

## BUSINESS

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### OUR MISSION

Biotechnology to empower beauty and health.

### OUR VISION

We strive to become a leader in China’s beauty and health industry by bringing technologies from lab to life.

### OUR VALUE

Unwavering commitment to innovative technologies and products for natural beauty and health.

### OVERVIEW

We are a pioneer and leader in the bioactive ingredient-based professional skin treatment product industry in China. We design, develop and manufacture professional skin treatment products with recombinant collagen as the key bioactive ingredient. We also develop and manufacture rare ginsenosides technology-based functional foods. We utilize proprietary synthetic biology technology to develop and manufacture multiple types of recombinant collagen and rare ginsenosides in-house.

Our years of R&D on bioactive ingredients and integrated business model enable us to achieve the technological and market leadership positions in the industry. According to Frost & Sullivan,

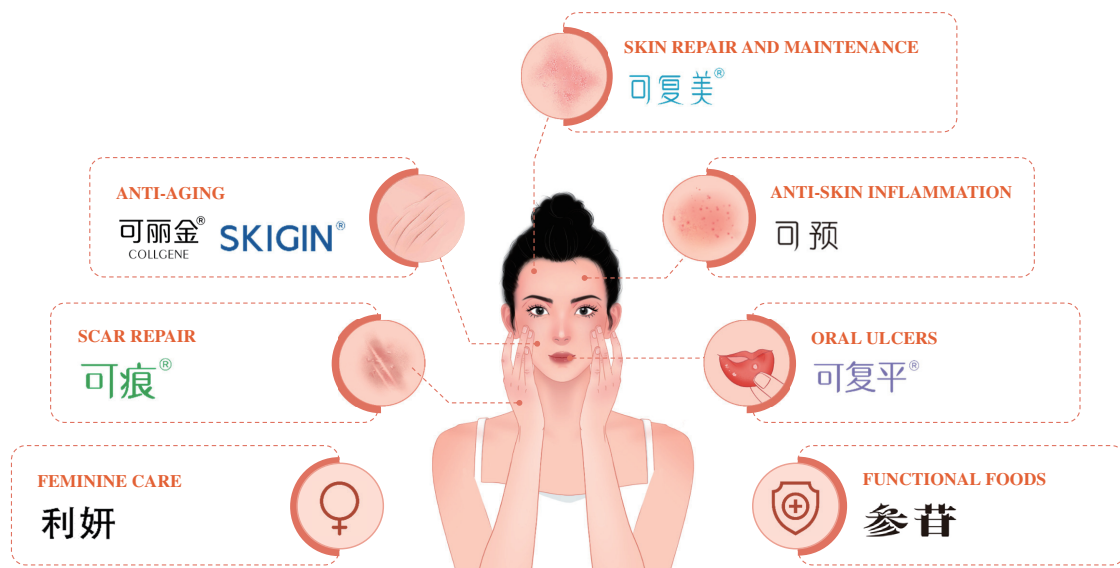
- We were the second-largest professional skin treatment product company by retail sales in China in 2021 as well as the largest collagen-based professional skin treatment product company by retail sales in China for the latest three consecutive years since 2019;
- *Collgene and Comfy*, our flagship brands of recombinant collagen-based products, were the third and the fourth best-selling professional skin treatment brand, respectively, by retail sales in China in 2021;
- We are the first company to achieve mass production of recombinant collagen-based skincare products globally;
- Our proprietary recombinant collagen technology was the first one in the field awarded a patent in China;

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- We are the first company to obtain medical device registration for recombinant collagen-based product in China;
- We are the first company to mass-produce each of five types of rare ginsenosides, namely Rk3, Rh4, Rk1, Rg5 and CK, at a hundred kilogram-scale with high purity in China; and
- We were the second-largest rare ginsenosides technology-based functional food company by retail sales in China in 2021, with a market share of 24.0%.

Bioactive ingredients offer a wealth of beauty and health properties such as skin repair, anti-aging, whitening, moisturizing and immunity improvement with a broad range of applications in the beauty and health sectors. As of the Latest Practicable Date, we had a portfolio of 105 SKUs across eight major brands covering functional skincare, medical dressings and functional foods, namely *Comfy*, *Collgene*, *Keyu*, *Kehen*, *Kefuping*, *Leeyen*, *SKIGIN*, and *Shengan*. The following graphics illustrate our major brand portfolio with respective key applications:

### Our Major Brand Portfolio with a Broad Range of Applications

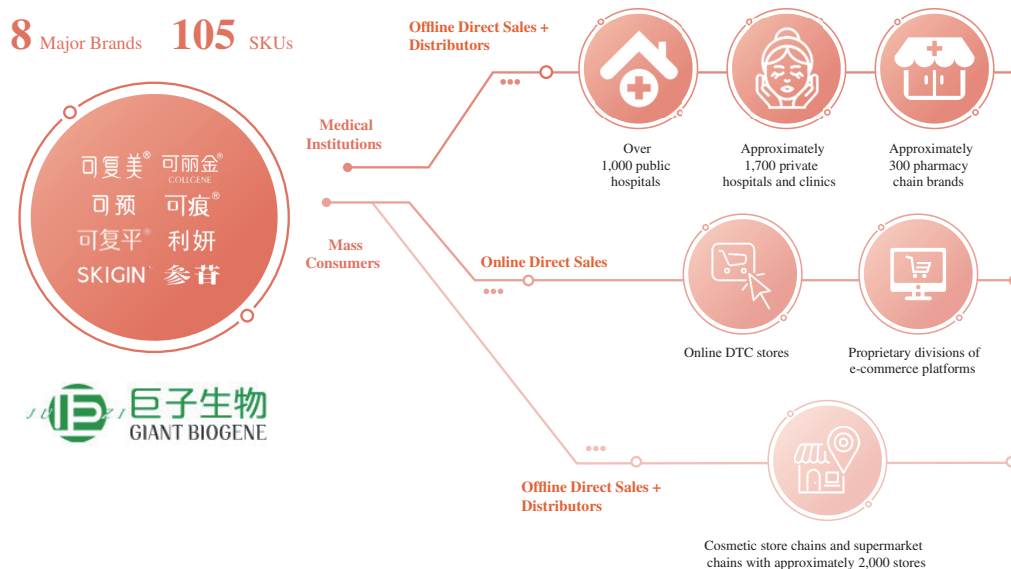


We implement dual-pronged “medical institution + mass consumer” sales strategy targeting both medical institutions and mass market. As of the Latest Practicable Date, we have sold and distributed products to over 1,000 public hospitals, approximately 1,700 private hospitals and clinics, as well as approximately 300 pharmacy chain brands across China. In addition, we have also built a nationwide mass market sales network through direct sales and distributors. Our direct sales primarily include sales through direct-to-customer (“DTC”) stores on e-commerce and social media platforms including Tmall, JD.com, Douyin, Xiaohongshu, and Pinduoduo, as well as sales to proprietary divisions of e-commerce platforms such as JD.com and Vipshop. Our mass market distribution covers individual

