality is core to our business. Any quality issues related to our products may result in reputational damage and an impairment of our consumer base and thereby subject us to product liability claims.

The quality, safety and stability of our products are critical to retaining consumer trust and strengthening our brand reputation. Any compromise in product quality or the unlikely occurrence of side effects, whether due to production defects, supply chain issues or inadequate quality control measures, may result in product liability claims, returns or other regulatory actions and significantly impact our brand image, consumer loyalty and market position. Our quality control system may not always be successful in detecting defects, quality issues or side effects, especially if these circumstances originate from factors beyond our direct control, such as raw material defects or issues with third-party suppliers. If the quality of any of our products deteriorates for any reason, or if consumers do not perceive our products to be effective as they claim to be, we may be faced with returns or cancellations of orders and customer complaints. In addition, allergic reactions or undesirable or unexpected outcomes may occur since individual skin tolerances to our products may vary. In the unlikely event that such incidents may occur, we may be subject to negative publicity, which could lead to a potential loss of consumer confidence.

If we fail to attract, recruit and retain R&D talent or our efforts in R&D do not generate the expected outcomes, our product innovation and developmental progress may be materially and adversely affected.

Our ability to maintain and grow our research and development team is critical to driving product innovation and development. However, given the high demand and intense competition for skilled personnel in the cosmetics industry, we cannot guarantee our capacity to successfully attract, recruit and retain proficient R&D personnel. If we are unable to attract or retain qualified R&D personnel, our product development pace may slow and our ability to innovate and respond to shifting consumer preferences could be impaired.

Our research and development efforts also include strategic collaborations with certain suppliers who provide key ingredients on an exclusive basis, enhancing the efficacy and competitiveness of our cosmetic products. We cannot guarantee that such collaborations will continue or be renewed on terms favorable to us. In addition, we partner with several universities, research institutes and hospitals to advance scientific research in various areas. These research initiatives may not progress as anticipated and there is no assurance that the resulting innovations will be successfully commercialized or integrated into our final products. Furthermore, our R&D efforts involve significant time and financial investment. In 2023, 2024 and 2025, our R&D expenses were RMB173.6 million, RMB210.4 million and RMB216.8 million, respectively.

However, there is no assurance that our R&D activities will yield successful outcomes or that any new ingredients or technologies we develop will be commercially viable or accepted by the market. If we fail to deliver expected results or if we are unable to effectively translate R&D outcomes into marketable products, we may not achieve anticipated sales growth or market differentiation.

Any failure to execute effective marketing strategies or adjust such strategies according to market changes may impair our ability to attract and retain consumers.

Our ability to effectively implement and adapt marketing strategies in response to evolving consumer demands is critical to maintaining and expanding our consumer base and improving profitability. In 2023, 2024 and 2025, our selling and distribution expenses were RMB3,972.2 million, RMB5,161.0 million and RMB5,259.4 million, respectively. However, we cannot assure you that our marketing strategies will always be effective. Changes in consumer preferences may limit our ability to capture new opportunities, and if our marketing strategies fail to resonate with target audiences or are not executed in a timely and efficient manner, we may be unable to attract new consumers or retain existing ones. Any failure to adjust our marketing strategies in response to the debut of new products or rapid changes in consumer preferences and demands in China's cosmetics industry may result in a decline in product sales and market share.

Moreover, our relationships with third parties are vital for our marketing efforts, particularly our collaborations with KOLs/KOCs. However, we cannot assure you that the KOLs/KOCs will remain compliant with PRC laws and regulations on marketing activities carried out by them. Any misconduct or deterioration of image by these KOLs/KOCs, including inappropriate speech, unethical behavior, violation of laws and regulations or other negative publicity beyond our control would adversely affect our brand reputation and marketing efforts. We may also initiate legal proceedings against KOLs/KOCs for compensation, which could divert management's attention and incur additional litigation expenses.

We sell our products through a multi-channel sales network. If we fail to execute sales strategies or develop, manage, monitor and coordinate these sales channels effectively, our ability to expand and retain our consumer base may be impaired.

We rely on a multi-channel sales network consisting of direct sales and distribution across online and offline channels. These channels offer differentiated consumer access, and failure to effectively manage and coordinate them may result in channel conflict and inability to adapt to evolving industry landscapes, ultimately impairing our ability to attract and retain consumers. Particularly, online direct sales is an essential part of our revenue. Our revenue generated from sales to online direct sales accounted for 75.9%, 75.5% and 77.4%, respectively. If we fail to operate our self-operated online stores efficiently, or if we are unable to fully leverage the advantages of these stores to acquire new consumers and stimulate sales, our revenue may be adversely affected.

We also rely on distribution channels to expand market reach. Our revenue generated from sales to online distributors accounted for 17.2%, 19.6% and 18.2% of our revenue from sales of goods for the same years, respectively. Our revenue generated from sales to offline distributors accounted for 6.7%, 4.5% and 4.2% of our revenue from sales of goods for the same years, respectively. However, our distribution network carries inherent risks that may materially and adversely affect future revenue, including failure to comply with our standards, regulatory non-compliance, reputational damage and ineffective market penetration. In addition, during the Track Record Period, there were occasions where certain distributors settled payments through third parties designated by such distributors who were not a party to the corresponding sales and purchase agreements, accounting for a percentage of less than 0.01% of our total revenue in each year during the Track Record Period. As advised by our PRC Legal Advisor, we are of the view that our third-party payment arrangements did not contravene any mandatory provisions of applicable PRC laws or regulations, and the risk of our Group being obligated to return funds to the distributors or their designated third-party payors under these arrangements is low, on the grounds that (i) the third-party payment arrangements were made by the distributors based on genuine underlying transactions for the settlement of goods payments, and therefore do not constitute unjust enrichment; and (ii) the sales and purchase agreements were duly performed, and during the Track

Record Period, we were not subject to any administrative penalties in connection with such third-party payment arrangements. As of the Latest Practicable Date, we had ceased all third-party payment transactions and strengthened internal control measures to prevent recurrence of such arrangements.

We rely on third-party e-commerce platforms to sell our products online, and any interruption to, or deterioration of, our cooperation with such platforms could impact our operations.

We have relied on and continue to rely on certain third-party e-commerce platforms. In 2023, 2024 and 2025, our revenue generated from online sales channel amounted to RMB8,274.4 million, RMB10,233.7 million and RMB10,117.5 million, accounting for 93.1%, 95.1% and 95.6% of our total revenue from sales of goods in each respective year. Any significant modification in platform rules could affect our visibility and sales on these platforms. Any interruption to such platforms' services or operations, their failure to provide satisfactory user experience or attract and retain users, termination or deterioration of our cooperation with such platforms, increase in related costs, or inability to incentivize such platforms to drive traffic or promote our products may all adversely affect our business and results of operations. We cannot guarantee that we will be able to find alternative channels on terms and conditions commercially acceptable to us in a timely manner or at all, especially given the leading position and significant influence of these channels in China's e-commerce industry. In addition, any negative publicity about such platforms, any public perception or claims that non-authentic, counterfeit or defective goods are sold on such platforms, be it with merit or proven or not, may deter visits to the platforms and result in less customer traffic or lower sales of our products.

We may not be able to successfully diversify our products lines, expand our business into new markets or geographic locations or manage our expansion plans effectively.

