*An investment in our Shares involves significant risks. You should carefully consider all of the information in this document, including the risks and uncertainties described below, as well as our financial statements and the related notes, and the "Financial Information" section, before deciding to invest in our Shares. The following is a description of what we consider to be our material risks. Any of the following risks could have a material adverse effect on our business, financial condition, results of operations and growth prospects. In any such an event, the market price of our Shares could decline, and you may lose all or part of your investment. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations.*

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

## RISKS RELATING TO OUR BUSINESS AND INDUSTRY

***Our business and future growth prospects rely on industry development and consumer demand for our products. If we fail to achieve and further promote our brand recognition and the widespread market acceptance of our products, or if we fail to grow or retain our customers or consumer base, our business, results of operations and financial condition may be materially and adversely affected.***

We operate in an industry that is subject to rapid and unpredictable changes in consumer demand and trends. The success of our business depends significantly on the continued demand for our products, which in turn depends on the level of acceptance and satisfaction from mass consumers and medical institutions for our products within China's beauty and health product market, such as products based on recombinant collagen and ginsenosides. The industry of and market for such products have been developing rapidly in recent years. However, the prospects of the industry and the market depend on many factors that are beyond our control. Our success is also dependent on our ability to identify and respond to such shifting consumer demand and trends, develop new and appealing products on a timely basis, and achieve acceptance of such new products by our customers.

A number of factors could affect the market acceptance of our products, including but not limited to the following:

- our ability to address the evolving needs and preferences of our customers and consumers, part of which could in turn be impacted by the changing Chinese regulatory environment;
- the progress of our R&D efforts, as well as when our products commence commercialization relative to competing products;
- the safety and efficacy of our products and product candidates, including but not limited to the prevalence and severity of adverse reactions, if any;

- pricing and cost effectiveness of our products relative to competing products;
- public perception, perceived advantages and brand recognition of our products over competing products; and
- effectiveness of our sales and marketing efforts and distribution network, as well as the general availability of our products relative to competing products.

If our products fail to achieve or maintain widespread market acceptance, particularly among mass consumers and medical institutions, or if we fail to maintain good relationships with them, our future prospects may be affected. In addition, if new products introduced by our competitors are perceived more favorably by our consumers or end-users, or are more cost-effective, or otherwise render our products obsolete, the market demand for our products may decline, and our business, results of operations and financial condition may be materially and adversely affected. Further, our brand recognition and product acceptance depends largely on our ability to respond to changes and trends in consumer demand and offer high quality products. If we fail to anticipate and respond appropriately to the ever-changing consumer trends and preferences, or if consumer preferences shift away from the products we develop, manufacture, and sell, our brands and results of operation and financial condition may be materially and adversely affected. We cannot assure you that our brand promotion activities and R&D efforts may be successful and contribute to our business growth, and the resulting benefits may not always justify the relevant expenditures. In the event the demand for our products fails to grow as rapidly as anticipated, our business and results of operations may also be materially and adversely affected.

***We are dependent on the sales of a limited number of brands. As the sales of our products rely on our brands and consumers' perception of our products, any damage to our brands such as negative news and product incidents or a failure to continue to promote our brands will lead to deterioration in the sales of our products.***

During the Track Record Period, the majority of our revenue was derived from two of our brands, namely *Comfy* and *Collgene*. In 2019, 2020 and 2021, sales of professional skin treatment products under these two brands contributed to 80.6%, 82.4% and 91.7% of our total revenue, respectively. We expect that sales of such brands will continue to contribute a significant portion of our revenue in the near future. As the sales of our products rely on consumers' perception of our brands and products, any damage to our brands such as negative news and product incidents or a failure to formulate and execute our sales and marketing strategies and initiatives will lead to deterioration in the sales of our products. If we are unable to maintain the sales volumes, pricing levels and profit margins of products under these major brands, or if we are unable to increase the revenue from other brands, our revenue and profitability could be adversely affected. We cannot assure you that demand for such brands will continue to grow as anticipated. Nor can we assure you that we will be able to maintain our sales and profit margin for such brands, which may be adversely affected by many factors discussed in this section, including but not limited to changes in market acceptance and competition dynamics, technological advancements, price adjustments, introduction of substitute products, disruptions in manufacturing or sales, product defects or severe adverse events, expiration of patent protection, and disputes over intellectual property or other matters. If we are unable to maintain the sales growth of our major brands, our business, financial condition and results of operations may be materially and adversely affected.

***Our investment in R&D, including collaborations with third parties, may not generate expected outcomes.***

Since our inception, we have been committed to the R&D of bioactive ingredients and marketed products. As of December 31, 2021, our R&D team consisted of 84 staff members. However, the process to complete research and product development, obtain regulatory approval and commercialize our product candidates may be time-consuming and costly. We will continue to invest significant amounts of financial and human resources in R&D. See "Future Plans and Use of [**REDACTED**]" for our expansion plan in this regard. However, we cannot assure you that our R&D efforts will be able to deliver the intended results. Neither can we assure you that we will be able to successfully identify new technological opportunities, develop, enhance or adapt to new technologies, develop and bring new or more advanced products to market, obtain sufficient or any patent or other intellectual property protection for such products, or obtain the necessary regulatory approvals in a timely and cost-effective manner, or if such products are introduced, that those products will achieve market acceptance. We may also fail to upgrade our existing technologies or to develop or adopt new technologies that mitigate the risk of substitution by other products. Any failure to do so could harm our business and prospects.

As of the Latest Practicable Date, we have collaborated with medical institutions and academic institutions for the R&D of our products. We may from time to time establish or seek to enter into collaborations, strategic alliances, joint ventures, equity investment, or licensing arrangements with third parties that we believe will complement or augment our development and commercialization of product candidates and future product candidates. See "Business – Research and Development – Our R&D Collaborations." The third parties we collaborate with may fail to properly perform its contractual obligations, fail to protect their intellectual properties, fail to comply with the regulatory provisions or ultimately yield the anticipated economic benefits. If we are unable to reach agreements with suitable collaborators on acceptable terms in a timely manner, or at all, we may have to curtail the development of a product candidate, reduce or delay its development program or commercialization or reduce the scope of any sales or marketing activities, or increase our expenditures and undertake development or commercialization activities at our own expense.

***We may not be able to adequately protect our intellectual property rights, which could harm the value of our brands and adversely affect our business.***

Our success depends partially on our ability to protect our proprietary technology, products and product candidates from competition by obtaining, maintaining and enforcing our intellectual property rights, including patent rights. We have established our proprietary technology platform and accumulated manufacturing techniques for our products, which are invaluable know-how and trade secrets. We rely on trademarks, copyrights, patents and the domain names we use to protect our brands and proprietary information, technologies and processes. Establishing and maintaining protection of our intellectual properties and other intangible assets are expensive and time-consuming, and we may not be able to file and prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. We may also fail to timely identify patentable aspects of our R&D output, consequently losing patent protection to prevent competitors from developing and commercializing competitive products in all such fields and territories. Any loss of patent protection could have a material adverse impact on one or more of our major products and technologies and our business. As of the Latest Practicable Date, we had 34 issued patents in relation to our technology and products in China, all of which were invention patents.

Obtaining and maintaining our patent protection depends on compliance with various procedural requirements imposed by government patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements or changes in patent law of China, or other jurisdictions. Any non-compliance event could result in abandonment or lapse of a patent or patent application. We did not experience any material failure to comply with these requirements during the Track Record Period. However, we cannot assure you that such non-compliance will not occur, in which case our competitors might be able to enter the market, which would have a material adverse effect on our business.

In addition to our issued patent and pending patent applications, we rely on trade secrets, including unpatented know-how, technology and other proprietary information, to maintain our competitive position and to protect our products and product candidates. We seek to protect these trade secrets, in part, by entering into non-disclosure and confidentiality agreements or include such undertakings in the agreement with parties like our employees and collaborators. However, parties may breach such agreements and disclose our proprietary information, and we may not be able to obtain adequate remedies for such breaches. Enforcing a claim against a party that illegally disclosed or misappropriated a trade secret can be difficult, expensive and time-consuming with unpredictable outcome.

Our trademarks are valuable assets that support our brands and consumers' perception of our products. As of the Latest Practicable Date, we owned 340 registered trademarks in China. Our registered or unregistered trademarks or trade names may be challenged, infringed, circumvented or declared generic or determined to be infringing on other marks. We may not be able to protect our rights to these trademarks and trade names, which we need to build name recognition among potential partners or customers in our markets of interest. At times, competitors may adopt trade names or trademarks similar to ours, thereby impeding our ability to build brand identity and possibly leading to market confusion.

Counterfeiting and imitation have occurred in the past for many consumer products. As our brands are well-known in China, we have in the past experienced counterfeiting and imitation of our products. We have established unique device identification ("**UDI**") system, which enables the tracing of most of our products. See "Business – Sales, Distribution and Marketing – Product Tracing." However, we are unable to guarantee that counterfeiting and imitation would not occur or, if it does occur, that we would be able to detect and address the problem effectively. Any occurrence of counterfeiting or imitation could impact negatively upon our reputation and brand names, lead to loss of consumer confidence in our brands, and, as a consequence, adversely affect our results of operations.

Our efforts to enforce or protect our proprietary rights may be ineffective and we may become involved in lawsuits to protect or enforce our intellectual property, which could be expensive, time consuming and unsuccessful. As of the Latest Practicable Date, we were not involved in any material proceeding where a third party challenged the validity or enforceability of our patents that had or was expected to have any material impact on our business. However, we cannot assure you that we will not be subject to such proceedings in the future.

***We depend on our distributors for a large portion of our total revenue, over whom we have limited control, during the Track Record Period, which exposes us to significant concentration risk.***

During the Track Record Period, a large portion of our products were sold through distributors. For the years ended December 31, 2019, 2020 and 2021, revenue generated from sales to distributors amounted to RMB763.9 million, RMB859.5 million and RMB862.9 million, which accounted for 79.9%, 72.2% and 55.6% of our total revenue, respectively. Additionally, our top five customers by revenue during the Track Record Period were mostly distributors. Revenue from our top five customers during the Track Record Period accounted for 58.9%, 55.5% and 38.7% of our total revenue, respectively. In particular, Xi'an Chuangkecun was our largest customer during the Track Record Period, and our revenue derived from Xi'an Chuangkecun accounted for 52.2%, 49.3% and 29.3% of our total revenue, respectively. See "Business – Our Customers – Our Relationship with Xi'an Chuangkecun." The performance of Xi'an Chuangkecun, as well as our other distributors, which includes, but is not limited to, their ability to sell our products, uphold our brand, expand their sales network are crucial to the future growth of our business and may directly affect our sales volume and profitability. We expect Xi'an Chuangkecun and other distributors will, in the aggregate, continue to account for a large portion of our sales for foreseeable future. However, there is no assurance that we can maintain our relationship with Xi'an Chuangkecun or any other major distributors in the future, which exposes us to significant concentration risk in relation to our total revenue.

If our distributors reduce their orders from us or terminate their business relationships with us, we may not be able to secure alternative distributors with similar sales performance on terms and conditions commercially acceptable to us in a timely manner, which consequently may lead to a decline in our sales performance. See "Business – Sales, Distribution and Marketing – Our Omni-channel Sales and Distribution Network – Sales to Distributors."

***We rely on our in-house sales and marketing team and third parties to promote our products. Failure to execute an effective sales and marketing strategy could harm our ability to increase the sales of our products and achieve broader market acceptance.***

We sell our products through both direct sales and sales to distributors. In 2019, 2020 and 2021, we generated 20.1%, 27.8% and 44.4% of our total revenue from direct sales, and 79.9%, 72.2% and 55.6% of our total revenue from sales to distributors. We aim to increase the sales of our products, achieve broader market acceptance, and maintain sustainable relationship with existing and potential customers, which will depend to a significant extent on the successful execution of effective sales and marketing strategy. However, we cannot assure you that we will be able to attract, motivate and retain qualified and professional employees with requisite expertise and communicate with them effectively. If we are unable to hire, develop and retain qualified sales and marketing personnel, or if our new sales and marketing personnel are unable to achieve desired performance levels, we may not be able to execute our sales and marketing strategy or achieve our goals.

In addition, both our relationships with third parties such as distributors, medical institutions and retail chains and our engagement with e-commerce and social media platforms play an important role in our sales and marketing activities. We cannot assure you that we will be able to maintain or strengthen our relationships with these industry players. These industry players may leave the market, change their business or practice focus, cease to collaborate with us, or collaborate with our competitors for any reason. As a result, our marketing strategy and efforts may not be successful in promoting our products. If we are unable to generate returns from our relationships with these industry players as anticipated, or at all, our business, financial condition and results of operations may be materially and adversely affected.

Furthermore, we have limited experience in the sales and marketing of certain of our product candidates, which includes products that operate in different sub-markets to our marketed products. Upon the commercialization of our product candidates, we may fail to build a corresponding commercial team, conduct comprehensive market analysis, obtain licenses and approvals, or manage the related distributors and sales force. As a result, commercialization of our product candidates may involve more inherent risks, take comparatively longer time, and cost more. There may be circumstances during the actual sales of our future products that we did not anticipate prior to commercialization that may require us to adjust our sales and marketing strategy, recruit additional personnel or incur unforeseen costs and expenses. In such event, our business prospects and sales of the relevant products could be materially and adversely affected.