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consumers, cosmetic store chains and supermarket chains such as Watsons, Afiona, The COLORIST, Ole’, Hualian Group and Hema Fresh with approximately 2,000 stores in China. The following graphics illustrate our dual-pronged “medical institution + mass consumer” sales strategy:

### Our Dual-Pronged “Medical Institution + Mass Consumer” Sales Strategy



Driven by the growing popularity of technology-based products, the technological advancement of bioactive ingredients for medical and mass market uses, increasing awareness of the benefits of bioactive ingredients, as well as the favorable government policy, the bioactive ingredient-based beauty and health product market in China has been, and is expected to continue to accelerate in the future. For example, China’s recombinant collagen-based product market is expected to grow from RMB18.5 billion in 2022 to RMB108.3 billion in 2027 at a CAGR of 42.4%, according to Frost & Sullivan. Moreover, the rare ginsenosides technology-based functional food market in China is expected to grow from RMB739.0 million in 2022 to RMB1,561.4 million in 2027 at a CAGR at 16.1%, according to the same source. Leveraging our technological and market leadership positions, we believe we are well-positioned to capitalize on such significant market growth opportunities.

Our success is underpinned by the relentless pursuit of innovation and proprietary technologies. Our years of R&D efforts have resulted in 75 patents and pending patent applications for our technologies and marketed products. We have built a proprietary synthetic biology technology platform, which integrates cross-disciplinary research and accumulated know-how on biotechnology, biochemistry and bioengineering encompassing the core components such as gene recombination, cell factory construction, fermentation, separation and purification. Our proprietary synthetic biology technology is the foundation of our two industry leading bioactive ingredients, recombinant collagen and rare ginsenosides, on top of which we have developed a diversified and expanding product portfolio of functional skincare products, medical dressings and functional foods, as well as a strong pipeline of 85 product candidates.

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The manufacturing of bioactive ingredient-based beauty and health products is a highly complex process. Leveraging our profound expertise and accumulated know-how that is hard to replicate, we have developed an end-to-end manufacturing platform to produce key bioactive ingredients as well as our marketed products. Currently, we have one production line for recombinant collagen, one production line for rare ginsenosides, 11 production lines for functional skincare products, six production lines for medical dressings and two production lines for functional foods. Our industry-leading manufacturing capabilities is underpinned by our proprietary bioactive ingredient manufacturing technologies with multiple breakthroughs that previously hindered the commercialization of recombinant collagen and rare ginsenosides at scale and with high quality.

We are one of the largest recombinant collagen and rare ginsenosides companies globally in terms of manufacturing capacities, according to Frost & Sullivan. Our recombinant collagen is with a purity and safety level that meets or exceeds the national standard of recombinant collagen applied in medical products in China, which can be broadly applied to an array of medical and mass market uses. Leveraging our ability to manufacture bioactive ingredients at scale and with high quality, we are able to not only produce effective bioactive ingredient-based beauty and health products, but also can swiftly develop and launch new products in a cost-efficient manner. We believe this end-to-end manufacturing platform can help us retain supply chain stability of key differentiating ingredients and remain nimble in our sales and marketing strategies against the diverse and evolving consumers’ skincare and health needs.

We have achieved significant growth during the Track Record Period. Our revenue increased from RMB956.7 million in 2019 to RMB1,190.5 million in 2020, and further increased to RMB1,552.5 million in 2021. Moreover, our net profit amounted to RMB575.2 million, RMB826.5 million, RMB828.1 million in 2019, 2020 and 2021, respectively, with net profit margin of 60.1%, 69.4% and 53.3% during the same periods. Our adjusted net profit amounted to RMB575.0 million, RMB672.3 million and RMB836.8 million in 2019, 2020 and 2021, respectively, with adjusted net profit margin of 60.1%, 56.5% and 53.9% during the same periods.

### OUR STRENGTHS

#### **A pioneer and leader in bioactive ingredient-based professional skin treatment product industry in China to capture the fast-growing and significant market opportunities**

We are a pioneer and leader in bioactive ingredient-based professional skin treatment product industry in China. Anchored by our industry-leading recombinant collagen that developed with proprietary synthetic biology technology, we have built up a vast portfolio of technology-based professional skin treatment products with market leadership positions in the industry. According to Frost & Sullivan, we were the second largest professional skin treatment product company by retail sales in China in 2021 as well as the largest collagen-based professional skin treatment product company by retail sales in China for the latest three consecutive years since 2019. Moreover, *Collgene* and *Comfy*, our flagship brands of recombinant collagen-based products, ranked the third and the fourth best-selling professional skin treatment brand, respectively, by retail sales in China in 2021.

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Our recombinant collagen offer a wealth of properties that are highly suitable and desirable for the bioactive ingredient-based professional skin treatment products. Collagen is a type of macromolecular protein that provides structural support, promote hemostasis and cell adhesion, stimulate cell regeneration and proliferation, as well as other biological properties. With good biocompatibility and low level of immunogenicity, collagen is ideal as a bioactive ingredient for skincare products, medical products, nutritional foods and dietary supplements. In particular, recombinant collagen is expected to be a more advantageous type of collagen for mass market applications given its higher level of biocompatibility, lower risk of undetected pathogen and the ability to be further processed and optimized as compared to animal-derived collagen. Furthermore, when compared to hyaluronic acid, recombinant collagen offers a broader range of properties such as repairing damaged skin barriers, tightening and anti-wrinkle, and can thus be used in wider range of applications including skin repair, anti-aging, whitening and moisturizing. According to Frost & Sullivan, the recombinant collagen-based product market in China grew at a 63.0% CAGR from RMB1.5 billion in 2017 to RMB10.8 billion in 2021, and is expected to grow from RMB18.5 billion in 2022 to RMB108.3 billion in 2027 with a CAGR of 42.4%.

Leveraging over market leadership, we are well-positioned to capture the fast-growing and significant market opportunities. Utilizing synthetic biology approach, we have developed proprietary recombinant collagen, a clinically proven and superior form of bioactive ingredient for medical and mass market uses in 2000. Our proprietary recombinant collagen technology was the first one in the field awarded a patent in China, and we are the first company to achieve mass production of recombinant collagen-based skincare products globally in 2009, the first collagen-based product company with a patent awarded the National Technology Invention Award in 2013 in China, and the first collagen-based product company with a patent awarded the China Patent Gold Award in 2016 in China. Furthermore, we possess industry-leading recombinant collagen biomanufacturing capabilities: (i) one of the largest recombinant collagen manufacturing facilities globally; (ii) one of the most diverse recombinant collagen library in the world; and (iii) industry-leading fermentation and processing technologies with one of the most comprehensive expression system globally to achieve efficient synthesis of different types of recombinant collagen, according to Frost & Sullivan.