We have adopted a strategic plan to expand our business into new geographic markets and product segments, including acquisition. There can be no assurance that we will be able to successfully execute our expansion plans or achieve sustained acceptance among consumers in diverse regions. Our expansion into new geographic markets requires us to make significant investments in localized marketing, distribution networks and to comply with varying regulatory standards. Consumer preferences, competitive landscapes and retail environments differ greatly across regions, and we may encounter challenges in adapting our products, branding and sales strategies accordingly. Furthermore, the diversification of our product categories requires substantial investment in research and development, consumer insight and operational adjustments. We may not achieve a satisfactory return on these investments.

Additionally, as part of our growth strategy, we may engage in acquisition, investments and other strategic transactions to diversify our new products or enter into geographic markets more efficiently. These transactions entail significant managerial, integration, operational and financial risks. Failure to successfully integrate acquired assets or realize anticipated synergies could lead to operational disruptions or a failure to achieve targeted financial and strategic benefits. Moreover, acquisitions and investments often require substantial capital investment and may affect our financial performance. We cannot assure you that we will successfully expand into the target markets.

We are subject to risks in relation to supply shortages and interruptions, long lead times and price fluctuations for raw materials and packaging materials. Any of these could disrupt our supply chain.

We primarily procure raw materials for our products. In 2023, 2024 and 2025, our costs of raw materials amounted to RMB1,837.5 million, RMB2,148.0 million and RMB1,807.4 million, respectively. Our reliance on third-party suppliers for raw materials could lead to supply disruptions if these suppliers face operational issues, financial instability or other unforeseen circumstances. Additionally, we only have limited control over the quantity and quality of raw materials supplied by third parties. Temporary or emergency shortages of raw materials or prolonged lead times could disrupt our production and delay deliveries. Any compromise in the quality of these materials could impact the quality of our products, leading to potential reputational damage and loss of customer trust. Furthermore, we may be subject to the risks associated with price fluctuations of our raw materials. The price of our raw materials fluctuates with market conditions and is subject to various factors beyond our control. Any shortfall in the supply of key raw materials or ingredients, could cause unexpected price inflation leading to a disruption of production schedules, increased costs and thereby impair our ability to meet consumer demand.

Our supplier concentration may expose us to supply chain risks.

During the Track Record Period, we sourced a substantial portion of our purchases from major suppliers. In 2023, 2024 and 2025, purchases from our top five suppliers in each year during the Track Record Period were RMB627.5 million, RMB641.4 million and RMB689.6 million, respectively, representing 23.4%, 20.8% and 24.3% of our total purchases for the respective year. These purchases are primarily associated with procurement of raw materials such as ingredients, packaging materials, logistics services and OEM/ODM services. We expect to continue procuring raw materials and packaging materials from these suppliers. Any deterioration or loss of our relationship with major suppliers may result in supply chain disruption that could hinder our ability to timely and effectively meet production needs.

We may face inadequate production capacity issues or experience disruptions and delays in our production, which could hinder our capabilities to satisfy customer demand.

Our ability to meet market demand partially depends on the continued and efficient operation of our own production facilities. As of the Latest Practicable Date, we operated one production base located in Huzhou, Zhejiang Province. The utilization rate of such production base was 82.2%, 74.9% and 71.9% in 2023, 2024 and 2025, respectively. See "Business — Production — Production Capacity." The operation of production facilities is subject to a variety of risks, including supply disruptions, equipment failures, regulatory issues, labor dispute and other operational interruptions. Furthermore, as we diversify our product lines or enter new markets, scaling production capacity in a timely and efficient manner may present significant challenges. If we are unable to proactively manage production planning, optimize production capacity allocation, mitigate disruptions or secure reliable alternative production resources when needed, we may experience delayed product launches, failure to fulfill orders, or loss of sales and damage to customer relationships.

We engage certain OEM/ODM providers to produce our products. Any failure to effectively control product quality produced by our OEM/ODM providers or maintain our relationship with such providers may expose us to additional risks.

We engage certain OEM/ODM providers to produce our goods. During the Track Record Period, the production volume under OEM/ODM model represented 9.7%, 15.7% and 18.5% of our total production volume, respectively. Such an arrangement exposes us to risks related to production stability and capacity, quality control and regulatory compliance, as we do not have direct control over the daily operations of our OEM/ODM providers. Any failure by our OEM/ODM providers to adhere to our specified quality standards, formulation requirements or safety protocols could result in non-compliant, ineffective or unsafe products. Such failures may lead to product recalls, consumer complaints, regulatory sanctions and reputational damage. Moreover, if OEM/ODM providers encounter raw material shortages or experience disruption in their business operations, or if our relationship with any key OEM/ODM providers deteriorates or is terminated and we cannot promptly shift production to alternative qualified suppliers, we may face supply disruptions, delayed product launches and increased production costs.

We engage third-party warehouses and logistics service providers to store and deliver our products. Any delivery delays, improper handling or increase in warehousing or transportation costs may adversely affect our business.

Our warehousing and logistics capabilities are essential to ensuring timely product delivery and effective customer service. Improper warehousing or handling of our products, changes in optimal storage conditions or service interruptions at our warehouse facilities could result in inventory damage, delayed deliveries or other operational disruptions. We maintain insurance to cover certain inventory losses and damages, however the scope of coverage may be limited and any delay-related losses may not be recoverable under our existing policies.

We primarily engage third-party logistics service providers to deliver our product to customers, which may also expose us to risks beyond our control. Operational or financial difficulties, insufficient service capacity or non-compliance with service standards by such providers could negatively affect our ability to fulfill customer orders in a timely and cost-efficient manner. In addition, improper transportation or handling of our products may result in physical damage or product malfunctions, potentially leading to warranty claims, or product returns or disputes.

We are also subject to fluctuations in warehousing and logistics-related costs. We recorded logistics and transportation costs of RMB384.3 million, RMB382.6 million and RMB371.2 million in 2023, 2024 and 2025. Any material increase in storage fees, transportation charges or fuel costs may increase our operating expenses and reduce our profit margins.

We may not be able to accurately forecast market demand for our products, and maintain an optimal inventory level.

Accurate forecasts of market demand for our products and effective inventory management are critical to production stability, timely delivery, and customer satisfaction. As of December 31, 2023, 2024 and 2025, we had inventories of RMB797.2 million, RMB661.4 million and RMB634.7 million, respectively. Our inventory turnover days were 98.6 days, 85.1 days and 82.3 days in 2023, 2024 and 2025, respectively. The market demand for our products may be affected by year-to-year fluctuations, new product launches, changes in product cycles and pricing, product defects, promotions and changes in consumer spending patterns and preferences. If our demand forecasting is inaccurate, we may face mismatches between inventory and actual market demand. This could lead to either excess inventory of slow-moving products, resulting in increased storage costs, or inventory shortages of popular items, leading to missed sales opportunities, delayed order fulfillment and customer dissatisfaction.

Our delivery, return and exchange policies may subject us to additional costs and expenses.