Failure to engage in sales and marketing activities in a cost-effective manner and failure to achieve the anticipated results from our sales and marketing activities may reduce our market share, cause our revenues to decline, negatively impact our profitability, and materially harm our business, results of operations and financial condition.

***We may be subject to risks in relation to our sales to distributors, including occurrence of channel stuffing and cannibalization.***

We manage a broad sales and distribution network and sell our products. We cannot assure you that we will be able to maintain our relationships with our key distribution partners in the future. We typically enter into short-term framework agreements with our distributors. We cannot guarantee that any of our existing distributors will renew such framework agreements upon expiration or continue to place purchase orders with us in the future at the same level as in the current or prior periods, or at all. Should any of the distributors reduce substantially their demands for our products or terminate the business relationship with us, we may not be able to secure replacements for the lost customer or purchase orders in a timely fashion or at all and may experience a decline in our sales performance. Any unexpected cessation of, or substantial reduction in, the volume of orders from any of our major customers may have a material and adverse impact on our business, financial condition and results of operations.

In 2019, 2020 and 2021, we cooperated with 299, 374 and 406 distributors, respectively. See "Business – Sales, Distribution and Marketing – Our Omni-channel Sales and Distribution Network – Sales to Distributors – Our Distributorship Network." Due to the large number of our distributors, it is difficult to monitor their compliance with regulatory requirements and business practices. Non-compliance by any of our distributors with the relevant licensing requirements under applicable regulation may adversely affect the sales and distribution of our products. Further, as we rely on our distributors to manage their sales practices, we have limited control over the ultimate sales by these distributors. We cannot assure you that they will at all times comply with our sales policies or that they will not compete with each other for market share in respect of our products. If any of our distributors fail to distribute our products to their customers in a timely manner, overstock, or carry out actions which are inconsistent with our business strategy, it may affect our future sales. There may be instances when these distributors take actions which are not consistent with our business strategies, such as failure to follow our pricing and marketing policies and participate in our marketing and promotional activities. Any occurrence of aforementioned non-compliance may in turn materially and adversely affect our business, financial condition, results of operations and prospects.

We prevent the occurrence of channel stuffing, cannibalization and competition within our distribution network through various measures. See "Business – Sales, Distribution and Marketing – Our Omni-channel Sales and Distribution Network – Sales to Distributors." However, we cannot assure you that the measures would be effective in preventing channel stuffing, cannibalization and competition within our distribution network. The failure in avoiding such occurrences may adversely affecting our financial condition and results of operation.

***If we fail to compete successfully against our existing or potential competitors, many of whom have greater resources than we have, our sales and operating results may be negatively affected.***

We face competition from domestic and international competitors in a number of dimensions, and the competition from these existing players and new market entrants is expected to continue and intensify. These dimensions of competition include but are not limited to the functionality, quality, safety and prices of products, the availability and costs of raw materials, brand recognition, sales and marketing capabilities, R&D capabilities, ability to secure timely regulatory approvals for new products, and manufacturing capabilities. Some of our competitors may discover, develop or commercialize competing products or treatments earlier or more successfully than we do, as they may have stronger R&D and technological capabilities, products with more advanced or appealing features, a broader variety of products, more extensive or effective sales networks, or greater financial and other resources.

In addition, the consumer needs and preferences in China's beauty and health product markets have been rapidly evolving. Existing competitors and new market entrants may be faster in detecting and capturing the market trend and developing new products or updating existing products that better address the market demand or industry trend, and obtain a more advantageous market position than we do, which could significantly dampen the demand for our products and cause our products to become obsolete. As a result, we cannot assure you that our endeavors in researching and developing new products and enhancing our technological capabilities will enable us to gain or maintain our competitive advantage. The intensified competition may result in increased pricing pressure, increased sales and marketing expenses, reduced profitability, and loss of market share, any of which could have an adverse effect on our prospects, business, results of operations and financial condition.

***We may not be able to develop new products that are competitive or successful in the market we have entered or plan to enter, in a timely manner or at all.***

Our success depends on our ability to continuously identify, develop and launch new products that meet consumer demands. The success of any product candidate will depend on several factors, including our ability to anticipate industry trends and market demand, complete product development process efficiently, minimize the costs and time for obtaining required regulatory approvals, optimize our manufacturing and procurement process, manufacture and deliver new products in a timely and commercially viable manner, anticipate and compete with our competitors, and increase customer awareness and acceptance of our new products. We cannot guarantee that we can predict the industry trends and market demand and be successful in developing new products or that we will be able to identify viable product development opportunities. We may experience delays or failures in any stage of product development, manufacturing, product registration and marketing. We may collaborate with third parties to develop new products. We cannot assure that we could successfully launch the new products as anticipated or at all, or that the consumers will be receptive to our new products. Even if we are able to launch new products, it may take time for the new products to gain market acceptance. As a result, our prospects, business, results of operations and financial condition could be adversely affected.

***Our historical business growth, revenue and profitability may not be indicative of future performance.***

We experienced significant growth during the Track Record Period. Our revenue increased from RMB956.7 million in 2019 to RMB1,552.5 million in 2021. Our net profit increased from RMB575.2 million in 2019 to RMB828.1 million in 2021. Our net profit margin increased from 60.1% in 2019 to 69.4% in 2020, and subsequently decreased to 53.3% in 2021. However, our historical growth and profitability may not be indicative of our future performance, and we cannot assure you that this level of significant growth and profitability will be sustainable, or achievable at all, in the future.

Our ability to achieve or maintain growth and profitability will largely depend on our ability to successfully execute our development strategies, which in turn depends on a number of factors, including but not limited to our ability to:

- innovate and develop new technologies and products to address market demand, preferences and changes;
- increase market acceptance of our products;
- improve our reputation and brand recognition among consumers, medical institutions, and medical practitioners;
- assess and review our channel strategy;
- enhance our manufacturing capacity and efficiency; and
- maintain adequate control of our costs and expenses.

We may also encounter unforeseen expenses, difficulties, delays and other unknown events. We cannot assure you that we will be able to effectively manage our growth or implement our business strategies effectively, failure of which will adversely affect our business, results of operations and financial condition.

***If we fail to implement the expansion plan of our manufacturing capabilities as planned, our business and prospects could be materially and adversely affected.***

We intend to meet the growing demand for our products in China by constructing new plants and production lines and upgrading the existing ones in the near and medium term. These initiatives may result in an increase in our capital expenditures and depreciation costs, and thus may adversely affect our profitability, financial condition and results of operations. See "Business – Our Strategies – Enhance manufacturing capabilities and improve production efficiencies."

We cannot assure you that our expansion plan will be successfully implemented without delays or at all. Our ability to implement our expansion plan is subject to a number of factors. New manufacturing facilities may require prior review by regulatory authorities and/or approval of the manufacturing process and procedures in accordance with applicable laws and regulations. This review could delay or halt the operation of the manufacturing facilities. The new facilities will also be subject to pre-approval inspection. Regulatory authorities may also require the relevant equivalency testing. These processes are time-consuming and may result in additional costs and delays.

We began the construction of our new science and technology park in 2021 without first obtaining the requisite construction permit. As of the Latest Practicable Date, we were under the process of apply for such permit. See "Business – Properties." Additionally, our product candidates cover products that are seeking a medical device registration, which may require different manufacturing capabilities, techniques and regulatory approvals. We have less experience in manufacturing our product candidates, and our manufacturing techniques or facilities for the same may fail to operate as anticipated. In addition, we may not be able to recruit sufficient qualified staff or establish sufficient quality control to support the increase in manufacturing capacity in a timely manner. Any failure or delay in implementing any part of our expansion plan may result in a lack of manufacturing capacity to support our growth, market expansion, and the commercialization of product candidates, which in turn could adversely affect our business, results of operations and financial condition.

***Failure to maintain effective pricing strategies and any downward changes in the pricing of our products may have a material adverse effect on our business and results of operations.***

We generally price our products by considering various factors, including the market demand for products, our costs and expenses, different positioning of product lines, prices of competing products or treatments, the overall competitive landscape and the level of local economic development. However, our pricing strategies may not be effective and competitive at all times to reflect the supply and demand of our products, which may affect our ability to capture market demand and generate revenue. Additionally, if the PRC government issues pricing guidance for our products, it may negatively affect the price at which we can sell our products and have a material adverse effect on our business and results of operations. Our customers may gain more bargaining power and they may demand a lower price from us, which reduces our profitability. In addition, if medical institutions seek to lower the prices of our products and reduce the profitability of our distributors, our distributors may have less incentive to purchase and promote our products, and we may need to lower the order price we set for our distributors. Furthermore, with the introduction of our new or competing products, or with voluntary price cuts by our competitors, we may be forced to lower the prices for our products.

If the prices of our products decline due to the aforementioned factors, and if we are unable to mitigate the adverse effects of such price reduction without incurring substantial expenses to improve our products, our net profit margin may decrease accordingly. Our overall net profit margin was 60.1%, 69.4% and 53.3% in 2019, 2020 and 2021, respectively. If our products experience downward pricing pressures, we cannot guarantee that we can sustain our gross profit margin levels. Any decrease in our product prices or any decline in our gross profit margins in the future could materially and adversely affected our business, profitability, financial condition and results of operations.

***Our business and reputation may be adversely affected by negative publicity involving us, the industry we operate in, our brands and products, our Shareholders, Directors, officers or employees, as well as distributors, suppliers or other parties we collaborate with.***

We primarily operate in the professional skin treatment products and functional foods industry, which has from time to time been subject to negative media coverage or other negative publicity. Such negative publicity concerning the industry, whether or not directly related to us, could affect our reputation and the confidence in our brand and products. For instance, the manufacturing, sales, distribution or adoption of such products of suboptimal quality, unlicensed products or products otherwise failing to meet the relevant regulatory requirements may result in negative implications for the industry as a whole, which may have an adverse impact on our reputation and business. In addition, our products may be perceived to cause severe adverse reactions if the competing products or treatments containing the same or similar ingredients or materials shared by our products cause or are perceived to have caused severe adverse reactions, or if one or more regulators, such as the NMPA, determines that products containing the same or similar ingredients or materials shared by our products could cause or lead to severe adverse reactions. In addition, we, our Shareholders, Directors, officers and employees, as well as distributors, suppliers, or other parties we collaborate with may be subject to negative media coverage and publicity or be non-compliant with laws or regulations, which could also threaten our reputation and disrupt our business operations. We may be required to devote significant time and resources and incur substantial costs to defend against such negative publicity, and we cannot guarantee that we are able to diffuse such to the satisfaction of our investors. As a result, our business and results of operations could be materially and adversely affected.

Any negative publicity concerning us, our affiliates or any entity that shares our name, even if untrue, could adversely affect our reputation and business prospects. We cannot assure you that negative publicity about us or our Controlling Shareholders or our affiliates would not damage our brand image, and such unauthorized use of our brand name by any third parties may adversely affect the value of our brand name, reputation and business. In addition, any legal actions including litigation to enforce our rights to our brand name may involve significant costs and divert our limited resources, which may result in a material adverse effect on our business, results of operations and financial condition.

***Future changes in the online marketing industry and consumer behavioral pattern may adversely affect our sales through online channels.***

We have relied on third-party e-commerce platforms such as Tmall, JD.com and Pinduoduo, as well as social media platforms, such as Xiaohongshu and Douyin for online direct sales of our products. Our revenue derived from online direct sales accounted for 16.5%, 25.8% and 41.5% of our total revenue during the Track Record Period, respectively. The future growth of our operations depends on our ability to continue attracting online customers and generating new purchases from various online channels, as well as our ability to retain visitors to our websites and social media platforms. We believe that maintaining a strong online presence helps improve our brand visibility and awareness, especially in regions where we have yet to establish a physical presence. However, if such platforms fail to provide satisfactory customer experience or fail to retain existing users and extract new users, or if our cooperation with such third-party e-commerce and social media platforms terminates, deteriorates or becomes more costly, our business and results of operations may be materially and adversely affected.

Furthermore, we may fail to incentivize such platforms to drive traffic to our stores or promote our products, which may also materially and 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 their leading position and significant influence in China's e-commerce and social media industry. In addition, any negative publicities about such third-party platforms, and 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 traffics to our stores or fewer sales of our products, which may negatively impact our business and results of operations.

In addition to our ability to maintain relationships with various online channels, the success of these channels also depends on a number of factors relating to the online marketing industry and consumer behavioral patterns, including, without limitation:

- consumer traffic on e-commerce platforms and our ability to increase consumer traffic on our online stores and on the e-commerce platforms we engage;

- our ability to respond to the changes in the online marketing and e-commerce industry in China;

- influence of online influencers on consumer preferences and our cooperation with such influencers;

- the reliability of the e-commerce and social media platforms; and

- the availability of the relevant network infrastructure, such as online or mobile payment platforms.