In addition to our technological prowess, our competitive advantages are cemented by regulatory developments in China. The PRC Medical and Pharmaceutical Industry Standards, Recombinant Collagen (中華人民共和國醫藥行業標準《重組膠原蛋白》), promulgated by the NMPA, would become effective in August 2022. The NMPA has also initiated the promulgation of technical requirements for collagen as raw materials for cosmetic products to provide clearer and unified guidelines on the use of recombinant collagen in cosmetic products. We have been invited to participate in the drafting of these standards and technical requirements. The implementation of these standards and technical requirements would further promote applications of recombinant collagen in medical and cosmetic products with clearer regulatory requirements on quality control, testing and raw materials. We believe these regulatory developments would enhance our competence and create technological entry barriers for new entrants as we believe we are among the few companies that can meet all these standards and technical requirements.

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### **Well-recognized technology-based beauty brands with a diversified and expanding product portfolio**

Our brands are well-known for the differentiated skincare functionalities with a technology-based beauty positioning. Our proprietary recombinant collagen serves as a common thread of technology-based beauty for the branding of our products, which also generates spill over effects to the branding of other non-collagen-based products. Moreover, our leadership position in the medical dressing market in China as the second largest medical dressings company by retail sales in 2021 reinforces the brand image of quality, efficacy and safety of our functional skincare products, which in turn establishes a differentiated brand equity compared to general skincare brands.

*Comfy*, one of our flagship brands, is designed as a dermatology-grade, professional skincare brand to offer skin repair and other skincare solutions. It includes both functional skincare products and medical dressings. Since its launch in 2011, *Comfy* branded products have been gone through extensive clinical validation studies by dermatologists in China. Our products have been sold and distributed to over 1,000 public hospitals and approximately 1,700 private hospitals and clinics. Our *Comfy* brand has also been reinforced through a variety of science- and knowledge-driven marketing activities. We have frequently attended and presented our latest R&D results in academic conferences and industry seminars. In particular, in the recent years, we have been actively participating in the National Academic Conference on Dermatology held by the Chinese Medical Association (an influential dermatologist industry conference in China) as a guest speaker to share with the academic and medical community our latest recombinant collagen technologies and their applications in recombinant collagen-based products.

With the increasing popularity of *Comfy* branded medical dressings, we expanded *Comfy* branded products for mass market use as well as to online channels in 2015 to meet consumers’ skincare needs for a medical quality product. To date, in addition to medical dressings, we have developed a range of mass market products including facial masks, toners, lotions, sprays, serums, creams and gels under *Comfy* brand. With the recognitions by dermatologists as well as superior user experience, many users have become loyal, recurring customers of *Comfy* branded products, making *Comfy* one of our fastest growing and most iconic brand.

Leveraging *Comfy*’s medical quality brand equity, as well as proprietary recombinant collagen technology, we have been building a mid- to high-end multi-faceted functional skincare brand: *Collgene*. We directly engage and communicate with consumers through live streaming, KOL endorsements and short videos to highlight the technology-beauty value propositions of our *Collgene* brand. We also deliver skincare knowledge, address consumer inquiries, and collect consumers feedback on our products. These direct-to-customer interactions allow us to educate consumer on the efficacy and safety of recombinant collagen, obtain an in-depth understanding of customers’ skincare needs, as well as engage customer directly.



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*Comfy and Collgene* have gained increasing popularity in China. In 2021, *Comfy* was awarded the No. 1 medical dressing brand by Tmall in February, August and the 11.11 global shopping festival; the most favorite domestic skincare brand by consumers in Yonghushuo’s domestic cosmetic brand rankings in August 2021; and the “Most Competitive Brand in 2021” by the Blue Rose Awards, a major award in China’s cosmetic industry, in September 2021. In addition, *Collgene* was nominated as “The 18th People’s Ingenuity Technology Awards” by the People’s Daily Online; and a winner of Baidu’s “Industry Pioneer Brand”. Our well-recognized brands also lead to loyal customers. In 2021, the repurchase rate of our *Comfy* branded products on Tmall reached approximately 42.9% and the repurchase rate of our *Collgene* branded products on Tmall was approximately 32.4%.

### **Proven track record of converting R&D to successful commercial ventures**

Our success is underpinned by the relentless pursuit of innovation and proprietary technologies. We have a dedicated and experienced R&D team comprising 84 members, representing 12.6% of our total employees as of December 31, 2021, including 43 members with master’s degree or above, accounting for 51.2% of our R&D team. As of the Latest Practicable Date, we have collaborated with medical and academic institutions, and most notably with Northwest University in Xi’an, for joint research projects. We established the National and Local Joint Engineering Research Center for Biomaterials (生物材料國家地方聯合工程研究中心) in 2012 and a Post-doctoral Research Center (博士後工作站) in 2015. In 2021, we became the first company selected by the National Clinical Research Center for Skin and Immune Diseases (國家皮膚與免疫疾病臨床醫學研究中心) to conduct collaborative R&D on dermatology, showcasing our leadership in skincare R&D in the country. As of the Latest Practicable Date, our R&D efforts have resulted in 75 patents and pending patent applications, a diversified portfolio of 105 SKUs, as well as a strong pipeline of 85 product candidates.

Our proprietary synthetic biology technology platform is the cornerstone of our foundational R&D and product development. Being at the frontier of biotechnologies in recent years, synthetic biology is an interdisciplinary area that involves the application of engineering principles to biology, which aims at the design and fabrication of biological parts, devices and systems. Synthetic biology has the potential to produce ingredients for beauty and health products in a more sustainable and reliable way, at a larger scale and of consistent quality, compared to certain traditional methods, namely extractions from petrochemicals, animal sources and plant-based sources. As such, synthetic biology has a broad spectrum of potential applications in cosmetics, food and medicine.

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We apply synthetic biology approach to design, develop and manufacture recombinant collagen and rare ginsenosides. We believe our synthetic biology technology is hard to replicate as it has integrated years of cross-disciplinary research and accumulated know-how on biotechnology, biochemistry and bioengineering encompassing the core components such as gene recombination, cell factory construction, fermentation, separation and purification. We also utilize synthetic biology approach to develop new bioactive ingredients such as ginseng peptides and icariin to explore new product applications.

In addition to our R&D success, we also have a proven track record of converting technologies into successful business ventures. With a diversified and expanding technology-based beauty and health product portfolio, we have achieved significant growth during the Track Record Period. Our revenue increased from RMB956.7 million in 2019 to RMB1,190.5 million in 2020, and further increased to RMB1,552.5 million in 2021.

### **Innovative product pipeline centered around increasing consumer demand for technology-based beauty and health products to drive future growth**

As an innovation-oriented company, we have built a diversified product pipeline across professional skin treatment products, functional foods and foods for special medical purposes to meet increasing consumer demand for beauty and health products derived from proven scientific research. As such, our innovation and product development strategy focus on expanding both applications and product types of our product portfolio. By expanding applications, such as from skin repair and maintenance to anti-aging and whitening, we are able to maximize customer touchpoints by offering a broader array of products with significant complementary value and similar brand positioning to our current product portfolio. By expanding product types, we are able to advance our technologies to enter into new product categories, such as biomedical materials, to expand our customer reach. With an expanding product portfolio, we believe we are able to generate additional demand from customers, expand customer base by further penetrating addressable target markets, and capitalize on the increasing demand for technology-based products.