We offer flexible and consumer-friendly delivery and return options, especially across e-commerce and omnichannel platforms. During the Track Record Period, our product return rate was approximately 1.9%. Such product return rate is calculated as a percentage of the total value of returned products during the Track Record Period divided by the sum of the total value of returned products and our total revenue during the same years. Such product return rate was lower than the industry average, according to Frost & Sullivan. However, these policies increase our exposure to logistical complexities and costs. A high rate of returns can lead to significant operational expenses and inventory losses, particularly for products that cannot be resold due to quality, hygiene or packaging regulations. Furthermore, frequent or large-scale returns may also indicate underlying issues with product quality, marketing accuracy or consumer expectations. In addition, as market practices, consumer preferences and consumer expectations evolve, we may experience shifts in consumer satisfaction or receive complaints from our consumers regarding products sold, potentially creating pressure to further liberalize our return and exchange terms to match or exceed competitors' offerings. While such measures could help maintain customer satisfaction and brand loyalty, they may also elevate the risk of policy abuse or excessive returns, thereby increasing associated costs. The financial impact includes not only direct handling logistics expenses, but also potential write-downs of impaired inventory, increased working capital requirements and reduced profit margins.

We may not be able to maintain competitive pricing strategies and effectively manage our pricing systems.

The cosmetics industry is highly competitive and sensitive to price changes, with consumers often comparing products across multiple brands and sales channels. We cannot guarantee that we will consistently adopt a competitive pricing strategy for our products. If our market research yields inaccurate results that misalign our pricing strategy with market trends, we risk either diminishing profit margins by underpricing or dampening sales volume and revenue by overpricing. Even if we initially price our products appropriately, we may need to offer significant discounts during major shopping events such as Double Eleven Shopping Festival to enhance brand awareness and drive sales or adjust prices as our products progress through their life cycles.

Our ability to consistently manage and implement an effective pricing system is critical to maintaining price integrity and maximizing revenue. Inconsistencies in pricing can lead to consumer confusion, channel dissatisfaction and erosion of trust in our brands. Particularly, we may have limited control over discounted prices offered to consumers by our distributors in online and offline sales channels. Failure to maintain discipline and consistency in our pricing system may not only dilute brand value but also affect our overall pricing system.

Our business success depends on the continuing efforts of our founder, senior management and other key personnel.

Our business operations depend upon the continuing efforts of our founder and other senior management members and key personnel. Any discontinuation of services by our founder and other senior management members and key personnel, whether due to resignation, retirement or other reasons, could disrupt our operations and impact our ability to execute our business strategies effectively. Competition for experienced and qualified personnel in the cosmetics industry is intense, and we may not be able to attract or retain suitable replacements in a timely manner or on commercially reasonable terms. In addition, should any negative publicity regarding our founder, senior management or other key personnel occur, failure to promptly identify and address it may result in reputational damage, divert management's attention and resources from other important business concerns and potentially lead to a decline in our business performance.

Our brands and products may be subject to counterfeiting, imitation and/or infringement by third parties, and we may not be able to prevent the existence of counterfeit products on the market.

Our products are vulnerable to unauthorized imitation, trademark and patent infringement and the production and sale of counterfeit goods. These activities are often facilitated through online marketplaces, social commerce channels and unauthorized physical retailers, which makes us difficult to fully monitor and control. There is a risk that third parties may produce and distribute counterfeit goods or imitations that infringe upon our trademarks, designs, patents or other intellectual property rights. The presence of counterfeit products not only diverts sales and erodes profit margins but also poses significant risks to consumer safety and brand reputation.

The detection and prevention of counterfeit products is challenging. There is no assurance that our efforts will be sufficient to prevent the production and distribution of counterfeit or infringing products or that we will be able to obtain or enforce judgments against infringers. In addition, the costs associated with protecting our intellectual property rights may be substantial and there is a risk that we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property. Any failure to protect our intellectual property rights could negatively impact our competitive position and reduce the value of our brand and products.

Any misconduct or non-compliance with relevant laws and regulations by our Directors, senior management, employees, shareholders, distributors, suppliers, third-party service providers, brand ambassadors or KOLs/KOCs with whom we cooperate, or are otherwise involved in claims, disputes and proceedings, may subject us to potential liability and negative publicity.

The cosmetics industry is subject to extensive regulatory oversight, including product safety, advertising standards, consumer protection and data privacy requirements. Unauthorized or exaggerated product claims by promotional partners, violations of promotional regulations on e-commerce or social media platforms or the improper handling of consumer data by employees or third parties could lead to regulatory investigations, fines, mandatory product recalls or temporary suspension of our operations. Moreover, such incidents, even if isolated or unintentional, may attract significant media and public attention, erode consumer trust and cause long-term damage to our corporate reputation and brand image. We cannot guarantee full adherence by every individual or entity within our ecosystem, particularly given the diversity and scale of our operations and partnerships. Any failure to monitor, prevent or appropriately respond to non-compliant conducts may have material and adverse impact on our business, financial condition and results of operations.

We may not be able to adequately protect our intellectual property rights and may be subject to intellectual property infringement claims.

Our success is partially dependent on intellectual property rights to safeguard the proprietary technologies and brands underlying our skincare, makeup and personal care products. We protect our intellectual property rights through a combination of patents, trademarks, copyright and trade secret laws, as well as contractual restrictions such as non-disclosure or confidentiality agreements. However, there can be no assurance that these protections will be sufficient. Failure to obtain or maintain adequate protection for our core intellectual properties may expose us to imitation, competitive circumvention and erosion of market position. We may face challenges in preventing third parties from infringing upon or misappropriating our intellectual properties. Additionally, the enforcement of these rights can be difficult and costly. We may have to initiate legal proceedings against relevant parties to defend our intellectual property rights, which could result in diversion of resources from our operations, and we may not be able to obtain results in our favor. Even if the outcome of such legal proceedings resulted favorably, we may not be able to enforce a judgment or the remedies or damages may not be adequate to compensate us for our actual or anticipated losses, whether tangible or intangible.

Moreover, we cannot assure you that our business would not infringe upon or otherwise violate intellectual property rights held by third parties. If we are found to have violated the intellectual property rights of others in the future, we may become subject to claims and proceedings which may result in substantial legal costs, injunctions to develop or commercialize the related products, and harm to our reputation. In addition, negative publicity arising from litigation, legal or contractual disputes, investigations or administrative proceedings may damage our reputation and customer relations.

Our sales volume may fluctuate due to seasonality.

As we continue to leverage online platforms for sales and marketing, our results of operations are affected by seasonal fluctuations in demand for our products. Generally, during shopping festivals and public holidays, we typically experience stronger sales performance. As a result, our financial performance fluctuates throughout the year and interim results may not necessarily reflect our annual results. Moreover, if we fail to accurately anticipate these seasonal demand patterns, adequately prepare inventory in advance or effectively execute promotional campaigns during key selling periods, we may miss significant sales opportunities or incur elevated inventory holding costs. Furthermore, the highly concentrated nature of sales during peak seasons places substantial pressure on our supply chain, logistics and customer service capabilities, increasing the risk of operational disruptions.

We may face risks inherent in international operations, including operational complexities, regulatory compliance challenges and geopolitical uncertainties.