We cannot assure you that we can stay abreast of constantly changing consumer behavioral patterns and preferences and anticipate product trends that will appeal to existing and potential online customers. Accordingly, negative publicities about such third-party e-commerce and social media platforms, a decline in the popularity of online shopping in general or our failure to identify and respond to trends and consumer requirements in the online channels could result in decreased number of online customers and reduced attractiveness of our online channels. This in turn could materially and adversely affect our business, financial condition, results of operations and prospects.

***Our performance depends on our ability to maintain good relationship with our key personnel and employees. Failure to attract, retain and motivate qualified personnel may have an adverse effect on our results of operations.***

Our current business performance and future success depend substantially on the abilities and contributions of our senior management members, including Mr. Yan, our Co-founder and chairman, Dr. Fan, our Co-founder and chief scientific officer, all executive Directors and other key personnel with industry expertise, know-how or experience in areas such as R&D, manufacturing, sales, marketing, financial management, human resources or risk management.

Any loss of such personnel could materially and adversely affect our ability to sustain and develop our business. We cannot assure you that our key personnel will not join a competitor or form a competing business or will follow the terms and conditions of their employment contracts.

Our success also depends on our ability to attract and retain qualified and skilled management, R&D, sales and marketing, manufacturing and other personnel. As the wages and employee benefits in China continue to increase, we may not be able to pass on such costs to our customers. We also cannot assure you that we will not experience any shortage in labor. We cannot assure you that we will be able to attract, hire and retain sufficient personnel for our business. Nor can our Company guarantee that any shortages in qualified and skilled personnel will not increase our staff costs as the competition for these individuals could cause us to offer higher compensation and other benefits in order to attract and retain them and consequently materially and adversely affect our results of operations and financial condition.

We strive to provide a safe and desirable working environment to our employees to prevent occupational hazards. However, we may be subject to liability claim, negative publicity and government investigation or intervention in relation to workplace safety or occupational hazards, in particular if our employees suffer from personal injuries or casualties at our facilities or during the transportation of our products. Such incidents could worsen our relationship with our employees and damage our brand and reputation.

We cannot assure you that we will not have any labor disputes in the future. Any deterioration of our relationship with our employees could result in disputes, strikes, claims and relevant legal proceedings, which may disrupt our manufacturing and operations, and lead to loss of know-how and trade secrets. Any labor shortage could hinder our ability to maintain or expand our business operations, which may adversely affect our business operations and results of operations.

***Our delivery, return and exchange policies for our customers may not fully cover the logistics costs, which may adversely affect our results of operations.***

We have adopted delivery policies that do not necessarily pass the full cost of logistics onto our customers. We have also adopted customer-friendly policies, allowing certain customers to return or exchange products within seven days upon delivery, subject to various conditions, laws and regulations. We may also be legally required to adopt new or amend existing return and exchange policies from time to time. These policies improve customers' experience and promote customer loyalty, which in turn help us acquire and retain customers. However, these policies also subject us to additional costs and expenses which may not be recoverable. If our delivery, return and exchange policies are misused by a significant number of customers or if the return or exchange rates increase beyond historical records or otherwise substantially, our costs may increase significantly, and our results of operations may be materially and adversely affected. If we revise these policies, our customers may be dissatisfied, which may result in loss of existing customers or failure to acquire new customers at a desirable pace, which may materially and adversely affect our results of operations.

***We develop and manufacture substantially all of key ingredients and our products at our own manufacturing plants in Xi'an, Shaanxi province. Our operations and financial performance may be materially adversely affected if we experience any major disruptions, damage or destruction, including as a result of fire or other disruptions at our manufacturing plants.***

As of the Latest Practicable Date, we developed and manufactured professional skin treatment products with recombinant collagen as the key bioactive ingredient and ginsenosides-based functional foods at our two manufacturing plants in Xi'an, Shaanxi province. While we conduct regular checks and maintain measures to prevent disruptions, damages or destructions to our manufacturing plants, unforeseen events may occur from time to time, and the risk of any occurrence in the future cannot be completely eliminated. The level of disruption to our business may be higher if such disruption affects some, or all parts of Xi'an. For example, incidents such as the COVID-19 outbreak in Xi'an around the end of 2021 have put extra strain on our production and logistics. See "Summary – Recent Developments." Significant unscheduled downtime at our manufacturing facilities due to equipment breakdowns, power failures, weather conditions, fire or other natural disasters could cause disruptions in our operations or delay our delivery schedules.

Additionally, certain of the materials which we use for our manufacturing are highly flammable and we are therefore subject to the risk of fire. Our current insurance coverage may not be sufficient to cover all of our potential losses, including those due to fire. If any manufacturing plant were to be damaged or cease operations, including those due to fire or other disruptions, it would temporarily reduce our manufacturing capacity and affect our ability to provide our products to our customers, which could adversely affect our sales, business, financial condition and results of operation.

***Any quality issues related to our products could result in a loss of customers and sales and may subject us to product liability claims.***

We believe that the quality of our products is critical to our success. Our manufacturing processes are required to meet high quality standards, especially for skincare and medical products. We have established a quality control and assurance system and adopted standardized operating procedures in order to prevent quality issues with our products. See "Business – Quality Management." We cannot assure you that the design of our quality control systems will be effective at all times and we cannot eliminate the risk of product defects or failure. Defects may fail to be detected or remediated as a result of a number of factors, many of which are beyond our control, including, among other manufacturing errors, technical or mechanical malfunctions during manufacture, human error or malfeasance by quality control personnel, or quality issues with the raw materials we purchase or produce. As of the Latest Practicable Date, we did not encounter any material quality issue related to our products.

Failure to detect, prevent or control defects in our products or to prevent such defective products from being delivered to our customers could result in undesired adverse reactions, injury, product recalls or withdrawals, license revocation, regulatory fines, product liability claims or other problems that could seriously harm our reputation and business. According to PRC laws and regulations, we may be subject to product liability claims if our products have safety hazard due to quality issues. Such product liability claims may include allegations of defects in manufacturing, defects in design, a failure to warn of dangers inherent in the bioactive ingredients, negligence by medical practitioners, or strict liability.

In addition, we may be subject to product liability claims if we breach our warranties related to product quality. Any serious failures or defects could cause us to withdraw or recall products, which could result in significant costs. Although historically we have not experienced any product recall, we cannot assure you that there would be no market withdrawals or product recalls of our products.

***Failure to meet or maintain compliance with relevant manufacturing standards and any other disruption or suspension of manufacturing activities may affect our revenue and profitability materially and adversely.***

Our manufacturing facilities are subject to regular inspections by the relevant government authorities as part of the process of maintaining or renewing the permits, licenses, certificates and other regulatory filings required for our business and operations. Such inspections require us to comply with, among other things, GMP regulations of medical devices. We cannot guarantee that we will be able to adequately follow and document our adherence to such GMP regulations of medical devices or other regulatory requirements. When inspecting our manufacturing facilities, the NMPA or other comparable regulatory authorities may identify deficiencies according to GMP requirements of medical devices or other regulatory requirements. Remediating deficiencies can be laborious, time-consuming and costly. Moreover, the NMPA or other comparable regulatory authorities will generally re-inspect the facilities to determine whether the deficiency was remediated to its satisfaction, and may note further deficiencies during re-inspection. We may be required to delay, suspend or cease manufacturing activities if we fail to pass these regulatory inspections, which will affect our ability to fulfill product orders and sell our products, and in turn, have a material and adverse effect on our business, financial condition and results of operations.

If the operation of our manufacturing facilities is substantially disrupted, we may not be able to replace the equipment or inventories, or use different sites or a third-party contractor to continue our production in a legal, timely and cost-effective manner or at all. As a result of disruption to our manufacturing site or any problems in manufacturing our products, we may fail to fulfill contract obligations or meet market demand for our products, and our business, revenues and profitability could be materially and adversely affected.

Advances in manufacturing techniques may render our facilities and equipment inadequate or obsolete, and as a result, we may also need to develop and implement advanced manufacturing techniques and process controls in order to fully utilize our facilities, or we may need to modify our facilities or establish new facilities. If we are unable to do so, if the process to do so is delayed, or if the associated cost is not economically feasible, we may not be able to supply our products in a sufficient quantity to meet future demand, which would limit our development and commercialization activities and our opportunities for growth.

***We have engaged and expect to continue to engage third parties to supply certain raw materials to manufacture our products, and our business could be harmed if we are unable to obtain such raw materials in sufficient quantities or at acceptable quality or prices.***

We select qualified suppliers to source certain raw materials for our products. Any disruption to the supply in adequate quantities to meet our needs could impair our ability to manufacture products as scheduled. Moreover, we expect our demand for raw materials to increase as we expand our business scale and commercialize our product candidates, and we cannot guarantee that current suppliers will have the capacity to meet our standards and demand in the future. During the Track Record Period, we relied in part on the supplies from certain major suppliers, including raw materials and packaging materials. Any disruption in such supplies may have a negative impact on our business operations. The prices of our raw materials and other supplies may also be affected by factors beyond our control, and we cannot assure you that we can transfer the increasing costs of raw materials to our customers or can switch to other suppliers that offer more favorable pricing and other commercial terms in a timely manner. We may manage the fluctuations in the pricing of our raw materials by adopting similar materials from alternative suppliers and renegotiating contract terms with existing suppliers. We believe that during the Track Record Period, fluctuations in raw materials costs had not had a material impact on our results of operations or gross profit margin. A significant increase in the costs of raw materials in the future, however, may increase our cost of sales and affect our profit margin, which may have a material and adverse impact on our business, results of operations and financial condition.

In addition, our suppliers may also elect to terminate our business relationship due to a number of reasons, including regulatory, commercial or competitive considerations. We may also have contractual or other disputes with our suppliers. Moreover, although we have implemented quality inspection procedures on such materials before they are used in our manufacturing process and require our suppliers to maintain high quality standards, we cannot guarantee that we will be able to detect all quality issues in the supplies we use. We also cannot assure you that our suppliers can meet our specifications, requisite standard, attributes and other parameters and requirements that we may impose on our raw materials and other supplies, or that our suppliers will be able to maintain and renew all licenses, permits and approvals necessary for their operations or comply with all applicable laws and regulations. We may not be able to find alternative materials or suppliers that meet our needs or secure approval for their use in a timely manner, on favorable terms or at all, which may cause delay in our supply of our raw materials and interruption in our manufacturing.

***Failure to maintain and predict inventory levels in line with the level of demand for our products could cause us to lose sales or face excess inventory risks, either of which could have a material adverse effect on our business, financial condition and results of operations.***

To operate our business successfully and meet our customers' demands and expectations, we must maintain a certain level of inventory for our products to ensure prompt delivery when required. Our distributors and customers typically order our product on an order-by-order basis. We project demand for our products based on our marketing plan, our sales reports, our internal database of historical customer orders and our inventory levels. As such, we are required to maintain an appropriate level of inventory of our raw materials for our commercial production. In 2019, 2020 and 2021, our inventory turnover days were 106 days, 115 days and 142 days, respectively. See "Financial Information – Discussion of Major Balance Sheet Items – Current Assets/Liabilities – Inventories."

However, we maintain our inventory levels based on our internal forecasts which are inherently uncertain. If our forecast demand is lower than actual demand, we may not be able to maintain an adequate inventory level of our products or produce our products in a timely manner, and may lose sales and market share to our competitors. On the other hand, we may be exposed to increased inventory risks due to accumulated excess inventory of our products or raw materials. Excess inventory levels may increase our inventory holding costs, risk of inventory obsolescence or write-offs.

In addition, we have established inventory policies, management procedures and provide adequate training sessions on inventory management, we actively monitor our inventory level and track the flow of our products in the operation of our business. However, there is no guarantee that the inventory information we collect is complete and accurate or that such information would allow us to effectively manage our inventory level. If we fail to maintain and predict inventory levels in line with the level of demand for our products, our business, financial condition and results of operations will be materially and adversely affected.

***Any delivery delays, improper handling or increase in transportation costs of third-party logistics service providers may adversely affect our business, financial condition and results of operations.***

We rely on our third-party logistics service providers for the transportation of our products to customers. The logistics services provided by these providers may be suspended, in which case the supply of our products could be interrupted. Delayed or even lost deliveries may occur for various reasons beyond our control, including improper handling by our logistics service providers. In addition, improper handling of our products could also result in product contamination or damage, which may in turn lead to product exchanges, product liability, increased costs and damage to our reputation. Any of the circumstances would materially and adversely affect our business, financial condition and results of operations.

***We are subject to risks relating to the warehousing of our products.***

Before dispatching delivery to customers or distributors, we temporarily store our products in our own warehouses or those provided by third-party warehousing providers. If we or any third-party warehousing provider we engage fail to store the products at optimal conditions, such as at optimal temperatures and humidity levels, the quality and shelf-life of our products may be adversely affected. We do not maintain insurance policies covering damages to our warehouse. To ensure safety and quality of materials and products, we separate our warehouse into different segments and store materials and products separately according to their properties and uses to prevent mix-up. However, if any accident were to occur, causing damages to the products stored in our own warehouses, we might not be able to supply products to customers or distributors in a timely manner or at all, which would adversely affect our results of operations.