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With respect to beauty product portfolio, we are developing (i) a pipeline of skin repair, anti-aging and whitening products to expand our functional skincare offerings, (ii) an array of medical dressings to diversify our product offerings in this space, as well as (iii) recombinant-collagen based skin rejuvenation products to penetrate into skin rejuvenation market by offering consumers brand new fillers with high safety and efficacy:

- **Functional skincare products.** We are currently developing 53 functional skincare products with skin repair, anti-aging and whitening properties. These product candidates are positioned to expand our functional skincare offerings and maximize our customer touchpoints within this space. Two key pipeline products are *Comfy Human-like® Recombinant Collagen Repair Serum* and *Collgene Human-like® Recombinant Collagen Cream*.
- **Medical dressings.** We are currently developing 16 new medical dressings to address different skin and wound types, of which we expect to receive medical device registration for five new medical dressings in the next two years, including Medical Wound Repair Gel for non-chronic wounds such as post-surgical suture wounds and Recombinant Collagen Sterile Dressing for post-professional skin treatment skincare.
- **Skin rejuvenation products.** Leveraging our ability to produce recombinant collagen at purity level of 99.9%, exceeding the minimum level required for skin fillers, we are developing new and innovative filler products with recombinant collagen as main bioactive ingredient. Skin rejuvenation product sector is a segment that not only represents a large growth opportunity, but also with significant entry barriers given its classification as Class III medical device in China.

With respect to health product portfolio, we are developing a pipeline of (i) biomedical material products, as well as (ii) functional foods and foods for special medical purposes to broaden our offerings for various specific medical and nutritional uses:

- **Biomedical materials:** Leveraging the properties of our proprietary bioactive ingredients and other materials, we are developing biomedical material products such as bone repair materials and absorbable biofilms, both of which are expected to be classified as Class III medical devices in China. Given our strong reputation among medical community, we believe we are well-positioned to penetrate into biomedical material market in China.

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- **Functional foods and foods for special medical purposes:** We are developing seven functional food products designed to boost immune systems, reduce blood lipids and blood sugar level, as well as improve sleep. In addition, we are also developing three types of foods for special medical purposes designed for people with dietary restrictions, digestive and absorption issues, metabolic disorders, as well as diabetes.

### **Synergistic omni-channel sales and distribution network with dual-pronged “medical institution + mass consumer” sales strategy**

We have built an omni-channel sales and distribution network that spans the country to implement dual-pronged “medical institution + mass consumer” sales strategy. With a strong reputation in the medical community, our omni-channel sales and distribution network creates a virtuous feedback loop to drive customer demand across channels: from medical use to mass market, from offline to online, and from online to offline.

We started building our sales and distribution network targeting the medical institutions. As of the Latest Practicable Date, we have sold and distributed products to over 1,000 public hospitals, approximately 1,700 private hospitals and clinics, as well as approximately 300 pharmacy chain brands across China. Benefiting from the efficacy of recombinant-collagen medical dressings, our products have been increasingly adopted and recognized by reputable medical institutions and professionals in the country. The recognitions and endorsements from the medical community strengthen our brand equity, which in turn help us acquire new customers and generate customer traffic to our online channels. For example, based on our survey, in 2021, there were approximately 30.2% of our online customers purchased *Comfy* branded medical dressings have received professional recommendation.

In addition, we have also built a nationwide mass market sales network to address consumers’ diverse skincare needs, as well as capitalize on the significant market growth opportunities. Our direct sales include our sales through DTC stores on e-commerce platforms and social media platforms including Tmall, JD.com, Douyin, Xiaohongshu, and Pinduoduo, as well as sales to proprietary divisions of e-commerce platforms such as JD.com and Vipshop. Our mass market distribution covers individual consumers, cosmetic store chains and supermarket chains such as Watson’s, Afiona, The COLORIST, Ole’, Hualian Group and Hema Fresh with approximately 2,000 stores in China. Our offline network helps enhance our brand recognition, address the demand from offline traffic and traffic originated from other channels, as well as generate traffic to our online channels. Our online direct sales have shown significant growth. During the Track Record Period, our revenue generated from online direct sales increased from RMB158.1 million in 2019 to RMB307.2 million in 2020, and further increased to RMB644.2 million in 2021, representing 16.5%, 25.8% and 41.5% of our total revenue during the same periods.

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### **Powerful end-to-end manufacturing platform to cement our technology-enabled products and to meet consumers' dynamic demand in a timely manner**

The manufacturing of bioactive ingredient-based beauty and health products is a highly complex process, starting from the initial design and synthesis of bioactive ingredients to the development and integration of bioactive ingredients into marketed products. The entire manufacturing process requires extensive cross-disciplinary research and know-how of biotechnology, biochemistry and bioengineering. As the first company to achieve mass production of recombinant collagen-based products globally and the first company to mass produce each of five types of rare ginsenosides in China, we have accumulated in-depth expertise in the production of bioactive ingredients at scale, and have developed an end-to-end manufacturing platform for our marketed products.

Bioactive ingredients are at the core of our brands and products. We have achieved a number of technological breakthroughs in the manufacturing of bioactive ingredients. Leveraging high-density fermentation strategy and a highly efficient separation and purification process, we have resolved the efficiency issue that previously hindered the commercialization of recombinant collagen. This allowed us to achieve a industry-leading level of recombinant collagen expression as well as to achieve a 90% yield rate after one round of processing from our recombinant *E. coli* target proteins, which is a industry-leading purification and yield rate, according to Frost & Sullivan. Efficient and consistent protein expressions have enabled us to increase manufacturing scale and yield while ensuring high quality. As of the Latest Practicable Date, we had one of the largest recombinant collagen manufacturing capacities globally at 10,880.0 kg per annum. Moreover, our recombinant collagen has a 99.9% purity level which meets industry standards for medical-grade materials.

In addition, leveraging our proprietary biomanufacturing technologies, we have resolved the low efficiency issue in biotransformation and easy inactivation of rare ginsenosides, which had been a significant limiting factor for large-scale production of rare ginsenosides in the industry. This allowed us to successfully manufacture each of five types of high purity rare ginsenosides, including Rk3, Rh4, Rk1, Rg5, and CK, at a hundred kilogram-scale which significantly exceeds other commercially available sources and reaches critical scale of the mass production. As a result, we are able to extract and harvest sufficient quantities of rare ginsenosides to produce beauty and health products. Moreover, our production efficiency for our CK ginsenoside is more than 20 times higher than any other companies reported globally, and in its crude form after biotransformation, is significantly more concentrated than the CK ginsenoside found in plants at its natural content.