As we continue to expand our global footprint, we are increasingly exposed to a wide range of risks and operational challenges. Such risks primarily include difficulties in understanding local market dynamics and cultural nuances, intensified competition, complex distribution logistics, higher costs associated with staffing and managing cross-border operations and challenges in maintaining strong relationships with existing collaborators while seeking new opportunities. Failure to build and sustain connections with local customers and stakeholders, or to consistently deliver high-quality products and services could result in adverse effects on products and services. Our revenue from markets outside the PRC accounted for 0.9%, 1.3% and 2.8% of our total revenue for the years ended December 31, 2023, 2024 and 2025, respectively

In addition, operation in international markets and procurements from international suppliers may subject us to diverse legal and regulatory conditions, which include import and export controls requirements, anti-dumping policies, anti-corruption laws, anti-money laundering laws, environmental and labor laws and regulations, restrictions on foreign investment, anti-competition rules and unfavorable tariffs treatments. Rising geopolitical tensions and national security concerns in recent years have led to stricter international trade policies, trade protection measures, economic or trade sanctions and export control measures. Non-compliance could restrict our ability to conduct cross-border business, increasing compliance burdens or leading to reputational damage.

Furthermore, our international operations are subject to local political and economic conditions. Changes in government leadership, regulatory priorities, or macroeconomic indicators such as inflation, currency fluctuations or interest rate shifts could reduce consumer demand and investment confidence. Furthermore, heightened political tensions may also disrupt global trade, investment and technological exchange, potentially affecting us, our business partners, suppliers and customers. This could hinder access to critical technologies, systems or components that may be critical to our technological infrastructure, product offerings and business operations. We cannot assure you that we are able to anticipate and mitigate all such risks as we continuously expand our business.

Our historical results of operations may not be indicative of future performance.

In 2023, 2024 and 2025, our revenue amounted to RMB8,904.6 million, RMB10,778.4 million and RMB10,597.4 million, respectively. Our future growth and profitability depends on our ability to successfully implement our business development strategies, which are affected by a number of factors, such as our ability to (i) expand our product category and consistently enrich our product portfolio, (ii) upgrade our supply chain and improve production capability, (iii) strengthen our sales network and brand building, (iv) successfully expand our footprint in addressable markets, and (v) attract, train and retain capable talent to support our business operation. We cannot guarantee that we can successfully implement our business development strategies in the manner that we expect or at all. In addition, the implementation of these business development strategies may require substantial investment and we may not be able to realize the anticipated benefits from said investment.

We are exposed to credit risks related to our trade and bills receivables.

Our trade and bills receivables represent amounts due for goods sold in the ordinary course of business. As of December 31, 2023, 2024 and 2025, we recorded trade and bills receivables of RMB351.9 million, RMB518.0 million and RMB72.6 million, respectively. We recorded impairment on trade and bills receivables of RMB30.9 million, RMB37.3 million and RMB14.0 million as of December 31, 2023, 2024 and 2025, respectively.

During the Track Record Period, we usually grant a credit term within 90 days. However, there can be no assurance that the collection of amounts due from our customers will be timely. This might result in slow turnover of our trade and bills receivables and restrict our working capital resources. In 2023, 2024 and 2025, the turnover days for our trade and bills receivables were 9.2, 14.5 and 10.0 days, respectively. See "Financial Information — Discussion of Certain Key Balance Sheet Items — Trade and Bills Receivables."

We may not be able to fulfill our obligation in respect of contract liabilities.

As of December 31, 2023, 2024 and 2025, we had contract liabilities of RMB301.0 million, RMB153.8 million and RMB167.6 million, respectively. Our contract liabilities represented advance payments from our customers for sales of products and estimated membership points. If we fail to honor our obligations under our contracts with such customers, we may not be able to convert such contract liabilities into revenue, and our customers may also require us to refund the relevant prepayments they have made, which may also adversely affect our business relationships with them.

We may not be able to recover our deferred tax assets.

We are required to make judgments, estimates and assumptions about the carrying amounts of our deferred tax assets. As of December 31, 2023, 2024, and 2025, we had deferred tax assets of RMB108.5 million, RMB163.7 million and RMB149.1 million, respectively, see Note 21 of Appendix I to this document. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses, can be utilized. The estimates and associated assumptions are based on historical experience and other relevant factors. As a result, actual results may differ from these accounting estimates. The realization of deferred income tax assets depends primarily on our estimate of whether sufficient future profits will be available. If sufficient future taxable profits are not expected to be generated or if taxable profits are lower than expected, we may fail to recover our deferred tax assets.

Our information technology systems are crucial to our business operations. Any significant disruption to our information technology systems may interrupt our normal business operations.

Our business operations are supported by our information technology systems for various functions. These systems are critical for maintaining operational efficiency, data accuracy and timely decision-making. However, our information technology systems are subject to various risks, including system failures, data inaccuracies, cyber-attacks, data breaches and other security incidents. Any such event could disrupt our operations, compromise our data and result in significant remediation costs, legal liabilities and reputational damage. Furthermore, our information technology systems need to be regularly updated and upgraded to keep pace with technological advancements and changing business needs. These updates and upgrades require significant investment and may cause system disruptions or compatibility issues.

We also engage certain third-party service providers for the development, upgrades and maintenance of certain information technology systems. Any failure of these third-party service providers to meet their service obligations could affect the performance of our information technology systems. Furthermore, any breach of contract or termination of services by these vendors could result in disruptions to the operation of our information technology systems, additional costs and time delays associated with transitioning to a new vendor.

Any failure to comply with data privacy and security laws or other concerns about our practices or policies with respect to the collection, use, storage, retention, transfer, disclosure and other processing of data, could subject us to potential liabilities.

Our operations involve the collection, use, storage, retention, transfer and disclosure and other processing of significant amounts of consumer, employee and business data, including personal information and order information. The regulatory landscape governing data privacy and security — both in China where we mainly operate, such as the Personal Information Protection Law (PIPL) and in overseas jurisdictions such as Europe where we have established one of our key R&D centers — is stringent and subject to frequent changes. Any failure to comply with these requirements, could result in regulatory investigations, significant fines, mandatory business suspension or civil litigation. Moreover, loss of consumer trust due to actual or perceived mishandling of data, especially in the cosmetics industry where personalized recommendations and online engagement are central to the customer experience, may lead to reputational damage, reduced consumer loyalty and decreased sales. We cannot guarantee complete immunity from data security incidents or regulatory non-compliance, particularly as cyber threats grow in scale and sophistication.

The increasing awareness of ESG matters may lead to the adoption of more stringent laws and regulations and increase our compliance costs.

The increasing awareness of environmental, social and governance (ESG) matters among consumers, investors and regulators may lead to the adoption of more stringent sustainability, ethical and compliance requirements, which could significantly increase our operational and compliance costs. We are subject to growing expectations and potential regulations related to environmental impact, responsible sourcing of ingredients, labor practices and corporate transparency. Failure to meet these evolving standards or to accurately communicate our ESG commitments may not only result in legal penalties or restricted market access, particularly in regions with strict sustainability mandates, but also diminish our brand attractiveness among increasingly conscious consumers. Furthermore, implementing comprehensive ESG-related initiatives requires substantial investment and ongoing operational adjustments. If we are unable to effectively integrate ESG principles into our business strategy, monitor compliance across our extensive partner network or respond proactively to new regulatory demands, we may face reputational damage, loss of market share and increased costs.

Our risk management and internal control systems may not be adequate or effective.