***Our business growth and results of operations may be affected by changes in global and regional macroeconomic conditions, natural disasters, health epidemics and pandemics such as the COVID-19 pandemic, and social disruption and other outbreaks.***

Uncertainties about global economic conditions and regulatory changes and other factors including conditions in the real estate and mortgage markets, unemployment, labor and healthcare costs, access to credit, consumer confidence and other macroeconomic factors may pose risks and materially and adversely affect demand for our products. In addition, natural disasters such as floods, earthquakes, sandstorms, snowstorms, fire or drought, the outbreak of a widespread health epidemic or any severe epidemic disease such as SARS, Ebola, Zika or the COVID-19, acts of war, terrorism or other force majeure events beyond our control may disrupt our R&D, manufacturing and commercialization activities and business operations, all of which could negatively affect our operations, financial condition and future prospects.

In particular, COVID-19 has severely impacted China and many other countries and regions, resulted in prolonged mandatory quarantines, lockdown, closures of businesses and facilities and travel restrictions imposed by the Chinese government and other countries around the world. For details of the impact of COVID-19 on our business, results of operations and financial condition, see "Financial Information – The Impacts of COVID-19 on Our Business." The development of the pandemic, as well as the restrictions imposed and actions taken by the governments and society as a whole in response to the COVID-19 pandemic could present significant challenges and uncertainties. We cannot assure you that our business operations, results of operations and growth potential in the near future will not be affected by these uncertainties. The extent of the disruption to our business and the related impact on our financial results and outlook cannot be precisely estimated at this time. Our sales and operations could be disrupted if any of our employees or employees of our business partners such as suppliers and distributors are suspected of contracting or contracted COVID-19. Failure to sell and distribute our products or develop and commercialize our product candidates as planned may materially and adversely affected our business operations, financial condition and prospects.

***We may be involved in lawsuits, claims, governmental investigations or administrative proceedings, which could adversely affect our business, results of operations, financial condition and reputation.***

We may from time to time become subject to various litigation, legal or contractual disputes, investigations or administrative proceedings arising in the ordinary course of our business, including but not limited to various disputes with or claims from our own employees, suppliers, customers, contractors, consumers, business partners and other third parties that we engage for our business operations, whether they are directly related or attributable to us. As of the Latest Practicable Date, we were not involved in any litigations and legal proceedings that may materially affect our business operations. Pending or threatened litigation, legal or contractual disputes, investigations or administrative proceedings may divert our management's attention and consume their time and our other resources. In addition, any similar claims, disputes or legal proceedings involving us or our employees may result in damages or liabilities, as well as legal and other costs, and may cause a distraction to our management. Furthermore, any litigation, legal or contractual disputes, investigations or administrative proceedings which are initially not of material importance may escalate and become important to us, due to a variety of factors, such as the facts and circumstances of the cases, the likelihood of loss, the monetary amount at stake, and the parties involved. If we are alleged to have infringed the intellectual property rights of our business partners or any third parties, we may be subject to injunctions or other temporary orders pending the resolution of such allegations, which could delay or even prevent us from the development and commercialization of affected products or product candidates, despite the outcome of the litigations. If any verdict or award is rendered against us or if we settle with any third parties, we could be required to pay significant monetary damages, assume other liabilities, and even suspend or terminate the affected business projects. Disputes with our business partners, including those relating to the R&D, intellectual property rights and commercialization of our product candidates, could also lead to the loss of rights relating to the affected products or product candidates, and deterioration or termination of business relationship. In addition, negative publicity arising from litigation, legal or contractual disputes, investigations or administrative proceedings may damage our reputation and adversely affect our brand name. Consequently, our business, results of operations and financial condition may be materially and adversely affected.

***We are subject to various risks relating to third-party payments.***

During the Track Record Period, certain of our customers settled their payments with us through third-party payors (the "**Third-party Payment Arrangement(s)**"). According to Frost & Sullivan, it is relatively common within the industry to arrange third party payments for some small-scale companies in China. In 2019, 2020 and 2021, the aggregate amount of third-party payments accounted for approximately 6.2%, 5.0% and 1.4% of the total revenue, respectively. Since March 2021, we ceased all Third-party Payment Arrangements. See "Business – Sales, Distribution and Marketing – Third-Party Payment Arrangements."

We are subject to various risks relating to such Third-party Payment Arrangements during the Track Record Period, including possible claims from third-party payors for return of funds as they were not contractually indebted to us and possible claims from liquidators of third-party payors. In the event of any claims from third-party payors or their liquidators, or legal proceedings (whether civil or criminal) instituted or brought against us in respect of third-party payments, we will have to spend significant financial and managerial resources to defend against such claims and legal proceedings, and our financial condition and results of operations may as a result be adversely affected.

***If we fail to maintain effective internal controls, we may not be able to accurately report our financial results or prevent fraud, and our business, financial condition, results of operation and reputation could be materially and adversely affected.***

We will become a [**REDACTED**] company upon completion of the [**REDACTED**], and our internal controls will be essential to the integrity of our business and financial results. Our public reporting obligations are expected to place a strain on our management, operational and financial resources and systems in the foreseeable future. Historically, we had certain improper or non-compliance conducts during our ordinary course of business. In preparation for the [**REDACTED**], we have implemented various measures to further enhance our internal controls, and plan to take steps to further improve our internal controls. See "Business – Sales, Distribution and Marketing – Third Party Payment Arrangements" and "Business – Risk Management and Internal Control – Internal Control." If we encounter difficulties in improving our internal controls and management information systems, we may incur additional costs and management time in meeting our improvement goals. We cannot assure you that the measures taken to improve our financial controls will be effective. If we fail to maintain effective internal controls in the future, we may be subject to fines or other penalties and our business, financial condition, results of operation and reputation may be materially and adversely affected.

***If our employees, distributors, customers, suppliers or other business partners engage in illegal, fraudulent, improper or unethical conduct, we may be subject to potential liability and negative publicity, and our reputation as well as business could be harmed.***

We are exposed to the risk that our employees, distributors, customers, suppliers, or other business partners we have contracted may engage in illegal, fraudulent, improper or unethical conduct. Misconduct by these individuals and institutions could include intentional, reckless and/or negligent conduct that violates the relevant laws and regulations, including those requiring the reporting of true, complete and accurate information and data to regulatory authorities, data privacy and security, product quality and manufacturing standards, and other relevant laws and regulations in China.

In particular, sales, marketing and other business arrangements in our industry are subject to extensive laws and regulations intended to prevent fraud, bribery, misconduct, kickbacks, self-dealing and other abusive practices. We could be potentially liable for actions taken by our employees, distributors, customers, suppliers or other business partners that violate anti-bribery, anti-corruption and other related laws and regulations in China or other countries as well as suffer from negative publicity associated with these actions, over which we may not have full control. Our employees or other third parties may fail to comply with such laws and regulations, and the relevant government authorities with discretion may interpret the laws and regulations in the way inconsistent with our understanding, both of which may expose us to potential risks and penalties. Although we had not been subject to fines or penalties for any breach of such laws and regulations in the past, we cannot assure you that there will not be any such fines or penalties imposed on us in the future. We may not be able to identify and deter any misconduct by such foregoing persons, and the precautions we take to detect and prevent such misconduct may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could severely disrupt our business operations, or result in failure to continue the marketing and sales of our products and obtain regulatory approval for our product candidates. The government authorities may seize the products involved in any illegal or improper conduct by our employees and other third parties, and we may be subject to claims, fines or suspension of our operations. Our brand and reputation, business, results of operations and financial position could be adversely affected if we are associated with any potential liabilities as well as negative publicity as a result of illegal, fraudulent, improper or unethical conduct, or allegations of such, by our employees and other business partners.

***We have granted, and may continue to grant, RSUs and other types of awards under our share incentive plan, which may result in increased equity-settled share award expense.***

We have adopted a RSU Scheme on December 8, 2021 to promote the Group's development in the long run and attract and retain senior management team and core talents of the Group. As of the Latest Practicable Date, 19,000,000 Ordinary Shares were allotted and issued to GBEBT Holding, a limited liability company incorporated in the BVI as a platform holding the underlying incentive Shares under the RSU Scheme, representing approximately 1.96% of the total issued share capital of the Company immediately before the [**REDACTED**]. See "Statutory and General Information – D. RSU Scheme" in Appendix IV. As a result, we recognized equity-settled share award expense of RMB16.5 million in 2021. We believe the granting of equity-settled share award is of significant importance to our ability to attract and retain key personnel and employees, and we will continue to grant equity-settled share award to employees in the future. As a result, our equity-settled share award expense may increase, which may have an adverse effect on our results of operations.

***We may be subject to fines for our failure to register for and/or make adequate contributions to social insurance and housing provident fund for our employees as required by the PRC regulations.***

Pursuant to relevant PRC laws and regulations, employers are obligated to directly and duly contribute to the social insurance and housing provident fund for their employees. During the Track Record Period and up to the Latest Practicable Date, we did not make full contributions to the social insurance and housing provident fund for our employees. In addition, certain of our PRC subsidiaries did not register and establish their accounts of social insurance or housing provident fund according to the applicable laws and regulations as no employee was recruited. According to the applicable laws and regulations, the competent government authorities may demand us to take rectification measures. If we fail to take the measures as demanded, we may be subject to fines. Under the Regulations on the Administration of Housing Provident Fund (《住房公積金管理條例》), if we fail to complete housing provident fund registration before the prescribed deadlines, we may be subject to a fine ranging from RMB10,000 to RMB50,000 for each non-compliant subsidiary or branch; if we are required to pay housing provident fund contributions within the prescribed deadlines, we may be subject to an order by the relevant people's court to make such payments. According to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), if we are required to complete social insurance registration within the prescribed deadlines and we fail to do so, we may be subject to a fine of one to three times the outstanding contribution amount, and for outstanding social insurance fund contributions that we did not make full payment, the relevant PRC authorities may demand that we pay the outstanding social insurance contributions within a stipulated deadline and we may be liable for a late payment fee equal to 0.05% of the outstanding contribution amount for each day of delay; if we fail to make such payments, we may be liable to a fine of one to three times the outstanding contribution amount.

During the Track Record Period, our total provision in relation to the shortfall amount of the social insurance and housing funds contribution was RMB7.3 million. See "Business – Employees."

***Our insurance coverage may be inadequate to protect us from the liabilities we may incur.***

We maintain insurance policies that are required under PRC laws and regulations as well as based on our assessment of our operational needs and industry practice. We maintain different types of insurance policies, including social insurance for our employees, safe production liability insurance, food safety liability insurance and vehicle insurance. We maintain food safety liability insurance to protect against the risks in relation to our functional food products. See "Business – Insurance." In line with industry practice in China, we have elected not to maintain certain types of insurances. Our insurance coverage may be insufficient to cover any claim for product liability, damage to our fixed assets or employee injuries. Any liability or damage to, or caused by, our facilities or our personnel beyond our insurance coverage may result in our incurring substantial costs and a diversion of resources.

***If we or third parties which we collaborate with fail to comply with data and privacy laws, regulations and policies, our business and reputation will be adversely affected and we might be subject to fines or other regulatory punishments.***

During the course of our business, we may produce and get access to confidential information. Therefore, it is critical that our facilities and infrastructure remain secure and are also perceived by the marketplace and our customers to be secure. Despite the implementation of security measures, we may nevertheless be vulnerable to security problems as a result of third-party actions, employee errors or malfeasances, stolen or fraudulently obtained log-in credentials or otherwise.

We are subject to strict requirements under the applicable laws and regulations regarding the collection, use, retention, protection, disclosure, transfer and other processing of personal data, as well as certain contractual obligations. These data protection and privacy law regimes continue to evolve and may result in increasing public scrutiny and escalating levels of enforcement and sanctions against us, as well as increased costs of compliance. Failure to comply with these laws and regulations could have an adverse effect on our business, reputation, results of operations and future prospects.

We also outsource certain portion of clinical trials to reputable third parties in China. If such institutions or personnel divulge the subjects' private or medical records without their consent, they will be held liable for damage caused by such action. Any leakage or abuse of subjects' data by our third-party partners may be perceived by the subjects as a result of our failure. Data protection and privacy laws and regulations generally require clinical trial sponsors and operators and their personnel to protect the privacy of their enrolled subjects and prohibit unauthorized disclosure of personal information. It is possible that these laws and regulations may be interpreted and applied in a manner that is inconsistent with our clinical trial practices. Furthermore, any change in such laws and regulations could affect our ability to use medical data and subject us to liability for the use of such data for previously permitted purposes. Any failure or perceived failure by us to comply with privacy policies, laws or regulations could have a negative impact on our business.

***Our information technology systems are critical to our business. System integration, implementation issues or security breaches could disrupt our operations, which could have a material adverse impact on our business and operating results.***

We rely on the efficient and uninterrupted operation of information technology systems. All information technology systems are vulnerable to damage or interruption from a variety of sources. As our business has grown in size and complexity, the growth has placed, and will continue to place, significant demands on our information technology systems. We expect to continue to make significant investments in maintaining, protecting and upgrading our technology infrastructure.