Our in-house manufacturing facilities for marketed products enable us to react and adapt swiftly to market demand and offer differentiated products to address consumers' diverse preferences. Our manufacturing facilities have been certified with ISO13485, ISO22716 and US FDA CFSAN quality management certifications. As all of our manufacturing facilities strictly follow the GMP standards for medical device and national cosmetic product manufacturing requirements, we ensure that our products are produced at the highest quality and safety standards.

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Currently, we have one production line for recombinant collagen, one production line for rare ginsenosides, 11 production lines for functional skincare products, six production lines for medical dressings and two production line for functional foods. As we anticipate demand for our products will continue to grow, we plan to build three new manufacturing plants and expand our existing recombinant collagen facilities in the coming years to enhance our capacity to produce technology-enabled beauty and health products.

We believe that our end-to-end manufacturing platform is one of the key competencies that sets us apart from our peers. With the combination of synthetic biology technology and biomanufacturing capabilities, we apply our latest technologies of bioactive ingredients to beauty and health products to address the evolving and diverse market demand with a broader user base. Moreover, the stable supply of key differentiating bioactive ingredients can also enable us to develop new products in a cost-efficient manner, ensure supply chain stability, respond quickly to changing industry trend and mass-produce differentiated products. For example, we have launched nearly 30 new products every year over the past two years to address consumers’ diverse preferences.

### **Dedicated and experienced founders and management team**

We are led by a team of experienced and visionary executives and scientists with ground-breaking innovations. With over 20 years of experience in researching, developing, manufacturing and marketing bioactive ingredient-based products, our management team has been accredited with a number of awards and accolades, and has been the bedrock of our success to date.

Dr. Fan, our Co-founder, executive Director and chief scientific officer invented our proprietary recombinant collagen technology in 2000 and leads our R&D and innovations. As one of the leading experts not only in collagen industry but also the biomedical materials space in China, Dr. Fan is a member of a number of expert committees and a recipient of a number of awards in recognition of her achievements in the collagen and biomedical industry. Dr. Fan has been selected into the Expert Committee for Classification and Naming of Recombinant Collagen Materials and the drafting expert of the PRC Medical and Pharmaceutical Industry Standards, Recombinant Collagen (中華人民共和國醫藥行業標準《重組膠原蛋白》), and has played an important role in shaping the development of the collagen industry in China. Moreover, Dr. Fan is the inventor of the Second Prize of National Technology Invention Award and China Patent Gold Award. She was also awarded the National Innovation and Pioneer Award and the Highest Science and Technology Award of Shaanxi Province for 2020. Furthermore, Dr. Fan is a member of the highest honor of the Chemical Industry and Engineering Society of China.

Mr. Yan, our Co-founder, chairman of the Board and chief executive officer, is an experienced entrepreneur with over 20 years of successful experience in corporate management and business operations. Moreover, Mr. Yan has been recognized by a number of awards and accolades in recognition of his business success and entrepreneurship. Mr. Yan was awarded the Outstanding Private Entrepreneur of Shaanxi Province, Xi’an Top 10 Entrepreneur, and Finalist of Special Award of the Xi’an Mayor Award.

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Under the leadership of Dr. Fan and Mr. Yan, and with support from our senior management team and our deep talent pool, we have achieved multiple scientific breakthroughs in the field of bioactive ingredients with potential for further innovations as we continue to develop new products to empower beauty and health for our users.

### **OUR STRATEGIES**

To achieve our mission and further solidify our market leadership, we intend to pursue the following strategies:

#### **Enrich technology-based beauty and health product portfolio**

We believe a diversified and expanding product portfolio strengthens our market leadership and enables us to achieve sustainable business growth in the long run. As such, we will continue to expand our product portfolio to address diverse and evolving consumer needs for skincare and health.

With our technology-based beauty positioning, we strive to become the go-to brand of professional skin treatment products in China. We endeavor to develop and launch new types of products to strengthen our product portfolio and to penetrate into new markets, meeting diverse demands from consumers.

In addition, we will step up our investment in the research of bioactive ingredients and other materials to expand our health product portfolio. In particular, we are developing biomedical material products such as bone repair materials and absorbable biofilms. Additionally, we will continue to enrich our health foods offerings through development of new functional foods as well as foods for special medical purposes.

#### **Strengthen R&D capabilities and technological leadership position**

We will continue to invest in R&D on synthetic biology technologies to enhance our R&D capabilities and technology prowess.

We plan to continue the fundamental research and iterate our proprietary synthetic biology technologies. For example, we endeavor to achieve technology advancement in synthesizing rare ginsenosides by utilizing genetically engineered bacteria strains without any input of raw ginsenosides. We will also continue developing new types of recombinant collagen, rare ginsenosides and other bioactive ingredients which can be used for our current and future products. In addition, we will combine new types of bioactive ingredients with other technologies to further expand product applications.

We plan to continue to attract and retain qualified personnel to deepen our R&D talent pool, as well as broaden collaborative research on recombinant collagen and other bioactive ingredients with academic institutions and medical institutions.

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### **Expand sales and distribution network and enhance brand recognition**

We will explore more online and offline sales opportunities to enlarge our omni-channel sales and distribution network, as well as carryout science- and knowledge-driven marketing to reinforce our brand recognition.

We focus on expanding direct sales through our DTC stores in the future. We will continue to optimize consumers' shopping experience, as well as explore new sales opportunities in response to the latest market trends and consumer preferences. Additionally, we will also continue to expand our sales to medical institutions and mass market by partnering with more qualified distributors, reputable pharmacy chains, cosmetic store chains and supermarket chains.

We intend to reinforce our brand recognition through science- and knowledge-driven marketing. We will continue to participate in top-tier academic conferences and dermatology industry seminars to expand our comprehensive network of professional opinion leaders in the academic and medical community. We will also continue to elevate consumers' knowledge of professional skincare and our products efficacy through collaboration with celebrities, cosmetics formula-savvy beauty bloggers, dermatology-focusing influencers, and also skincare specialists.

### **Enhance manufacturing capabilities and improve production efficiencies**

In order to capture the significant market opportunities, we plan to enhance our manufacturing capabilities through production capacity expansion, production efficiencies improvement, and optimization of the production facility allocation. Beyond continuously upgrading our existing production facilities, we will expand the recombinant collagen manufacturing facility. In addition, we are in the process of construction of additional manufacturing plants for rare ginsenosides, skin rejuvenation products, biomedical materials, functional foods as well as foods for special medical purposes. We will also continue to equip our manufacturing plants with more advanced and automated production machinery and equipment to improve production efficiencies.

### **Further intelligentize and digitalize our operations**

We plan to enhance the intelligentization and digitalization of our information systems to improve operational efficiencies. For example, we plan to further digitalize our information system to achieve more efficient business operations. In addition, we will continue to conduct multi-dimensional analysis of business and financial data for enhanced management decision making and cost savings. Finally, we plan to develop an integrated hybrid cloud infrastructure to improve our network security and efficiency.