Our operations span a wide range of complex and evolving areas, including product development, multi-channel sales and marketing and supply chain management. As we continue to grow, the challenges of implementing and maintaining comprehensive and effective risk management and internal control frameworks increase significantly. Our existing systems and procedures may not be sufficient to identify, monitor or mitigate all operational, financial, legal and compliance risks in a timely manner. Failures in internal controls, could lead to operational inefficiencies, asset losses, regulatory non-compliance or misstated financial results. There can be no assurance that our risk management and internal control systems will be fully effective under all circumstances.

Our insurance coverage may be inadequate to protect us from the liabilities we may incur or cover all of our potential losses.

We maintain various insurance policies, including social security insurance for our employees, property insurance, public liability insurance and personal accident insurance. However, the scope and limits of this coverage may not be sufficient to fully compensate for all potential losses or liabilities we might face. For instance, in the event of a major product recall or an instance of widespread consumer claims allegedly related to product safety or efficacy, the costs of compensation, legal defense and reputational repair could far exceed our insurance coverage. Furthermore, certain types of risks, such as those related to cyber-attacks, intellectual property disputes or punitive damages, may be excluded from our policies or subject to very limited coverage. If we experience a significant loss that is not fully covered by insurance, we may need to bear substantial costs ourselves.

Any failure to obtain, maintain or renew the permits, licenses and certificates may impair our ability to develop, produce or commercialize our products and generate expected revenue, incur significant costs.

Our business is subject to stringent regulatory requirements that mandate us to obtain and maintain various permits, licenses and product certifications. This includes licenses for our production base and most critically, filing or license for our cosmetics products with the relevant authorities and regulatory bodies in the jurisdictions where we operate. The process of obtaining these approvals can be lengthy, complex and subject to changing regulatory interpretations. Any failure to secure, maintain or renew a necessary permit or product certificate on a timely basis could prevent us from launching, producing and selling products in key markets. This would not only lead to lost sales opportunities and render prior R&D investments ineffective but also potentially incur significant costs to remedy the situation.

Any interference to our right to use the owned or leased premises may adversely affect our business operations.

We may be required to relocate or dismantle certain sites, facilities or structures if we fail to comply with relevant laws and regulations regarding property rights and use. Furthermore, in situations where our landowners may have defects as to the land's title, our use of these buildings may be invalid or subject to third-party claims or disputes. See "Business — Properties." In addition, we may occasionally face disagreements with landlords or local authorities regarding lease terms, permitted land use or access rights. There is also a risk that landowners may choose not to renew leases, revoke access or transfer their interests to third parties. In some cases, they may lose legal ownership or exercise their right to reclaim the property, which could result in the termination of our lease or obstructed access to the premises. Any interference with our rights to use these properties, whether due to legal title issues, failure of lease renewal or third-party claims could adversely affect our operational stability.

We, our Directors, management and shareholders may be involved in lawsuits, claims, disputes, regulatory investigations or legal proceedings in our ordinary course of business.

In the course of our operations, we may become involved in various legal and regulatory proceedings. These could include intellectual property disputes, product liability lawsuits, consumer complaints, false advertising investigations by market regulators, disputes with distributors or business partners and compliance reviews related to data privacy or marketing practices. In addition, our Directors, management and shareholders may from time to time subject to litigation and other legal proceedings, negative publicity or restriction orders including judicial freeze on shares. Such proceedings, even if without merit or ultimately resolved in our favor, often require significant management time and attention, incur substantial legal costs and may lead to settlements or judgments against us. Furthermore, any negative outcomes or even the mere existence of such proceedings could generate adverse publicity, damage our brand reputation and erode consumer trust.

We may face risks relating to labor relations, labor shortages and increase in labor costs.

Our success depends in part on our ability to hire, train, retain and motivate our employees. Any deterioration in labor relations could disrupt operations and damage our reputation. We may face liability, regulatory scrutiny, or negative publicity in the event of workplace injuries or accidents involving employees or third-party service providers. Moreover, given the seasonal peaks in the cosmetics market, particularly around shopping festivals and holidays, our existing workforce may be insufficient to meet surging demand. In such cases, we may struggle to recruit additional staff in a timely or cost-effective manner.

We may be subject to additional contributions of social insurance and housing provident funds imposed by relevant governmental authorities.

Companies operating in the PRC have to participate in various employee benefit plans required by the government, including certain social insurance, housing provident funds and other welfare-oriented payment obligations. Such contributions are calculated based on actual wages of the year and should be made within prescribed time limits.

During the Track Record Period, we did not pay social insurance and housing provident fund in full using actual wages as the contribution basis. Consequently, we may be required to pay the outstanding amount and could be subject to late payment penalties or an enforcement application made to the court. As of the Latest Practicable Date, we had not received any notice from the relevant authority in the PRC requiring us to pay shortfalls or imposing penalties related to social insurance and housing provident fund contributions. In addition, on the premise that there are no material changes in the relevant prevailing laws, regulations and the implementation or supervisory requirements of the local authorities, and that there are no material employee complaints, report or related litigation or arbitration proceedings, our PRC Legal Advisor is of the view that the risk of us being required to pay such shortfall or subject to administrative penalties is remote. However, there is no assurance that the relevant authorities would not notify and require us in the future to settle outstanding contributions within a prescribed timeframe. Should we fail to pay any outstanding contributions, we may be subject to a fine and/or an order from the relevant authority to enforce such payment.

Any discontinuation, reduction or delay in payment of any government grants, tax refund or preferential tax treatments may have an adverse impact on our business.

During the Track Record Period, we have benefited from certain government grants and preferential tax policies. In 2023, 2024 and 2025, we received government grants of RMB44.0 million, RMB54.9 million and RMB55.6 million, respectively. Under the PRC Enterprise Income Tax Law (the "**EIT Law**") and Implementation Regulation of the EIT Law, our Company is accredited as "National High-Tech Enterprise" and was therefore entitled to a preferential income tax rate of 15% for the years ended December 31, 2023, 2024 and 2025. See "Financial Information — Description of Major Components of our Results of Operations — Income Tax Expense." However, government grants and preferential tax treatments granted to us by PRC governmental authorities are subject to change based on governmental discretion and may be reduced, modified or eliminated altogether. Furthermore, our eligibility for certain benefits requires periodic review and recertification and there is no guarantee that we will continue to qualify. If significant government support is discontinued, reduced or significantly delayed or if our eligibility for tax incentives lapses, our operating expenses could increase.

We may be subject to future occurrence of force majeure events, natural disasters or outbreaks of contagious diseases.

Force majeure events, natural disasters, epidemics, acts of war or terrorism or other factors beyond our control could adversely affect the economies, infrastructure and lives of people in the regions in which we operate. Our operations may be subject to the threat of floods, earthquakes, dust storms, snowstorms, fires or droughts, power, water or fuel shortages, malfunctions, breakdowns and failures of information management systems, unexpected maintenance or technical problems or be vulnerable to potential war or terrorist attacks. Severe natural disasters could result in loss of life, injury, destruction of assets and disruption of our business and operations. Acts of war or terrorism could also injure our employees, cause loss of life, disrupt our business operation and impair our markets. Any of these factors, as well as other factors beyond our control could cause our business to suffer losses that we cannot predict.