Since information systems, networks and other technologies are critical to many of our operating activities, system shutdowns or service disruptions and information leakage of our Company or suppliers that provide information systems, networks, or other IT services to us pose increasing risks. Such events may be caused by computer hacking, phishing attacks, ransomware, dissemination of computer viruses, worms and other destructive or disruptive software, denial of service attacks and other malicious activity, as well as power outages, natural disasters (including extreme weather), terrorist attacks or other similar events. Such events could have an adverse impact on us and our business, including loss of data and confidential information, damage to our IT systems, a disruption of our operations, damage to our reputation or loss of revenue. In addition, we may not have adequate insurance coverage to compensate for any losses associated with such events.

We have on occasion experienced, and will continue to experience, threats to our data and systems. The number and complexity of these threats continue to increase over time. If a material breach of our information technology systems or those of our suppliers occurs, the market perception of the effectiveness of our security measures could be harmed and our reputation and credibility could be damaged. We could be required to expend significant amounts of money and other resources to repair or replace information systems or networks. In addition, we could be subject to regulatory actions and/or claims made by individuals and groups in private litigation involving privacy issues related to data collection and use practices and other data privacy laws and regulations, including claims for misuse or inappropriate disclosure of data, as well as unfair or deceptive practices.

***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 benefited from certain government grants and preferential tax treatments. In 2019, 2020, 2021, our effective tax rates were 15.0%, 15.1% and 14.9%, respectively, and we received government grants of RMB15.0 million, RMB9.1 million and RMB20.8 million in the same years, respectively. According to the Notice of the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation on Tax Policy Issues concerning Further Implementing the western China Development Strategy (No. 58 [2011] of the Ministry of Finance) (《財政部、海關總署、國家稅務總局關於深入實施西部大開發戰略有關稅收政策問題的通知》), from January 1, 2011 to December 31, 2020, the enterprise income tax on an enterprise in an encouraged industry established in western China shall be paid at the reduced rate of 15%; and according to the Announcement of the Ministry of Finance, the State Taxation Administration and the National Development and Reform Commission on Continuing the Enterprise Income Tax Policies for the Large-Scale Development of western China (Announcement No. 23 [2020] of the Ministry of Finance, the State Taxation Administration and the National Development and Reform Commission) (《財政部、稅務總局、國家發展改革委關於延續西部大開發企業所得稅政策的公告》) which was promulgated on 23 April 2020 and became effective from 1 January 2021, our subsidiaries which are located in the western regions of the PRC and engaged in the biopolymer materials industry are entitled to enjoy a reduced rate of enterprise income tax of 15%.

If we cease to be entitled to preferential tax treatment, our income tax expenses may increase, which would adversely affect our results of operations. We cannot assure you that we will continue to receive government grants, or preferential tax treatments at the same level or at all, in which case our business, financial condition and result of operations may be adversely affected.

***We are subject to credit risk arising from some of our customers, and our failure to collect on trade receivables from our customers may have a material adverse effect on our business operations and financial condition.***

We from time to time grant credit periods to certain customers. As of December 31, 2019, 2020 and 2021, our trade receivables were RMB17.3 million, RMB54.5 million and RMB65.6 million, respectively. As a result, we may be exposed to credit risk. We recorded allowance for impairment of trade receivables of RMB0.5 million, RMB0.7 million and RMB0.7 million as of December 31, 2019, 2020 and 2021, respectively. Although we have adopted a series of strict management measures, we may not be able to collect all trade receivables due to a variety of factors that are outside of our control. If the relationship between us and any of our customers or distributors is terminated or deteriorated, or if our customers and distributors experience financial difficulties, our corresponding trade receivables might be adversely affected in terms of recoverability, and our business, financial condition and results of operations may be materially and adversely affected.

***If we are unable to perform our contracts and fulfill the relevant contract liabilities, our results of operations and financial condition may be adversely affected.***

As of December 31, 2019, 2020 and 2021, we had contract liabilities of RMB4.0 million, RMB1.2 million, and RMB16.3 million, respectively. Our contract liabilities are advances received from customers for the sales of products. 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 in turn adversely affect our financial position. In addition, if we fail to honor our obligations under our contracts with customers, it may also adversely affect our business relationships with them, which may in turn affect our results of operations in the future.

***We are exposed to changes in the fair value of financial assets measured at fair value through profit or loss and valuation uncertainties.***

As of December 31, 2019, 2020 and 2021, our financial assets at fair value through profit or loss were RMB746.6 million, RMB1,588.3 million, and RMB155.6 million, respectively. Our financial assets are measured at fair value, and the changes in their fair values are recorded under other gains or losses in the consolidated statements of comprehensive income, which will directly affect our profit and results of operations. In 2019, 2020 and 2021, we recognized fair value gains on financial assets at fair value through profit or loss of RMB0.2 million, RMB154.8 million, and RMB14.5 million, respectively. We cannot assure you that we will continue to generate such fair value gain in the future.

During the Track Record Period, the fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all inputs that are significant to fair value measurement are observable, the instrument is included in level 2 of the fair value hierarchy. The fair value of the financial products is estimated by our Group invests in financial products issued by banks or other financial institutions. We estimated the fair value of these financial products by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks. During the Track Record Period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities. See Note 2.4 to the Accountant's Report included in Appendix I to this document.

## RISKS RELATING TO CONDUCTING BUSINESS IN CHINA

***We operate in an industry that is highly regulated and evolving in China. Changes in such regulations may affect the approval and commercialization of our product candidates or cause us to be subject to new or more stringent policies.***

The beauty and health industries in China are subject to comprehensive government regulation and supervision, which include strict policies that govern and encompass the approval, registration, manufacturing, packaging, licensing and marketing processes for the relevant products within these industries.

As parts of the beauty and health industries in China is at a nascent stage, and the regulatory framework for the industries have undergone significant changes and have been constantly evolving, with new or more stringent laws, regulations or other regulatory measures being introduced from time to time. Our future success will depend, in part, on our ability to (i) continuously improve the know-how of our staff in response to evolving industry standards, and (ii) comply with new regulatory guidance. Our Company may not be successful in responding quickly, cost-effectively and adequately in these areas. If we fail to do so, we may lose our customers, thereby adversely affecting our operations and financial results. While we closely monitor the changes in the relevant laws and regulations and have implemented measures to ensure the continued compliance, the changes in the regulatory regime may materially and adversely affect our business, including:

- we may face increased compliance costs on our business and challenges in the successful development or commercialization of our product candidates in China;

- we may be subject to more stringent or different requirements on the manufacturing of our products and R&D of our product candidates;

- we may encounter greater difficulties in obtaining relevant regulatory approvals;

- our marketing initiatives may be restricted in scope, content, format and other aspects, which may reduce the effectiveness of our marketing efforts; and

- our business partners may be subject to greater regulatory scrutiny in their operations, such as the administration of products to consumers and the qualifications and licenses required for the entities and the relevant personnel.

We currently conduct our R&D and commercialization activities in China, which regulates these activities in great depth and detail and makes regulatory compliance complex and costly. The process of obtaining regulatory approvals and compliance with appropriate laws and regulations require substantial time and financial resources. Failure to comply with the applicable requirements at any time during the product development process, approval process, or after-approval process, such as manufacturing, may subject an applicant to administrative or judicial sanctions. These sanctions could include a regulator's refusal to approve pending applications, withdrawal of an approval, license revocation, a clinical hold, voluntary or mandatory product recalls, product seizures, total or partial suspension of manufacturing or distribution, injunctions, fines, refusals of government contracts, restitution, disgorgement or civil or criminal penalties. We may incur additional compliance costs. The failure to comply with these regulations could have a material adverse effect on our business, result of operations and financial condition.

Further, we cannot assure you that our customers and other business partners, will be always able to comply with the laws and regulations in a timely manner or at all. Our customers and other business partners may not be able to comply with the regulatory requirements, and we may have to terminate our collaboration with them. They may also terminate collaborations with us if we fail to comply with relevant requirements. As a result, we may experience a decline in revenue, incur higher expenditures, and be subject to negative publicity, all of which will adversely affect our business, results of operations and financial condition.

***Our products and any future products will be subject to ongoing or additional regulatory obligations and continued regulatory review, which may result in significant additional expense and we may be subject to penalties. If we fail to comply with regulatory requirements or experience unanticipated problems with our products and/or product candidates, our prospects, business and results of operations could be adversely affected.***

In China, a number of legislative and regulatory changes and proposed changes could prevent or delay regulatory approval of our product candidates, restrict or regulate post-approval activities and affect our ability to profitably sell our products and any product candidates for which we are to obtain regulatory approval. Our products and any additional product candidates that are approved by the regulators are, and will be subject to, ongoing regulatory requirements with respect to manufacturing, labeling, packaging, storage, advertising, promotion, sampling, record-keeping, post-market studies, submission of safety, efficacy, and other post-market information as well as other requirements of regulatory authorities in China.

Manufacturers and their facilities are required to comply with extensive regulatory requirements from the NMPA and/or other regulatory authorities. As such, we are and will be subject to continual review and inspections by the regulators in order to assess our compliance with applicable laws and requirements and adherence to commitments we made in any application materials with the NMPA or other regulatory authorities. Accordingly, we must continue to devote time, money and effort in all areas of regulatory compliance.

The regulatory approvals for our products and any approvals that we are to receive for our product candidates are and may be subject to limitations on the indicated uses for which our product may be marketed. The approvals we obtain may also be subject to other conditions which may require potentially costly post-marketing testing and surveillance to monitor the safety and efficacy of our products or product candidates. Such limitations and conditions could adversely affect the commercial potential of our products and product candidates.

In addition, the NMPA and other regulatory authorities strictly regulate the marketing, labeling, advertising and promotion of products placed on the market. Products may be promoted only for their approved indications and for use in accordance with the applicable scope in the approved label. The NMPA and other regulatory authorities actively enforce the laws and regulations prohibiting the promotion of off-label uses, and improper promotion of off-label uses may be subject to liabilities. As we do not closely monitor or otherwise directly participate in the treatments or procedures performed by the medical institutions and their practitioners, we could be subject to liabilities associated with any improper adoption or administration of our products by third parties.

***We may not be able to maintain or renew all the permits, licenses, certificates and other regulatory filings required for our business and operations. If we are not able to obtain, or experience delays in obtaining, required regulatory approvals, we will not be able to commercialize our product candidates, and our ability to generate revenue will be materially impaired.***

Major aspects of our operations, including product registration or filing, manufacturing, packaging, sales and distribution, pricing, environmental protection, among other things, are regulated by comprehensive local, regional and national regulatory regimes. Such permits, licenses, certificates and other regulatory filings are subject to periodic reviews and renewals by relevant government authorities, and the standards of such reviews and renewals may change from time to time. Although we had obtained all licenses, permits, certificates and other regulatory filings necessary to conduct our operations in all material respects from the relevant government authorities in China as of the Latest Practicable Date, we cannot assure you that such authorities will approve the application for such licenses, permits, certificates and other regulatory filings or their renewal in the future.

We need to complete regulatory filings or obtain registration certificates for certain of our main products from the NMPA or its local branches at the provincial or prefectural city level or from the competent regulatory authorities in other jurisdictions where we sell our products. For instance, medical devices are examined by the NMPA, Class II and III medical devices are required to apply for registration certificates from the NMPA or its provincial branch for commercialization and Class I medical devices are required to submit record-filing materials to the NMPA at the municipal level. In order to obtain such registration certificates, Class II and III medical devices are required to undergo product registration testing and clinical trials, unless they are exempted from clinical trials under the catalog published by the NMPA. Moreover, registration certificates for medical device have a five-year term and must be renewed by filing renewal applications with the NMPA or its competent branch. See "Regulatory Overview – Regulations Relating to Medical Devices Operation and Service." If the NMPA or any relevant local regulatory authorities determines not to grant the renewal of our registration certificates, or impose any additional license requirements on us such as the upgrade of our registration certificates as result of any change of PRC laws and regulations or guidelines, we will not be able to continue to manufacture and sell the affected products, which would have a material and adverse effect on our business, results of operations and financial condition.

In addition, as of the Latest Practicable Date, we are currently developing 85 product candidates, including 53 functional skincare products, 16 medical dressings, four rejuvenation products under our beauty product portfolio, and two biomedical products, seven functional foods and three food products for special medical purposes under our health product portfolio. We have limited experience in the registration process relating to special skincare products, medical products and Class III medical devices, and we cannot assure you that we will be able to obtain regulatory approvals for our existing product candidates or any product candidates we may discover, in-license or acquire and seek to develop in the future. The filing and registration process is unpredictable, and may be lengthy and costly, and depends on numerous factors, some of which are beyond our control, including the discretion of regulatory authorities. Significant delays in our ability to obtain approval for such candidates would harm our prospects, business, results of operations and financial condition.

Furthermore, if the interpretation or implementation of existing laws and regulations changes or new regulations come into effect, we may be required to obtain any additional permits, licenses, certificates or other regulatory filings. We cannot assure you that we will respond successfully and timely to such changes. Such changes may also result in increased compliance costs or prevent our successful development, manufacture or commercialization of products in China, which would adversely affect our business, results of operations and financial condition.