### **Establish and expand our international footprint**

We plan to explore overseas markets, build brand awareness on a global scale and increase our penetration into the international market. We plan to offer differentiated technology-based beauty and health products based on the skin conditions, preferences and habits across jurisdictions, as well as to establish overseas sales and marketing network across online and offline. We intend to conduct R&D overseas to better understand the consumers' preference and needs in the international market and facilitate the commercialization of our products in the international market. In the future, we will explore strategic partnerships, investment and acquisition opportunities in the beauty and health products sectors that are synergistic with our businesses, leveraging our expertise and proven track of commercial success in China which we believe laid a solid foundation for a gradual introduction of our products in overseas market.



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### OUR BRANDS AND PRODUCTS

#### Overview

Leveraging our years of R&D, proprietary synthetic biology technology platform and leadership in bioactive ingredients, we have built an expanding, multi-brand portfolio of technology-based beauty and health products. Our brands and products are designed and developed to address evolving and diverse consumer needs across different skin types, application scenarios and consumer groups. As of the Latest Practicable Date, our professional skincare product and functional food portfolio comprise 105 SKUs across eight major brands.

With respect to our professional skincare products, our proprietary recombinant collagen serves as a common thread of technology-based beauty products and a key differentiator that sets us apart from our peers. We deploy different combinations of four types of recombinant collagen that we manufacture in-house, namely Type I recombinant human collagen, Type III recombinant human collagen, recombinant human-like collagen, and small-molecule recombinant collagen peptide in most of our professional skincare products. Different recombinant collagen has different functions on human skin. For example, Type I recombinant human collagen plays a critical role in skin repair; Type III recombinant human collagen offers anti-aging properties; recombinant human-like collagen plays a critical process for tissue formation and skin healing; and small-molecule recombinant collagen peptide is easily absorbed by skin, promotes cell growth and collagen secretion.

With different combinations of the four types of recombinant collagen, we offer an array of professional skincare products. Our flagship brands, *Comfy* and *Collgene*, are our two longest-standing brands. Our leading brand *Comfy* was launched in 2011, initially as a dermatology-grade, professional skincare brand for medical institution customers and subsequently expanded to the mass consumer market. Our second leading brand, *Collgene*, was launched in 2009 as a mid- to high-end multi-faceted functional skincare brand with major benefits of anti-aging, skin maintenance and skin repair.

In addition, we also offer five additional major skincare brands and one functional food brand, providing consumers with multiple options to address their diverse skincare and nutritional needs:

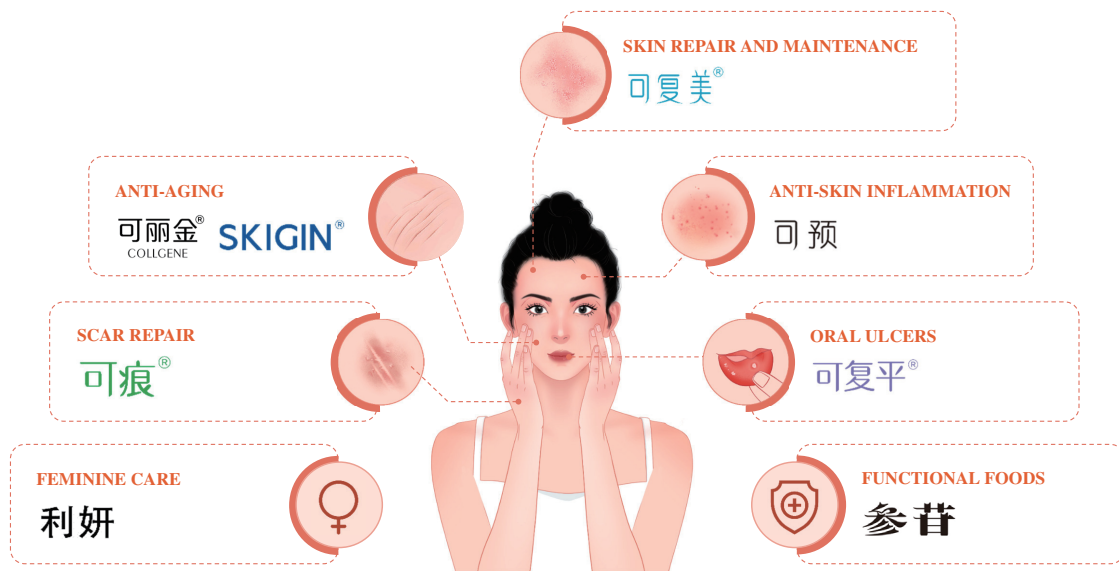
- *Keyu*, a recombinant collagen-based brand designed for the relief and prevention of skin inflammatory conditions;
- *Kehen*, a recombinant collagen-based brand designed for scar repair;
- *Kefuping*, a recombinant collagen-based brand for the prevention and repair of oral ulcers;
- *Leeyen*, a recombinant collagen-based brand for feminine care;

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- *SKIGIN*, a rare ginsenosides-based skincare brand; and
- *Shengan*, a ginsenosides-based functional food brand to offer consumers nutritional supplements to improve immune systems.

The following graphic provides a holistic view of our major brands and their major benefits:

### Our Major Brand Portfolio with a Broad Range of Applications



The following table sets forth certain key information of our major brands as of the Latest Practicable Date:

Brands	Year of Launch	Category	Positioning	Number of SKUs	Retail Price Range
<b>Skin Care</b> <i>Comfy</i> (可復美) 可复美®	2011	Functional skin care products/medical dressings (Class II <sup>(1)</sup> )	Dermatology-grade, recombinant collagen-based brand	30	RMB99 to RMB459
<i>Collgene</i> (可麗金) 可丽金® COLLEGENE	2009	Functional skin care products	Mid- to high-end, multi-faceted recombinant collagen-based skincare brand	60	RMB109 to RMB680 <sup>(2)</sup>

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Brands	Year of Launch	Category	Positioning	Number of SKUs	Retail Price Range
<i>Keyu</i> (可預) 可預™	2015	Functional skin care products/medical dressing (Class II <sup>(1)</sup> )	Recombinant collagen-based skincare brand for the relief and prevention of skin inflammatory conditions	Four	RMB86 to RMB283
<i>Kehen</i> (可痕) 可痕®	2016	Scar repair dressing (Class II <sup>(1)</sup> )	Recombinant collagen-based brand for scar repair	One	RMB498
<i>Kefuping</i> (可復平) 可復平®	2016	Medical dressing (Class II <sup>(1)</sup> )	Recombinant collagen-based brand for oral ulcers	One	RMB199
<i>Leeyen</i> (利妍) 利妍	2019	Medical dressing (Class II <sup>(1)</sup> )	Recombinant collagen-based brand for feminine care	Three	RMB128 to RMB340
<i>SKIGIN</i> (欣昔) SKIGIN®	2019	Functional skin care products	Rare ginsenosides-based skincare brand	Five	RMB247.5 to RMB585
<b>Functional Food</b> <i>Shengan</i> (參昔) 參昔	2016	Functional food	Ginsenosides-based functional food brand	One	RMB570

*Notes:*

- (1) Refers to medical device registration class.
- (2) There is one SKU, namely *Collgene* branded Human-like Recombinant Collagen LIFTACTIV Prime Reserve Serum (可麗金Human-like膠原蛋白賦能珍萃原液), with a retail price of RMB2,850.