RISKS RELATING TO DOING BUSINESS IN THE JURISDICTIONS WHERE WE OPERATE

We may be unable to respond to development in changes in the economic, political or social conditions or government policies in the jurisdictions where we operate or sell products.

Our business, financial condition and future prospects may be influenced by the general economic, social and legal conditions in the country in which we operate. As the majority of our business, assets and operations are located in the PRC, we remain particularly exposed to the evolving regulatory landscape and macroeconomic conditions within the PRC. The cosmetics industry in the PRC is sensitive to macroeconomic fluctuations. Factors such as international trade dynamics, employment levels, consumer confidence and discretionary spending may directly influence consumer demand. In addition, uncertainties in the global economy and geopolitical tensions across various regions continue to affect economic stability and growth outlook. These potential pressures and regulatory changes may pose unforeseen challenges to our business operations. There can be no assurance that such efforts will be successful in providing protection against potential adverse outcomes in all circumstances.

We may be subject to the approval, filing or other requirements of the CSRC or other PRC governmental authorities in connection with overseas offerings and future capital raising activities.

As PRC laws and regulations in relation to overseas issuance and listing of shares develop, we may be required to make filings with or report to CSRC or other PRC regulatory authorities for our future capital raising activities. On February 17, 2023, the CSRC promulgated the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市管理試行辦法》) (the "**Trial Measures**") and their implementation guidelines. The Trial Measures, which came into effect on March 31, 2023, mainly provide the scope of activities subject to the filing requirements, the entities subject to filing obligations and the filing procedures. For more details, see "Regulatory Overview — Regulations Relating to Overseas Listing."

On February 24, 2023, the CSRC, the MOF, the National Administration of State Secrets Protection and the National Archives Administration published the Provisions on Strengthening Confidentiality and Archives Administration of Overseas Securities Offering and Listing by Domestic Companies (《關於加強境內企業境外發行證券和上市相關保密和檔案管理工作的規定》) (the **"Archives Rules"**), which came into effect on March 31, 2023. Any failure to comply with Archives Rules may result in regulatory consequences.

In addition, if the CSRC or other PRC regulatory authorities in the future promulgate new rules or explanations imposing further requirements on us to obtain their approval or to complete required filings or other regulatory procedures for future capital raising activities, there can be no assurance that we will be able to obtain a waiver of such approval requirements, if and when procedures are established to obtain such a waiver. Any unforeseen situations or negative publicity regarding such approvals, filings or other requirements could adversely affect our [**REDACTED**] and future capital raising activities.

We are subject to uncertainties embedded in the legal systems of the jurisdictions where we operate.

We are subject to various laws and regulations in the jurisdictions where we operate, which have distinct legal systems and regulatory enforcement practices that may result in uncertainties or inconsistent interpretation. Legal frameworks are constantly evolving, and newly enacted or amended regulations may impose additional compliance obligations, increase operational costs or require adjustments to our business practices. Furthermore, divergent standards across regions may complicate cross-border operations, requiring us to implement tailored compliance programs. Failure to adapt promptly to these changes could result in penalties, reputational harm or disruptions to our business continuity.

We are subject to a number of health and safety laws and regulations pertaining to the quality of cosmetics, see "Regulatory Overview — Regulations Relating to Cosmetics." The regulatory requirements and safety standards in the cosmetic industry are constantly developing in various perspectives such as ingredient use, labeling regulations and post-market surveillance. Any failure to fully comply with these laws and regulations in the jurisdictions where we operate may lead to substantial fines, penalties or other sanctions.

In addition, we advertise our brand and products through a wide range of online and offline channels in China, which are subject to applicable PRC laws and regulations regarding online and offline advertisement and sale of cosmetics products. These rules require that all advertising content be truthful, lawful and not misleading. Standards for cosmetics advertising are even stricter and all statements must avoid exaggeration. Any implication of medical efficacy without scientific basis, the use of superlatives such as "best" or "most effective," or references to patented products without formal certification is prohibited. Any violation by our employees or third-party service providers could result in fines, license revocation or suspension of the advertising activities. Given the discretionary enforcement practices of regulatory authorities and the increasing scrutiny of cosmetics advertising in China, we may need to allocate additional resources to compliance audits, legal defenses and corrective actions. Moreover, government actions and civil claims may be filed against us for misleading or inaccurate advertising or other illegal acts that violate advertising laws.

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

We are a company incorporated under the laws of the PRC and the majority of our assets and subsidiaries are located in the PRC. The majority of our Directors and senior management reside within the PRC, and most of their assets are also located in China. Consequently, you may face challenges in serving legal process on us or our Directors or executive officers residing in the PRC. According to the Arrangements for Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Cases between Courts of the Mainland and Hong Kong Special Administrative Region (《關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排》) (the "Arrangements"), effective January 29, 2024, promulgated by the Supreme People's Court, parties may apply for recognition and enforcement of final judgments in civil and commercial cases (certain types excluded), rendered by designated courts in either the PRC or Hong Kong. However, recognition and enforcement of such judgments in the PRC remained subject to case-by-case review by the relevant courts, and we cannot guarantee that all Hong Kong court judgments will be recognized or enforced in the PRC. Furthermore, under the Civil Procedure Law of the PRC and other applicable regulations, foreign court judgments may be recognized and enforced in the PRC only if a treaty for reciprocal enforcement exists between the PRC and the jurisdiction where the judgment was issued. Therefore, you may fail to enforce in the PRC the judgment obtained in the courts of the jurisdictions where the judgment was issued against us or our Directors or senior management.

Our operations are subject to PRC tax laws and regulations.

To the extent there are any changes in the laws and regulations governing preferential tax treatment or increases in our effective tax rate due to any other reasons, our tax liability would increase correspondingly. In addition, applicable governmental authorities may amend or restate regulations on income, withholding, value-added and other taxes. Non-compliance with applicable tax laws and regulations may also result in penalties or fines imposed by relevant tax authorities.

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

Under the EIT Law and its implementation rules, subject to any applicable tax treaty or similar arrangement between the PRC and a non-PRC investor's jurisdiction of residence, PRC withholding tax at the rate of 10% is normally applicable to dividends from PRC sources payable to investors that are non-PRC resident enterprises, and gains realized on the transfer of shares by such investors are subject to a 10% PRC income tax rate if regarded as PRC-sourced income, unless reduced or exempted under applicable tax treaties.

Under the PRC Individual Income Tax Law and its implementation rules, dividends from PRC sources paid to non-PRC resident individual investors are generally subject to a PRC withholding tax at a rate of 20% and gains from the transfer of shares are generally subject to a 20% PRC income tax rate, in each case, subject to any reduction or exemption set forth in applicable tax treaties and PRC laws. Pursuant to the Circular on Questions Concerning the Collection of Individual Income Tax Following the Repeal of Guo Shui Fa [1993] No. 045, dividends paid to non-mainland China resident individuals are generally subject to a reduced PRC withholding tax rate of 10% where the individual resides in a jurisdiction that has entered into a tax treaty or similar arrangement with China. In addition, under the Circular on Relevant Issues Concerning the Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation, income derived by individuals from the transfer of listed shares on certain domestic exchanges continues to be exempt from PRC individual income tax, unless otherwise prescribed. As of the Latest Practicable Date, such regulations do not expressly require the collection of PRC individual income tax from non-PRC resident individuals on gains from the sale of shares in PRC resident enterprises listed on overseas stock exchanges. As of the Latest Practicable Date, the aforesaid provision does not expressly provide that individual income tax shall be collected from non-PRC resident individuals on the sale of shares of PRC resident enterprises listed on overseas stock exchanges. To our knowledge, in practice, the PRC tax authorities have not sought to collect individual income tax from non-PRC resident individuals on gains from the transfer of listed shares of PRC resident enterprises on overseas stock exchanges. However, there is no assurance that future changes in PRC laws, regulations or practice will not result in the imposition of such taxes. If the PRC income tax is imposed on gains realized from the transfer of our H Shares or on dividends paid to our non-PRC resident investors, the value of your investment in our H Shares may be affected. Furthermore, our Shareholders whose jurisdictions of residence have tax treaties or arrangements with the PRC may not qualify for benefits under such tax treaties or arrangements.