***Changes in China's economic, political and social conditions or global economic environment could adversely affect our business, results of operations, financial condition, cash flows and prospects.***

Due to our extensive operations in China, our business, results of operations and financial condition are affected to a significant degree by the economic, political and social conditions in China. The Chinese economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, control of foreign exchange and allocation of resources, among other factors. The PRC government has implemented various measures to encourage, but also to control, economic growth and to guide the allocation of resources. Some of these measures benefit the overall Chinese economy, but may also have a negative effect on us. We cannot predict the changes in China's economic, political and social conditions in the future and the impact of the new government policies on our business and prospects. Any actions and policies taken by the Chinese government, or the long term slowdown of Chinese economy, especially the slowdown of the recombinant collagen-based products industry, may have a negative impact on our business, operating performance and financial situation in many ways.

Moreover, the global macroeconomic and geopolitical environment are facing challenges, including the end of quantitative easing and raising the federal funds rate by the U.S. Federal Reserve, the situation in the Eurozone and uncertainties over geopolitical issues, which have resulted in market volatility. The Chinese economy has shown slower growth compared to the previous decade since 2012 and the trend may continue. There have also been concerns over the relationship between China and other countries, including the United States and the surrounding Asian countries. The international trade disputes in recent years, including tariff actions announced by the United States, China and certain other countries, and the uncertainties created by such disputes, may cause disruptions in the international flow of goods and services and may adversely affect the Chinese economy as well as global markets and economic conditions. In addition, the market volatility over the global outbreak of COVID-19 negatively affected the global financial markets, which may cause slowdown of the world's economy. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Any severe or prolonged slowdown in the global or Chinese economy may materially and adversely affect our business, results of operations, financial condition and prospects.

***The PRC legal system is evolving and could limit the legal protections available to investors and our Company.***

The PRC legal system is based on written statutes. Prior court decisions may be adduced for reference but have limited precedential value, which is different from common law system. In late 1970s, the PRC government began to promulgate a comprehensive system of laws and regulations governing general economic matters. The overall effect of legislation over the past four decades has significantly increased the protections afforded to various forms of foreign investment in China. However, China has not developed a fully-integrated legal system, and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. Furthermore, as some of these laws and regulations are relatively new, and because of the limited volume of published court decisions and their non-binding nature, the interpretation and enforcement of these laws and regulations may involve uncertainties and may not be as consistent or predictable as those in other jurisdictions.

Our business and operations are conducted in China and are governed by PRC laws, rules and regulations. These laws and regulations change frequently, and their interpretation and enforcement involve uncertainties. In addition, some regulatory requirements issued by certain PRC government authorities may not be consistently applied by other government authorities, thus making strict compliance with all regulatory requirements impractical or, in some circumstances, impossible. For instance, we may have to resort to administrative and court proceedings to enforce the legal protections that we benefit from either by law or contract. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in legal systems in more developed nations. Furthermore, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of our violations of these policies and rules until sometime after the violation. These uncertainties may also impede our ability to enforce the contracts we have entered into. These uncertainties, together with any development or interpretation of the PRC law unfavorable to us, could materially and adversely affect our business, results of operations and financial condition.

***We are subject to laws that are applicable to our business, including advertising and promotion laws, pricing laws and consumer rights and interests protection laws, and other consumer protection laws that could subject us to penalties and other administrative actions.***

We advertise our brands and products through various online and offline channels, including e-commerce platforms, social media platforms, advertising screens in shopping malls and posters at retail stores, which is subject to the applicable PRC laws and regulations. See "Business – Sales, Distribution and Marketing – Our Science- and Knowledge-Driven Branding and Marketing." Under PRC advertising laws and regulations, we are required to ensure that the contents of our advertisements are in full compliance with applicable laws and regulations. For example, the advertisements shall not present any false, inaccurate or misleading information, or omit any material information, of the products, services and gifts. Moreover, our marketing and promotion of medical devices, functional foods, food products for special medical purposes and cosmetics are subject to higher standards under PRC laws and regulations, such as the Advertising Law of the People's Republic of China (中華人民共和國廣告法), the Regulations on Medical Devices and the Interim Administrative Measures for the Review and Management of Advertisements for Drugs, Medical Devices, Dietary Supplements and Foods for Special Medical Purpose (藥品、醫療器械、保健食品、特殊醫學用途配方食品廣告審查管理暫行辦法), the Administration of Internet Advertising (互聯網廣告管理暫行辦法), the Regulation on the Supervision and Administration of Cosmetics (化妝品監督管理條例) and Administrative Provisions on Cosmetic Labeling (化妝品標識管理辦法).

In addition, our sales of products to consumers are subject to the provisions under PRC pricing laws, such as the Pricing Law of the PRC (中華人民共和國價格法) and the Provisions on Administrative Penalties Against Price-related Illegal Acts (價格違法行為行政處罰規定), and PRC consumer rights and interests protection laws, such as the Consumers Rights and Interests Protection Law of the PRC (中華人民共和國消費者權益保護法) and the Measures for Punishments against Infringements on Consumer Rights and Interests (侵害消費者權益行為處罰辦法).

The e-commerce industry in which we conduct online direct sales is highly regulated. As the e-commerce industry is evolving rapidly in China, new laws and regulations may be adopted to address new issues that arise from time to time and to impose additional restrictions on our e-commerce business. If the PRC government establishes stricter data privacy or other regulatory requirements on e-commerce activities in the future, we may incur significantly higher compliance costs in our online channels, and we cannot assure you that we would be able to meet all the regulatory requirements in a timely manner, or at all. For example, the E-Commerce Law of the PRC (《中華人民共和國電子商務法》), promulgated on August 31, 2018, requires all e-commerce operators, broadly defined to include natural persons, legal persons and unincorporated organizations that engage in business activities of selling commodities or offering services through the internet and other information networks, to abide by the principles of voluntariness, equality, equity and good faith, observe the law and business ethics, fairly participate in market competition, perform obligations in aspects including protection of consumer rights and interests, environment, intellectual property rights, cybersecurity and individual information, assume responsibility for quality of products or services, and accept the supervision by the government and the public. See "Regulatory Overview – Regulations Relating to Sales of Our Products" for details. Such legislation and enforcement may result in additional compliance obligations and costs or place restrictions upon our current or future operations. This may in turn materially and adversely affect our reputation, business, financial condition, results of operations and prospects.

If we are found to be in violation of any of such laws and regulations in the future, we may face serious penalties, including fines, revocation of our business licenses and discontinuance of our advertising activities. Moreover, governmental actions and civil claims may be filed against us for misleading or inaccurate advertising or other illegal acts violating pricing laws or consumer rights. Furthermore, if our employees or the third party service providers we engage fail to comply with such laws and regulations, or the relevant government authorities, who have broad discretions in interpreting the laws and regulations, ultimately take a view that is inconsistent with our understanding in the process of administrative law enforcement, we may be subject to potential risks and penalties. We may have to spend significant resources in defending against such actions, and these actions may damage our reputation, result in reduced revenue, and negatively affect our results of operations.

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

We are subject to a number of environmental, health and safety laws and regulations, including but not limited to the treatment and discharge of pollutants into the environment in the process of our business operations. See "Regulatory Overview." In addition, our production lines can only be put into operation after the relevant administrative authorities in charge of environmental protection and health and safety have examined and approved the relevant facilities in China or certain other jurisdictions. We cannot assure you that we will be able to obtain all the regulatory approvals for our production in a timely manner, or at all. Delays or failures in obtaining all the requisite regulatory approvals of such facilities may affect our abilities to develop, manufacture and commercialize our products as we plan. As requirements imposed by such laws and regulations may change and more stringent laws or regulations may be adopted, we may not be able to comply with, or accurately predict any potential substantial cost of complying with, these laws and regulations. If we fail to comply with environmental protection laws and regulations, we may be subject to rectification orders, substantial fines, potentially significant monetary damages, or production suspensions in our business operations. In addition, we cannot fully eliminate the risk of accidental contamination, biological or chemical hazards or personal injury at our facilities during the process of testing, development and manufacturing of our products. In the event of such accident, we could be held liable for damages and clean-up costs which, to the extent not covered by existing insurance or indemnification, could harm our business. Other adverse effects could result from such liability, including reputational damage.

Furthermore, we may be required to incur substantial costs to comply with current or future environmental laws and regulations. These current or future laws and regulations may impair our research, development or manufacturing efforts. Failure to comply with these laws and regulations also may result in substantial fines, penalties or other sanctions. Any of the foregoing could materially adversely affect our business, financial condition, results of operations and prospects.

***Laws and regulations related to e-commerce and social media activities in China may impose additional requirements and obligations on our online channels or could increase our compliance cost.***

The e-commerce and social media industries in which we have operations is highly regulated. As the e-commerce and social media industries is evolving rapidly in China, new laws and regulations may be adopted to address new issues that arise from time to time and to impose additional restrictions on our e-commerce business. If the PRC government establishes stricter data privacy or other regulatory requirements on e-commerce activities in the future, we may incur significantly higher compliance costs in our online channels, and we cannot assure you that we would be able to meet all the regulatory requirements in a timely manner, or at all. For example, the E-Commerce Law of the People's Republic of China (中華人民共和國電子商務法), promulgated by the SCNPC on August 31, 2018 and implemented on January, 1 2019, requires all e-commerce operators, broadly defined to include natural persons, legal persons and unincorporated organizations that engage in business activities of selling commodities or offering services through the internet and other information networks, to abide by the principles of voluntariness, equality, equity and good faith, observe the law and business ethics, fairly participate in market competition, perform obligations in aspects including protection of consumer rights and interests, environment, intellectual property rights, cybersecurity and individual information, assume responsibility for quality of products or services, and accept the supervision by the government and the public. See "Regulatory Overview – Regulations Relating to Sales of Our Products." Such legislation and enforcement may result in additional compliance obligations and costs or place restrictions upon our current or future operations. This may in turn materially and adversely affect our business, reputation, financial condition, results of operations and prospects.

***The PRC government policy on foreign investment in China may adversely affect our business and results of operations.***

The investment activities of foreign investors in China are subject to certain restrictive regulations. The Special Management Measures for the Entry of Foreign Investment (Negative List) (2021 version) (外商投資准入特別管理措施(負面清單)(2021年版)) (the "**Negative List**") issued by the NDRC and MOFCOM, which sets out in a unified manner the restrictive measures for the access of foreign investments such as the requirements for equity ratio and senior management composition, and the industries that are prohibited for foreign investment. Any field not covered by the Negative List shall be administered under the principle of equal treatment to domestic and foreign investment. As of the Latest Practicable Date, our principal business in China does not fall within the Negative List. However, certain industries are specifically prohibited for foreign investment, such as the development and application of technologies for diagnosis and treatment of human stem cells and genes, which may restrict us from entering into these industries.

Also, as the Negative List could be updated in the future, we cannot assure you that the PRC government will not change its policies in a manner that would render part of our business in China within the Negative List. If we cannot obtain approval from relevant approval authorities to engage in a business in China which becomes prohibited or restricted for foreign investors, we may be forced to sell or restructure our business which has become restricted or prohibited for foreign investment. If we are forced to adjust our corporate structure or business lines as a result of changes in government policy on foreign investment, our business, results of operations and financial condition may be adversely affected.

***Our operations are subject to and may be affected by changes in PRC tax laws and regulations.***

We are subject to periodic examinations on fulfillment of our tax obligation under the PRC tax laws and regulations by PRC tax authorities. Although we believe that in the past, we have acted in compliance with the requirements under the relevant PRC tax laws and regulations in all material aspects and established effective internal control measures in relation to accounting regularities, we cannot assure you that future examinations by PRC tax authorities would not result in fines, other penalties or action that could adversely affect our business, financial condition and results of operations, as well as our reputation. Furthermore, the PRC government from time to time adjusts or changes its tax laws and regulations. For instance, under the Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法) (the "**IIT Law**"), which was amended on June 30, 2011 and came into effect on September 1, 2011, foreign nationals who have domiciles in China, or have no domicile but have resided in China for one year or more, would be subject to PRC individual income tax on their income gained within or outside China. On August 31, 2018, the SCNPC have approved the amendment of the IIT Law, which became effective on January 1, 2019. Under the amended IIT Law, foreign nationals who have no domicile in China but have resided in China for a total of 183 days or more in a tax year, would be subject to PRC individual income tax on their income gained within or outside China. Should such rule be strictly enforced, our ability to attract and retain highly skilled foreign scientists and research technicians to work in China may be adversely affected. Further adjustments or changes to PRC tax laws and regulations, together with any uncertainty resulting therefrom, could also have an adverse effect on our business, results of operations and financial condition.

In addition, according to the Interim Regulation of the PRC on Consumption Tax (中華人民共和國消費稅暫行條例) ("**Consumption Tax Regulation**"), which was introduced on October 11, 2008 and came into effect on January 1, 2009, cosmetics manufactured or imported into PRC were subject to consumption tax at a rate of 30%. On September 30, 2016, the Ministry of Finance and the SAT jointly issued a public notice to amend the Consumption Tax Regulation, which came into effect on October 1, 2016. According to the public notice, budget cosmetics have ceased to be taxable, whilst premium cosmetics including skincare products are subject to consumption tax at a rate of 15%. Moreover, premium cosmetics are defined as cosmetics with a sales price of RMB10/ml(g) or RMB15/piece or higher upon production or import, exclusive of VAT. Such amendment has had an adverse effect on the pricing of our skincare products. In addition, a PRC Consumption Tax Law is expected to substitute for the Consumption Tax Regulation by 2035. Further adjustments or changes to the rate or taxable items of consumption tax could have an adverse effect on our business, results of operations and financial condition.