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During the Track Record Period, we generated revenue primarily from the sales of professional skin treatment products under *Comfy* and *Collgene* brands. The following table sets forth a breakdown of our revenue by brand and by product category for the years indicated:

For the Year Ended December 31,						
2019		2020		2021		
Amount	%	Amount	%	Amount	%	
<i>(RMB '000, except percentages)</i>						
<b>Professional Skin</b>						
<b>    Treatment Products</b>						
<i>Comfy</i>	289,541	30.3	421,319	35.4	897,728	57.8
<i>Collgene</i>	481,421	50.3	559,398	47.0	525,942	33.9
Other brands	81,830	8.5	91,925	7.7	79,382	5.1
<b>Functional Foods and</b>						
<b>    Others</b>						
	103,910	10.9	117,837	9.9	49,434	3.2
<b>Total</b>	<b>956,702</b>	<b>100.0</b>	<b>1,190,479</b>	<b>100.0</b>	<b>1,552,486</b>	<b>100.0</b>

### Comfy

*Comfy* is our dermatology-grade, professional skincare brand designed to offer skin repair and other skincare solutions. Launched in 2011, *Comfy* was initially developed for users after receiving professional or medical skin treatments. In 2011, we successfully obtained a Class II medical device registration for one of our *Comfy* branded medical dressings, Human-like Collagen Dressing, making it the first recombinant collagen-based product with such registration in China. Due to its efficacy and safety profile, Human-like Collagen Dressing quickly gained recognition in the medical community following its launch. Leveraging on our early commercial success, we expanded *Comfy* branded products for mass market use with a goal of providing consumers with a product for skin with problematic conditions. *Comfy* was the second best-selling brand in the medical dressing market as well as the fourth best-selling professional skin treatment brand in China in terms of retail sales in 2021, according to Frost & Sullivan.

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In 2021, we have sold over 12.1 million packs of Human-like Collagen Dressing. Human-like Collagen Dressing is well-recognized in the industry. In September 2013, Human-like Collagen Dressing was approved by the Ministry of Science and Technology as the “National Key New Product” (國家重點新產品). In February 2017, it was recognized as a “Well-known Product in Shaanxi Province” (陝西省名牌產品). In 2021, it was the best-selling medical dressings on both Tmall and JD.com.

As of the Latest Practicable Date, we had 30 SKUs under *Comfy*, including one medical dressing collection with three of products registered as medical devices and four skincare collections with 27 SKUs targeting mass consumer groups. *Comfy* branded products are primarily designed for skin repair as well as with other functions such as skin hydration, moisturizing, calming, and soothing. *Comfy* branded products are available through various product types, including dressings, facial masks, toners, lotions, sprays, serums, creams and gels.



### *Medical Dressing Collection (醫療敷料系列)*

Designed to assist the treatment of wounds or skin inflammation, our Medical Dressing Collection contains recombinant human-like collagen which can repair skin barriers and tackle skin issues such as sensitivity, dermatitis, and acne. Our Medical Dressings Collection includes three products, all registered as medical devices, offering diversified options to facilitate skin treatment. Products under our Medical Dressing Collection are dressings in the forms of facial masks and lotions.

### *Human-like Collagen Dressing – Flagship Product in the Medical Dressing Collection*

Our Human-like Collagen Dressing, in the form of a facial mask, has been the best-selling product across all of our brands for three consecutive years since 2019.

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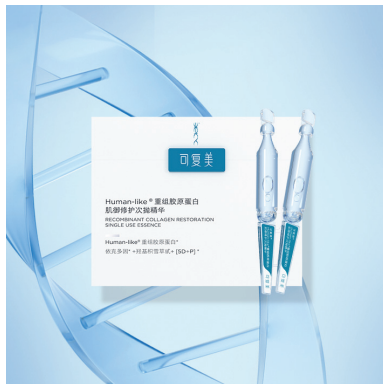
Our Human-like Collagen Dressing is designed for various skin repair functions, including (i) promoting skin healing and repairing damaged skin barriers; (ii) inhibiting and alleviating skin inflammatory reactions such as acne and dermatitis; and (iii) preventing post-inflammatory hyperpigmentation and scar formation.

### *Collagen Repairing Collection (胶原修护系列)*

Our Collagen Repairing Collection is designed to repair skin barriers, soothe redness and sensitive skin, as well as hydrate and moisturize skins. Products under our Collagen Repairing Collection include sprays, serums, facial masks, creams, and lotions.

### *Human-like® Recombinant Collagen Restoration Single-Use Serum – Flagship Product in the Collagen Repairing Collection*

Launched in October 2021, our Human-like® Recombinant Collagen Restoration Single-Use Serum is the first skin serum product to contain four types of recombinant collagen in China.



Our Human-like® Recombinant Collagen Restoration Single-Use Serum has strong skin repair capabilities, along with the abilities to hydrate skins. It utilizes four types of recombinant collagen to promote (i) skin barriers repair and collagen fiber support, and (ii) growth of fibroblasts which offers anti-aging effects.

### *Hydration and Soothing Collection (补水安敏系列)*

Our Hydration and Soothing Collection is designed for sensitive skins. These products hydrate and moisturize the skin, while also reduce the sensitivity of skins. Products under the Hydration and Soothing Collection include facial masks, toners and lotions.

### *Anti-Acne and Cleaning Collection (净痘清颜系列)*

Our Anti-Acne and Cleansing Collection is designed for acne-prone skins. These products provide acne care, maintain water-oil balance and soothe redness. Products under Anti-Acne and Cleansing Collection include facial masks, gels, and lotions.



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### *Anti-aging and Time-freezing Collection (駐顏凝時系列)*

Our Anti-aging and Time-freezing Collection is designed to help users maintain youthful-looking skin. These products help smoothen skin lines, brighten skin radiance and improve skin elasticity. Products under Anti-aging and Time-freezing Collection include facial masks, creams and eye creams.

### **Collgene**

Launched in 2009, *Collgene* is our mid- to high-end multi-faceted functional skincare brand, with major functions of anti-aging, skin maintenance and skin repair. We have used our proprietary recombinant collagen with different combinations in *Collgene* branded products as they are safe and with high efficacy, as well as work well with other ingredients in skincare products to achieve enhanced skincare performance. *Collgene* branded products have achieved broad recognition by consumers. For example, *Collgene* branded recombinant collagen skincare products were awarded “Famous Products of Shaanxi” (陝西省名牌產品) in 2016. *Collgene* was also awarded the “Star of Daily Skincare Brand” (日化美妝品牌之星) in 2019. Our flagship product under *Collgene*, Human-like Collagen Safety Repair Spray, was awarded “Excellent Industrial Product in Shaanxi” (陝西省工業精品) in January 2021. This product was also accredited with the “Golden Product Award 2021 – Technology Innovation Award” (金物獎 – 2021技術創新獎) among more than a thousand domestic products in December 2021.