We may be unable to comply with the PRC anti-corruption laws, regulations and rules could subject us and/or our employees to investigations and administrative or criminal penalties.

There can be no assurance that the anti-corruption internal controls and procedures we have established will effectively prevent our non-compliance with PRC anti-corruption laws, regulations and rules arising from actions taken by individual employees without our knowledge. If this occurs, we and/or our relevant employees may be subject to investigations and administrative or criminal penalties and our reputation could be harmed by any negative publicity stemming from such incidents.

Failure to comply with PRC regulations regarding registration requirements for employee share ownership plans or share option plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

In February 2012, the SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly Listed Companies (《關於境內個人參與境外上市公司股權激勵計劃外匯管 理有關問題的通知》) or SAFE Circular 7, replacing the previous rules issued by the SAFE in March 2007. Under SAFE Circular 7 and other relevant rules and regulations, PRC residents who participate in a stock incentive plan in an overseas publicly listed company are required to register with the SAFE or its local branches and complete certain other procedures. We and our PRC employees who have been granted share options and restricted shares are subject to these regulations. Failure to complete SAFE registrations may subject us or them to fines and legal sanctions and could restrict our ability to adopt additional incentive plans for our employees under PRC law.

The SAFE has also issued relevant rules and regulations concerning employee share incentives. Under these rules and regulations, our employees working in the PRC will be subject to PRC individual income tax upon exercise of the share options or grant of the restricted shares. Our PRC subsidiaries have obligations to file documents with respect to the granted share options or restricted shares with the relevant tax authorities and to withhold individual income taxes for their employees upon exercise of the share options or grant of the restricted shares. If our employees fail to pay or we fail to withhold their individual income taxes according to relevant rules and regulations, we may face sanctions imposed by the competent government authorities.

We are subject to the currency exchange regulatory system.

Conversion and remittance of foreign currencies are subject to certain foreign exchange regulations. It cannot be guaranteed that under a certain exchange rate, we would have sufficient foreign exchange funds to meet our foreign exchange needs. Any insufficiency of foreign exchange funds may restrict our ability to obtain sufficient foreign exchange for dividend payments to Shareholders or satisfy any other foreign exchange obligation. If we fail to obtain approval from or register with the SAFE to convert RMB into any foreign exchange funds for any of the above purposes, our potential offshore capital expenditure plans and even our business may be affected. Moreover, non-compliance with any applicable foreign exchange regulations could subject us to administrative penalties and fines and could affect our business and reputation.

RISKS RELATING TO THE [REDACTED]

Our A Shares are listed on the Shanghai Stock Exchange and the characteristics of the A Share and H Share markets may differ.

Our A Shares are listed and traded on the Shanghai Stock Exchange. Following the [**REDACTED**], our A Shares will continue to be traded on the Shanghai Stock Exchange and our H Shares will be [**REDACTED**] on the Stock Exchange. Under current laws and regulations of the PRC, without approval from the relevant regulatory authorities, our H Shares and A Shares are neither interchangeable nor fungible and there is no trading or settlement between the H Share and A Share markets. The H Share and A Share markets have different trading characteristics with divergent [**REDACTED**], liquidity and investor bases, as well as different levels of retail and institutional investor participation. As a result, the [**REDACTED**] performance of our H Shares and A Shares may not be comparable. Nonetheless, fluctuations in the price of our A Shares may adversely affect the price of our H Shares and vice versa. Due to the different characteristics of the H Share and A Share markets, the historical prices of our A Shares may not be indicative of the performance of our H Shares. You should therefore not place undue reliance on the trading history of our A Shares when evaluating your [**REDACTED**] regarding our H Shares.

We will be concurrently subject to listing and regulatory requirements of the PRC and Hong Kong.

As our A shares are listed on the Shanghai Stock Exchange and our H shares will be [**REDACTED**] on the Stock Exchange, we will be required to comply with the listing rules (where applicable) and other regulatory regimes of both jurisdictions, unless an exemption is available or a waiver has been obtained. Accordingly, we may incur additional costs and resources to ensure our compliance with the listing rules of both jurisdictions.

There has been no prior public market for our H Shares and the liquidity and market price of our H Shares may be volatile.

Prior to the [**REDACTED**], there has been no public market for our H Shares. The [**REDACTED**] for our H Shares was the result of negotiations between us and the [**REDACTED**] for themselves and on behalf of the [**REDACTED**] and the [**REDACTED**] may differ significantly from the [**REDACTED**] for our H Shares following the [**REDACTED**]. We have applied for the [**REDACTED**] of and permission to [**REDACTED**], our H Shares on the Stock Exchange. A [**REDACTED**] on the Stock Exchange, however, does not guarantee that an active and liquid [**REDACTED**] for our H Shares will develop, especially during the period when a certain portion of our Shares may be subject to [**REDACTED**], or, if it does develop, that it will be sustained following the [**REDACTED**] or that the [**REDACTED**] of our H Shares will not decline following the [**REDACTED**]. Furthermore, the [**REDACTED**] and [**REDACTED**] of our H Shares may be volatile. The [**REDACTED**] and [**REDACTED**] of our H Shares may be affected by various factors, including fluctuations in our operating performance and revenue; our ability to execute business strategies; unexpected business interruptions arising from operational failures, natural disasters or changes in key management; market reactions to future indebtedness or securities issuances; competitive, acquisition or strategic developments in our industry; potential litigation or regulatory investigations; general market and industry conditions; changes in laws, regulations or their interpretations affecting regulatory approvals; intellectual property protection issues; the performance of other industry peers and other factors beyond our control; as well as the expiration of [**REDACTED**] or actual or perceived sales of H Shares by us or other Shareholders.

Moreover, the capital market has from time to time experienced significant [**REDACTED**] and [**REDACTED**] fluctuations that were unrelated or not directly related to the operating performance of the underlying companies in the market. These broad market and industry fluctuations may have a material and adverse effect on the [**REDACTED**] and [**REDACTED**] of our H Shares.

The liquidity, [REDACTED] and market price of our H Shares following the [REDACTED] may be volatile, which could result in substantial losses to you.