***Implementation of the labor laws and regulations in China may adversely affect our business and results of operations. Failure to fully comply with PRC labor-related laws may expose us to potential liabilities and penalties.***

Pursuant to the PRC Labor Contract Law (中華人民共和國勞動合同法) (the "**Labor Contract Law**"), employers are subject to strict requirements in terms of signing labor contracts, minimum wages, paying remuneration, determining the term of employees' probation and unilaterally terminating labor contracts. Due to lack of detailed interpretative rules and broad discretion of the local competent authorities, it is uncertain as to how the Labor Contract Law and its implementation rules will affect our current employment policies and practices. Our employment policies and practices may violate the Labor Contract Law or its implementation rules, and we may be subject to related penalties, fines or legal fees. Compliance with the Labor Contract Law and its implementation rules may increase our operating expenses, in particular our personnel expenses. In the event that we decide to terminate some of our employees or otherwise change our employment or labor practices, the PRC Labor Contract Law and its implementation rules may also limit our ability to effect those changes in a desirable or cost-effective manner, which could adversely affect our business and results of operations.

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

***The PRC government's control of currency conversion, and restrictions on the remittance of RMB into and out of China, may limit our ability to pay dividends and other obligations, and adversely affect the value of your investments.***

The PRC government imposes control on the convertibility of RMB into foreign currencies. We receive the vast majority of our revenue in RMB. Shortages in the availability of foreign currency may restrict our ability to remit sufficient foreign currency, or otherwise satisfy our foreign currency denominated obligations. Under the existing PRC foreign exchange regulations, 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 requirements. However, approval from or registration with competent government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. 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. Further, we cannot assure you that new regulations will not be promulgated in the future that would have the effect of further restricting the remittance of RMB into or out of China.

***We may be classified as a "PRC resident enterprise" for PRC enterprise income tax purposes, which could result in unfavorable tax consequences to us and our shareholders and have a material adverse effect on our results of operations and the value of your investment.***

Under the EIT Law and its implementation rules, an enterprise established outside of the PRC with a "de facto management body" within the PRC is considered a resident enterprise and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term "de facto management body" as the body that exercises full and substantial control over and overall management of the business, manufacturing, personnel, accounts and properties of an enterprise. In April 2009, the SAT issued the Circular on Issues about the Determination of Chinese-Controlled Enterprises Registered Abroad as Resident Enterprises on the Basis of Their Body of Actual Management (關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知) (the "**Circular 82**"), which provides certain specific criteria for determining whether the "de facto management body" of a PRC-controlled enterprise that is incorporated offshore is located in the PRC. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect the SAT's general position on how the "de facto management body" test should be applied in determining the tax resident status of all offshore enterprises. According to Circular 82, an offshore-incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its "de facto management body" in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise's financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise's primary assets, accounting books and records, company seals and board and shareholder resolutions are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

We believe none of our entities outside of the PRC is a PRC resident enterprise for PRC tax purposes. However, the tax resident 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 substantially all of our management members are based in the PRC, it remains unclear how the tax residency rule will apply to our case. If the PRC tax authorities determine that we or any of our subsidiaries outside of the PRC is a PRC resident enterprise for PRC enterprise income tax purposes, then we or such subsidiary could be subject to PRC tax at a rate of 25% on its world-wide income, which could materially reduce our net income. In addition, we will also be subject to PRC enterprise income tax reporting obligations. Furthermore, if the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, gains realized on the sale or other disposition of our ordinary Shares may be subject to PRC tax, at a rate of 10% in the case of non-PRC enterprises or 20% in the case of non-PRC individuals (in each case, subject to the provisions of any applicable tax treaty), if such gains are deemed to be from PRC sources. It is unclear whether non-PRC shareholders of our company 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. Any such tax may reduce the returns on your investment in our Shares.

***PRC regulation of loans to and direct investments in PRC entities by offshore holding companies may delay or prevent us from using the* [REDACTED] *of the* [REDACTED] *to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.***

Any funds we transfer to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration with relevant government authorities in China. According to the relevant PRC regulations on foreign-invested enterprises in the PRC, the increasing of capital contributions to our PRC subsidiaries is subject to the reporting requirement to the MOFCOM or its local branches and registration with other government authorities in the PRC. In addition, (i) any foreign loan procured by our PRC subsidiaries is required to be registered with the SAFE or its local branches, and (ii) our PRC subsidiaries may not procure loans which exceed a statutory limit. We may not be able to complete such reporting or registrations on a timely basis, if at all, with respect to future capital contributions or foreign loans by us directly to our PRC subsidiaries. If we fail to complete such reporting or registration, our ability to use the [**REDACTED**] of this [**REDACTED**] and to capitalize our PRC operations may be adversely affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

***The heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on our business operations, our acquisition or restructuring strategy or the value of your investment in us.***

According to the Announcement of the SAT on Several Issues Concerning the Enterprise Income Tax on Indirect Property Transfer by Non-Resident Enterprises (國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告), or SAT Circular 7, promulgated by the SAT in February 2015 and further revised in October and December 2017, if a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly through the transfer of the equity interests of an offshore holding company without a reasonable commercial purpose, the PRC tax authorities have the power to reassess the nature of the transaction and treat the indirect equity transfer as a direct transfer. As a result, the gain derived from such transfer, i.e., the transfer price minus the cost of equity, will be subject to PRC withholding tax at a rate of up to 10%. Under the terms of SAT Circular 7, a transfer that meets all of the following circumstances shall be directly deemed as having no reasonable commercial purposes: (i) over 75% of the value of the equity interests of the offshore holding company is directly or indirectly derived from PRC taxable properties; (ii) at any time during the year before the indirect transfer, over 90% of the total properties of the offshore holding company are investments within PRC territory, or in the year before the indirect transfer, over 90% of the offshore holding company's revenue is directly or indirectly derived from PRC territory; (iii) the function performed and risks assumed by the offshore holding company are insufficient to substantiate its corporate existence; and (iv) the foreign income tax imposed on the indirect transfer is lower than the PRC tax imposed on the direct transfer of the PRC taxable properties.

We face uncertainties as to the reporting and other implications of certain future transactions where PRC taxable assets are involved, such as offshore restructuring and sale of the shares in our offshore subsidiaries. We and our non-PRC resident investors may be subject to filing obligations in such transactions, under SAT Circular 7. For transfers of shares in our Company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist with the filing under SAT Circular 7. As a result, we may be required to expend valuable resources to comply with SAT Circular 7 or to request that the relevant transferors from whom we purchase taxable assets comply with these circulars, or to establish that our Company should not be taxed under these circumstances, which may have a material adverse effect on our business, financial condition and results of operations.

***The M&A Rules and certain other PRC regulations establish complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.***

The Rules on Mergers and Acquisitions of Domestic Enterprise by Foreign Investors (關於外國投資者併購境內企業的規定) (the "M&A Rules") adopted by six PRC regulatory authorities in 2006 and amended in 2009, and some other regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time consuming and complex, including requirements in some instances that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of an affiliated PRC domestic enterprise. Moreover, the PRC Anti-Monopoly Law (中華人民共和國反壟斷法) requires that the anti-trust government authority shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. In addition, the Notice of the General Office of the State Council on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (國務院辦公廳關於建立外國投資者併購境內企業安全審查制度的通知) issued by the MOFCOM and became effective in March 2011, specifies that mergers and acquisitions by foreign investors that raise "national defense and security" concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise "national security" concerns are subject to strict review by the MOFCOM, and the rules prohibit any activities attempting to bypass security review, including by structuring the transaction through a proxy or contractual control arrangement. In the future, we may grow our business by acquiring business from other game developers or game operators. Complying with the requirements of the abovementioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes, including obtaining approval from the MOFCOM or its local counterparts, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

***PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to increase their registered capital or distribute profits to us, or may otherwise adversely affect us.***

The SAFE has promulgated several regulations that require PRC residents and entities to register with and obtain approval from local branches of the SAFE in connection with their direct or indirect offshore investment activities. The Circular 37 was promulgated by the SAFE in July 2014 which requires PRC residents or entities to register with the SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. These regulations apply to our Shareholders who are PRC residents or entities and may apply to any offshore acquisitions that we make in the future.

Under these foreign exchange regulations, PRC residents or entities who make, or have previously made, prior to the implementation of these foreign exchange regulations, direct or indirect investments in offshore companies are required to register those investments. In addition, any PRC resident or entity who is a direct or indirect shareholder of an offshore company is required to update the previously filed registration with the local branch of the SAFE, with respect to that offshore company, to reflect any material change involving its round-trip investment, capital variation, such as an increase or decrease in capital, transfer or swap of shares, merger or division. If any PRC shareholder fails to make the required registration or update the previously filed registration, the PRC subsidiary of that offshore parent company may be restricted from distributing its profits and the proceeds from any reduction in capital, share transfer or liquidation to its offshore parent company, and the offshore parent company may also be restricted from injecting additional capital into its PRC subsidiary. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

We have requested PRC residents and entities holding direct or indirect interests in our Company to our knowledge to make the necessary applications, filings and amendments as required by applicable foreign exchange regulations. However, we may not be fully informed of the identities of all our Shareholders or beneficial owners who are PRC residents and, therefore, we may not be able to identify all our Shareholders or beneficial owners who are PRC residents or entities to ensure their compliance with Circular 37 or other related regulations. In addition, we cannot provide any assurance that all of our Shareholders and beneficial owners who are PRC residents or entities will comply with our request to make, obtain or update any applicable registrations or comply with other requirements required by Circular 37 or other related regulations, including applicable NDRC and MOFCOM regulations, in a timely manner. Failure by any such Shareholders to comply with Circular 37 or other related regulations could subject us to fines or legal sanctions, restrict our investment activities in the PRC and overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions, pay dividends or other payments to us or affect our ownership structure, which could materially and adversely affect our business and prospects.

***Failure to comply with PRC regulations regarding the 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. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. In addition, the Circular 37 stipulates that PRC residents who participate in a share incentive plan of an overseas non-publicly listed special purpose company may register with the SAFE or its local branches before they exercise the share options. 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. We also face regulatory uncertainties that could restrict our ability to adopt additional incentive plans for our employees under PRC law.

The SAT 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 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.

***Certain judgments obtained against us by our Shareholders may not be enforceable.***

We are an exempted company incorporated in the Cayman Islands. Substantially all of our assets are located in China, which is also where all of our current operations are conducted. In addition, a majority of our current directors and officers are nationals and residents of China and substantially all of the assets of these persons are located in China. As a result, it may be difficult or impossible for you to effect service of process within Hong Kong upon us or these persons, or to bring an action in Hong Kong against us or against these individuals in the event that you believe that your rights have been infringed under the applicable securities laws or otherwise. In addition, because there are no clear statutory and judicial interpretations or guidance on a PRC court's jurisdiction over cases brought under foreign securities laws, it may be difficult for you to bring an original action against us or our PRC resident officers and directors in a PRC court based on the liability provisions of non-PRC securities laws. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

## RISKS RELATING TO THE [REDACTED]

***The approval, filing or other administration requirements of the CSRC or other PRC government authorities may be required in connection with this* [REDACTED] *and our future capital raising activities under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval.***

The M&A Rules require an overseas special purpose vehicle formed for listing purposes through acquisitions of PRC domestic companies and controlled by PRC persons or entities to obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange. The interpretation and application of the regulations remain unclear, and this [**REDACTED**] may ultimately require approval of the

CSRC. If the CSRC approval is required, it is uncertain whether we can or how long it will take us to obtain the approval and, even if we obtain such CSRC approval, such CSRC approval could be rescinded. Any failure to obtain or delay in obtaining the CSRC approval for this [**REDACTED**] if such approval is required, or a rescission of such CSRC approval if obtained by us, would subject us to sanctions imposed by the CSRC or other PRC regulatory authorities, which could include fines and penalties on our operations in the PRC, restrictions or limitations on our ability to pay dividends outside of the PRC, and other forms of sanctions that may materially and adversely affect our business, financial condition, and results of operations.

Our PRC Legal Advisors have advised us that, based on its understanding of the PRC laws and regulations currently in effect, we will not be required to submit an application to the CSRC for the approval under the M&A Rules for this [**REDACTED**] because (i) the CSRC currently has not issued any definitive rule or interpretation concerning whether [**REDACTED**] like the [**REDACTED**] are subject to this regulation; (ii) the WFOE was not established by us through merger or acquisition of the equity or assets of a "PRC domestic company" as such term is defined under the M&A Rules. However, our PRC Legal Advisors further advised that there is uncertainty as to how the M&A Rules will be interpreted or implemented, and new rules or regulations promulgated in the future may impose additional requirement on us. We cannot assure you that relevant PRC government authorities, including the CSRC, would reach the same conclusion as our PRC Legal Advisors, and if it is determined that the CSRC approval is required for this [**REDACTED**], we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory authorities.