The [**REDACTED**] of our H Shares may be volatile and could fluctuate widely in response to factors beyond our control. In particular, the performance and fluctuation of the market prices of other companies with business operations located mainly in the PRC that have listed their securities in Hong Kong may affect the volatility in the price of and [**REDACTED**] for our H Shares. A number of PRC-based companies have listed their securities and some are in the process of preparing for listing their securities, in Hong Kong. The share price of some of these companies has experienced significant volatility, including significant price declines after their initial public offerings. The trading performances of the securities of these companies at the time of or after their offerings may affect the overall investor sentiment towards PRC-based companies listed in Hong Kong and consequently may impact the [**REDACTED**] of our H Shares. In addition to market and industry factors, the price and [**REDACTED**] of our Shares may be highly volatile for specific business reasons, such as fluctuations in our revenue, earnings, cash flows, investments, expenditures, regulatory developments, relationships with our suppliers, movements or activities of key personnel or actions taken by competitors.

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

Future sales of a substantial number of our H Shares or A shares, especially by our directors, executive officers and substantial shareholders or the perception or anticipation that such sales might occur, could negatively impact the market price of our H Shares and A shares and our ability to raise equity capital in the future at a time and price that we deem appropriate. A certain number of the Shares may be subject to certain [**REDACTED**] beginning on the date on which [**REDACTED**] in our H Shares commences on the Stock Exchange. Nevertheless, after these restrictions lapse or if they are waived, future sales of significant amounts of our H Shares in the public market or the perception that these sales may occur could significantly decrease the prevailing market price of our Shares and our ability to raise equity capital in the future.

You may experience further dilution in the future.

Purchasers of the [**REDACTED**] may experience dilution in the net tangible asset value per Share of their H Shares. For example, if we issue additional Shares in the future at a price which is lower than the net tangible asset value per Share at that time. Furthermore, we may issue Shares pursuant to any existing or future share option incentive scheme, which would further dilute our Shareholders' interests in our Company.

Our Controlling Shareholder's interests may not be aligned with the interests of other shareholders.

Our Controlling Shareholder exercises significant influence over our operations, including decisions on management structure, corporate policies, mergers and acquisitions, expansion strategies, major asset transactions, the appointment of Directors and other key corporate actions. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive other shareholders of an opportunity to receive a premium for their Shares in the course of a sale of our Company and might reduce the price of our H Shares. The aforementioned potential events may occur even if they are opposed by other shareholders. In addition, the interests of our Controlling Shareholder may differ from the interests of our other shareholders. It is possible that our Controlling Shareholder may use his influence to engage in transactions or make decisions that conflict with the best interests of other shareholders.

We cannot assure you that we will declare and distribute any amount of dividends in the future. If we do not pay dividends in the foreseeable future after the [REDACTED], you must rely on price appreciation of our H Shares for a return on your investment.

We cannot assure you when and in what form dividends will be paid on our H Shares after the [**REDACTED**]. The declaration and distribution of dividends is at the discretion of the Board and our ability to pay dividends or make other distributions to our Shareholders is subject to various factors, including our business and financial performance, capital and regulatory requirements and general business conditions. We may not be able to have sufficient profits, if any, to enable us to make dividend distributions to our Shareholders in the future, even if our financial statements indicate that our operations have been profitable. As a result of the above, we cannot assure you that we will be able to make dividend payments on our H Shares in the future and, if so, you must rely on price appreciation of our H Shares for a return on your [**REDACTED**]. Therefore, you should not rely on [**REDACTED**] in our H Shares as a source for any future dividend income. And you may not realize a return on your [**REDACTED**] in our H Shares and you may even lose your entire [**REDACTED**] in our H Shares.

Moreover, under the existing foreign exchange regulations of the PRC, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior SAFE approval by complying with certain procedural provisions. However, approval from or registration with competent government authorities is required where RMB is to be converted into foreign currency and remitted out of the PRC to pay capital expenditure such as the repayment of loans denominated in foreign currencies. 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.

You should not place any reliance on any information released by us in connection with the listing of our A Shares on the Shanghai Stock Exchange.

As our A shares are listed on the Shanghai Stock Exchange, we have been subject to periodic reporting and other information disclosure requirements in the PRC. As a result, from time to time our controlling shareholder publicly releases information relating to us on the Shanghai Stock Exchange or other media outlets designated by the CSRC. However, the information announced by us in connection with our A shares is based on the regulatory requirements of the securities authorities and market practices in the PRC which are different from those applicable to our H Shares. Such information does not and will not form a part of this document. And the presentation of financial and operational information for the Track Record Period disclosed on the Shanghai Stock Exchange or other media outlets may not be directly comparable to the financial and operational information contained in this document. As a result, prospective investors in our H Shares are reminded that, in making an investment decision as to whether to purchase our H Shares, they should rely only on the financial, operating and other information included in this document. By applying to purchase our H Shares in the [**REDACTED**], you will be deemed to have agreed that you will not rely on any information other than that contained in this document and any formal announcements made by us in Hong Kong with respect to the [**REDACTED**].

There can be no assurance of the accuracy or completeness of certain facts, forecasts and other statistics obtained from government publications contained in this Document.

Certain facts, forecast and other statistics in this Document are derived from various official government resources. We cannot guarantee the quality or reliability of such source materials. Neither we, the [**REDACTED**], the [**REDACTED**], the Joint Sponsors, the [**REDACTED**], the [**REDACTED**], the [**REDACTED**] nor our or their respective affiliates or advisors have verified the facts, forecasts and statistics nor ascertained the underlying economic assumptions relied upon in those facts, forecasts and statistics obtained from official government sources. Collection methods of such information may be flawed or ineffective or there may be discrepancies between published information and market practice, which may result in the statistics being inaccurate or not comparable to statistics produced for other economies. In addition, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In any event, you should consider carefully the importance placed on such information or statistics.

You should read this entire document carefully and only rely on the information included in this document to make your [REDACTED] and we strongly caution you not to rely on any information contained in press articles or other media coverage relating to us, our Shares or the [REDACTED].

There has been, prior to the publication of this document and there may be, subsequent to the date of this document but prior to the completion of the [**REDACTED**], press and media coverage regarding us and the [**REDACTED**]. We have not authorized the disclosure of any information concerning the [**REDACTED**] in the press or media. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our H Shares, the [**REDACTED**] or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with or conflict with the information contained in this document, we disclaim responsibility for them. In making your [**REDACTED**] regarding our H Shares, you should rely solely upon the information contained in this document, the [**REDACTED**] and any formal announcements made by us in Hong Kong. By applying to purchase our H Shares in the [**REDACTED**], you will be deemed to have agreed that you will not rely on any information other than that contained in this document and any formal announcements made by us in Hong Kong with respect to the [**REDACTED**].

Forward-looking statements contained in this document are subject to risks and uncertainties.

This document contains certain statements and information that are "forward-looking" and uses forward-looking terminology such as "anticipate," "believe," "could," "estimate," "expect," "may," "ought to," "should" or "will" or similar terms. Those statements include, among other things, the discussion of our growth strategy and expectations concerning our future operations, liquidity and capital resources. Investors in our Shares are cautioned that reliance on any forward-looking statements involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and, as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include, but are not limited to, those identified in this section, many of which are not within our control. In light of these and other uncertainties, the inclusion of forward-looking statements in this document should not be regarded as representations by us that our plans or objectives will be achieved and investors should not place undue reliance on such forward-looking statements. We do not undertake any obligation to update publicly or release any revisions of any forward-looking statements, whether as a result of new information, future events or otherwise. See "Forward-looking Statements."