On July 6, 2021, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council issued the Opinions on Strictly Combating Illegal Securities Activities in Accordance with the Law (《關於依法從嚴打擊證券違法活動的意見》) (the "**July 6 Opinion**"), which called for the enhanced administration and supervision of overseas-listed China-based companies, proposed to revise the relevant regulation governing the overseas issuance and listing of shares by such companies and clarified the responsibilities of competent domestic industry regulators and government authorities. As of the Latest Practicable Date, due to the lack of further clarifications or detailed rules and regulations, there are still uncertainties regarding the interpretation and implementation of the July 6 Opinion. We cannot guarantee that new rules or regulations promulgated in the future pursuant to the July 6 Opinion will not impose any additional requirement on us.

Furthermore, on December 24, 2021, the CSRC, jointly with relevant departments under the State Council, published the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)》) (the "**Administration Provisions**"), as well as the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《境內企業境外發行證券和上市備案管理辦法(徵求意見稿)》) (the "**Administrative Measures**"), which are open for public consultation. The Administration Provisions mainly stipulate a filing-based regulatory system that covers both direct and indirect overseas offering and listing. The Administrative Measures provide, among others, the scope of activities subject to the filing requirement, the entities subject to filing obligations, and the filing procedures. The scope of activities subject to the filing and reporting requirement includes making an application for initial public offering in an overseas market and making securities offering after having been listed in an overseas market. The entities subject to filing obligations refer to issuers (a) whose domestic operating entity generated more than 50% of the total assets, net assets, revenues or profits as shown in the issuer's audited consolidated financial statements in the most recent accounting year, and (b) whose senior management in charge of business operation and management are mostly Chinese citizens or have domicile in China, and whose main places of business are located in China or main business activities are conducted in China. Although there are different interpretations as to whether the two conditions should be satisfied at the same time, given that our domestic operating entity generated 100% of our total revenue as shown in our audited consolidated financial statements for the year ended December 31, 2021, and that our senior management are mostly Chinese citizens and our business activities are mainly conducted in China, we are mostly likely to be subject to the filing obligations as contemplated in the Administrative Measures. In addition, pursuant to the Administrative Measures, PRC domestic companies that directly or indirectly seek to offer or list their securities in an overseas stock exchange are required to file with the CSRC within 3 working days after submitting their application documents to the regulator in the place of intended listing or offering, and the CSRC will, within 20 working days after receiving filing documents that are deemed complete and in compliance with stipulated requirements, issue a filing notice thereof and publish the filing results on the CSRC website. As of the Latest Practicable Date, there is no schedule for the adoptions of such drafts, and it remains unclear whether the versions adopted will have any further material changes. There remain substantial uncertainties about how these drafts will be enacted, interpreted or implemented and how they will affect our operations and the [**REDACTED**]. If it is determined that we are subject to any CSRC approval, filing, other governmental authorization or requirements for this [**REDACTED**] or future capital raising activities, it is uncertain whether we can or how long it will take us to obtain such approval or complete such procedures, and, even if we obtain such approval, the approval could be rescinded. Any failure to obtain or delay in obtaining such approval or completing such procedures for this [**REDACTED**] or future capital raising activities, or a rescission of any such approval obtained by us, would subject us to sanctions by the CSRC or other PRC regulatory authorities. These regulatory authorities may impose fines and penalties on our operations in the PRC, limit our ability to pay dividends outside of the PRC, limit our operating privileges in the PRC, delay or restrict the repatriation of the [**REDACTED**] from this [**REDACTED**] or future capital raising activities into the PRC, or take other actions that could materially and adversely affect our business, financial condition, results of operations, and prospects, as well as the [**REDACTED**] of our Shares. In addition, if the CSRC or other regulatory authorities in the future promulgate new rules or explanations requiring that we obtain their approvals or accomplish the required filing or other regulatory procedures for this [**REDACTED**] or future capital raising activities, we may be unable to obtain a waiver of such approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties or negative publicity regarding such approval, filing or other requirements could materially and adversely affect our business, prospects, financial condition, reputation, and the [**REDACTED**] of our Shares.

The CSRC or other PRC regulatory authorities also may take actions requiring us, or making it advisable for us, to halt this [**REDACTED**] or future capital raising activities before settlement and delivery of the 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.

***No public market currently exists for our Shares; an active trading market for our Shares may not develop and the*** [**REDACTED**] ***for our Shares may decline or became volatile.***

Prior to the [**REDACTED**], there has been no public market for our Shares. The initial [**REDACTED**] for our Shares was the result of negotiations between our Company and the [**REDACTED**] (for itself and on behalf of the [**REDACTED**]) and the [**REDACTED**] may differ significantly from the [**REDACTED**] for our Shares following the [**REDACTED**]. We have applied for [**REDACTED**] and [**REDACTED**] our Shares on the Hong Kong Stock Exchange. There is no assurance that the [**REDACTED**] will result in the development of an active, liquid [**REDACTED**] market for our Shares.

The price and [**REDACTED**] volume of our Shares may be highly volatile. Several factors, some of which are beyond our control, such as variations in our results of operations, changes in our pricing policy, the emergence of new technologies, strategic alliances or acquisitions, the addition or departure of key personnel, changes in profit forecast or recommendations by financial analysts, changes in ratings by credit rating agencies, litigation or the removal of the restrictions on share transactions, could cause large and sudden changes to the volume and price at which our Shares will trade.

In addition, the Hong Kong Stock Exchange has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of companies quoted on the Hong Kong Stock Exchange. As a result, investors in our Shares may experience volatility in the market price of their Shares and a decrease in the value of their Shares regardless of our operating performance or prospects.

***The price and*** [**REDACTED**] ***volume of our Shares may be volatile, which could lead to substantial losses to investors.***

The price and [**REDACTED**] volume of our Shares may be subject to significant volatility in response to various factors beyond our control, including the general market conditions of the securities in Hong Kong and elsewhere in the world. In particular, the business and performance and the market price of the shares of other companies engaging in similar business may affect the price and [**REDACTED**] volume of our Shares. In addition to market and industry factors, the price and [**REDACTED**] volume of our Shares may be highly volatile for specific business reasons, such as regulatory developments affecting the beauty and health industry and other related matters, fluctuations in our revenue, earnings, cash flows, investments and expenditures, relationships with our suppliers, movements or activities of key personnel, or actions taken by competitors. Moreover, shares of other companies listed on the

Stock Exchange with significant operations and assets in China have experienced price volatility in the past, and it is possible that our Shares may be subject to changes in price not directly related to our performance.

***You will incur immediate and significant dilution and may experience further dilution if we issue additional Shares or other equity securities in the future, including pursuant to the share incentive scheme(s).***

In order to expand our business, we may consider offering and issuing additional Shares in the future. Purchasers of the Shares may experience dilution in the net tangible asset value per share of their Shares 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 the share incentive schemes, which would further dilute Shareholders' interests in our Company.

***Our historical dividends may not be indicative of our future dividend policy, and 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 Shares for a return on your investment.***

We cannot assure you when and in what form dividends will be paid on our Shares after the [**REDACTED**]. The declaration and distribution of dividends is at the complete 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 or any profits 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 make/can make dividend payments on our Shares in the future. See "Financial Information – Dividend and Dividend Policy."

If we retain most, or all, of our available funds and any future earnings after the [**REDACTED**] to fund the development and commercialization of our pipeline product candidates, we may not expect to pay any cash dividends in the foreseeable future. Therefore, you may not be able to rely on an investment in our Shares as a source for any future dividend income.

Even if our Board decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions (if any) received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our Board. Accordingly, the return on your investment in our Shares will likely depend entirely upon any future price appreciation of our Shares. There is no guarantee that our Shares will appreciate in value after the [**REDACTED**] or even maintain the price at which you purchased the Shares. You may not realize a return on your investment in our Shares and you may even lose your entire investment in our Shares.

***Our Controlling Shareholders has significant influence over the Company and her interests may not be aligned with the interests of the other Shareholders.***

Our Controlling Shareholders has substantial influence over our business, including matters relating to our management, policies and decisions regarding mergers, expansion plans, consolidations and sales of all or substantially all of our assets, election of Directors and other significant corporate actions. Immediately following the completion of the [**REDACTED**] and assuming the [**REDACTED**] is not exercised, our Controlling Shareholders will be interested in [**REDACTED**]% of the issued share capital of our Company. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive other Shareholders of an opportunity to receive a premium for their Shares as part of a sale of our Company and might reduce the price of our Shares. These events may occur even if they are opposed by our other Shareholders. In addition, the interests of our Controlling Shareholders may differ from the interests of our other Shareholders. It is possible that our Controlling Shareholders may exercise their substantial influence over us and cause us to enter into transactions or take, or fail to take, actions or make decisions that conflict with the best interests of our other Shareholders.

***Future sales or perceived sales of substantial amount of our Shares in the public market could materially adversely affect the prevailing market price of our Shares and our ability to raise capital in the future.***

Prior to the [**REDACTED**], there has not been a public market for our Shares. Future sales or perceived sales by our existing Controlling Shareholders of our Shares after the [**REDACTED**] could result in a significant decrease in the prevailing market price of our Shares. Only a limited number of the Shares currently outstanding will be available for sale or issuance immediately after the [**REDACTED**] due to contractual and regulatory restrictions on disposal and new issuance. Nevertheless, after these restrictions lapse or if they are waived, future sales of significant amounts of our 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.

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

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

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

Our management may spend the net [**REDACTED**] from the [**REDACTED**] in ways you may not agree with or that do not yield a favorable return to our Shareholders. We plan to use the net [**REDACTED**] from the [**REDACTED**] for purposes including funding the R&D activities for our pipeline products, expanding our manufacturing capacities and capabilities, expanding our marketing network and strengthening our brand image, and investing in digitalizing our operations and information systems. See "Future Plans and Use of [**REDACTED**]." However, our management will have discretion as to the actual application of our net [**REDACTED**]. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific uses we will make of the net [**REDACTED**] from this [**REDACTED**].

***We are a Cayman Islands company and, because judicial precedent regarding the rights of shareholders is comparatively more limited under the laws of the Cayman Islands than other jurisdictions, you may have difficulties in protecting your rights***

Our corporate affairs are governed by our Memorandum and Articles, together with the Cayman Companies Act and common law of the Cayman Islands. The rights of Shareholders to take legal action against our Directors and us, 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 of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes and judicial precedent in existence in the jurisdictions where minority Shareholders may be located. See "Appendix III – Summary of the Constitution of the Company and Cayman Islands Company Law".

As a result of all of the above, minority Shareholders may have difficulties in protecting their interests under the laws of the Cayman Islands through actions against our management or Directors, which may provide different remedies to minority Shareholders when compared to the laws of the jurisdiction in which such Shareholders are located.

***If securities or industry analysts do not publish research or reports about our business, or if they adversely change their recommendations regarding our Shares, the* [REDACTED] *for our Shares and* [REDACTED] *volume could decline.***

The [**REDACTED**] market for our Shares may be affected by research reports about us or our business published by the industry or securities analysts. The market price of our Shares would possibly decline if one or more analysts who cover us downgrade our Shares or publish negative opinions about us regardless of the accuracy of the information. We may lose visibility in the financial markets if one or more of these analysts cease coverage of us or fail to regularly publish reports on us, which could cause the market price or [**REDACTED**] volume of our Shares to decline.

***Facts, forecasts and statistics in this document relating to the PRC economy and the industry that we operate in may not be fully reliable.***

Facts, forecasts and statistics in this document relating to the industry we operate in are obtained from various sources that we believe are reliable, including official government publications as well as a report prepared by Frost & Sullivan that we commissioned. However, we cannot guarantee the quality or reliability of these sources. Neither we, the [**REDACTED**], the Joint Sponsors, the [**REDACTED**] nor our or their respective affiliates or advisers have verified the facts, forecasts and statistics nor ascertained the underlying economic assumptions relied upon in those facts, forecasts and statistics obtained from these sources. Due to possibly flawed or ineffective collection methods or discrepancies between published information and factual information and other problems, the statistics in this document relating to the markets we operate in may be inaccurate and you should not place undue reliance on them. We make no representation as to the accuracy of such facts, forecasts and statistics obtained from various sources. Moreover, these facts, forecasts and statistics involve risk and uncertainties and are subject to change based on various factors and should not be unduly relied upon.

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

This document contains certain forward-looking statements and information relating to us that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this document, the words "aim", "anticipate", "believe", "can", "continue", "could", "estimate", "expect", "going forward", "intend", "ought to", "may", "might", "plan", "potential", "predict", "project", "seek", "should", "will", "would", and similar expressions, as they relate to our Company or our management, are intended to identify forward-looking statements. See "Forward-looking Statements."

Such forward-looking statements reflect current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including other risk factors as described in this document. Subject to the requirements of the Listing Rules, we do not intend publicly to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. Investors should not place undue reliance on such forward-looking statements and information.

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

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