As of December 31, 2021, our product portfolio under *Collgene* included 60 SKUs in the forms of sprays, facial masks, creams, serums, lotions and gels, providing different combinations of anti-aging, tightening, whitening, hydrating and moisturizing properties.



### *Safety Collection (健膚系列)*

Our Safety Collection is designed for daily skincare use and is suitable for all skin types. Products under Safety Collection include sprays, facial masks, lotions and creams.

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### *Human-like Collagen Safety Repair Spray – Our Flagship Product in the Safety Collection*



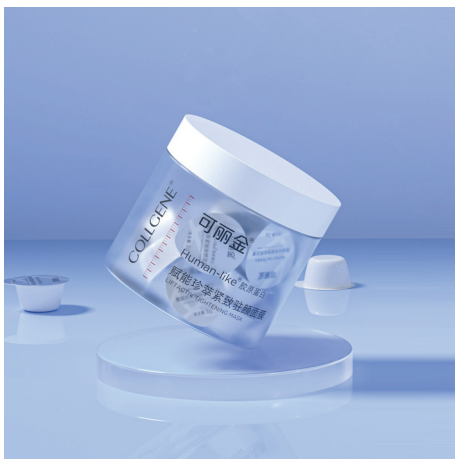
Launched in December 2014, our Human-like Collagen Safety Repair Spray is a spray designed for everyday use. It helps replenish collagen, repair skin barriers and slow down the natural skin aging process through its small and easily absorbable recombinant collagen molecules. Users also have the flexibility to apply this product both before and after facial make-up.

During the Track Record Period, we sold more than 8.0 million bottles of Human-like Collagen Safety Repair Spray, making it one of the most popular collagen-based sprays in China, according to Frost & Sullivan.

### **LIFTACTIV Collection (賦能系列)**

Our LIFTACTIV Collection offers anti-aging products for consumers with mature skin. This collection includes creams, serums, facial masks and lotions.

### *LIFTACTIV Tightening Mask – Flagship Product in the LIFTACTIV Collection*



LIFTACTIV Tightening Mask contains three types of anti-aging ingredients, namely anti-aging grade Human-like<sup>®</sup> recombinant collagen C5HA, ultra-vitamin A and Boseine. It helps replenish collagen, repairs skin barriers, induces skin fibroblasts to secrete endogenous collagen, and helps to strengthen the skin structure and resist the aging process. Our LIFTACTIV Tightening Mask is designed for people with dry lines or pseudo-dynamic lines caused by staying up late and those who need to fight against early aging.

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### *LIFTACTIV Sunblock Lotion*

LIFTACTIV Sunblock Lotion is our first registered special skincare product. In contrast to ordinary skincare products, special skincare products are required to comply with higher manufacturing and efficacy standards in order to obtain the special skincare product designation. As such, the entry barriers for the special skincare product market are significantly higher than that of ordinary skincare products, and the approval process for special skincare products is significantly longer than that of ordinary skincare products.



LIFTACTIV Sunblock Lotion is the first pure physical sunblock product with recombinant collagen on the market in China, according to Frost & Sullivan. On top of typical sunblock function, this product contains recombinant collagen that can form a protective film on the skin surface to lock skin moisture, as well as secrete collagen and activate elastin to prevent skin aging. Due to our optimized proprietary formula, LIFTACTIV Sunblock Lotion is suitable for all types of skin, including sensitive skin, and is alcohol-free and preservative-free.

### *Relief Collection (舒緩系列)*

Our Relief Collection is designed for users with highly sensitive skins or users with seasonal or acute skin allergies. Products under our Relief Collection can help soothe redness, burning, itching, peeling and other allergy. Products under Relief Collection include sprays, lotions, creams and facial masks.

### *Revitalizing Collection (活元系列)*

Our Revitalizing Collection offers products for daily skincare use for young skins. These products allow our consumers to preserve their youthful-looking skin. Products under Revitalizing Collection include facial masks, lotions, sprays, gels and serums.

### *Brightening Collection (滢亮系列)*

Our Brightening collection is designed for daily skincare use for dull skins and skins with an uneven skin tone. Designed to improve dull skins, these products can help consumers reinvigorate their skin and restore healthy-looking skin. Products under Brightening Collection include facial masks and serums.

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### *Protection Collection* (安護系列)

Our Protection Collection provides comprehensive care for sensitive skin and is suitable for use before and after professional skin treatment. Products under Protection Collection include sprays, facial masks, creams and lotions.

### *Men’s Collection* (男士系列)

Our Men’s Collection is designed for daily skincare for men, and primarily consists of gel facial cleansers and toners.

### *Starlight Collection* (星光系列)

Our Starlight Collection is designed for consumers post professional skin treatment. Products under Starlight Collection include serums.

### *Inspire Collection* (睿芽系列)

Our Inspire Collection is designed for the daily skincare use for infants and children. These products are designed to maintain healthy skin and retain skin moisture. Products under our Inspire Collection include creams and shampoos.

### **Other Major Skincare Brands**

**Keyu** *Keyu* is our medical-grade medical dressing brand developed for the relief and prevention of skin inflammatory conditions. *Keyu* branded products are in the form of lotion, focusing on (i) healing and repairing skins after professional skin treatment as well as (ii) inhibiting and relieving skin inflammatory reactions and reducing the risk of post-inflammatory hyperpigmentation and scar formation. Our flagship product under *Keyu* is Human-like Collagen Repair Dressing.

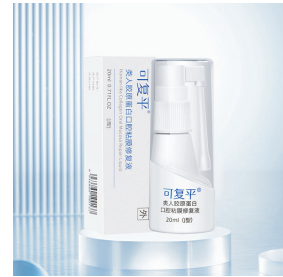


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**Kehen** *Kehen* is our scar-repair brand specifically designed to help our customers prevent and assist the treatment of scars originated from burns, wounds and surgeries. As one of the top-selling brands in the collagen-based scar-removal medical dressing market, *Kehen* has been well-recognized for its superior qualities in preventing scarring and assist the treatment of scars from burns, wounds and surgeries. Our flagship product under *Kehen* is the Human-like Collagen Scar Repair Gel.



**Kefuping** *Kefuping* is our brand designed for the prevention and repair of oral mucositis and mouth ulcers through the reparative properties of recombinant collagen. As of the Latest Practicable Date, we had one product under this brand, the Human-like Collagen Oral Mucosa Repair Liquid.



**Leeyen** *Leeyen* is our brand focused on feminine care with recombinant collagen having skin repair properties.



**SKIGIN** *SKIGIN* is our rare ginsenosides-based skincare brand for anti-aging. *SKIGIN* branded products utilize the antioxidant properties of rare ginsenoside RK3 to achieve skin rejuvenation effect.



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In addition to the major brands above, we also have three other brands for functional skincare, namely *VIEW-LAN*, *VISILAN* and *Cofuxin*. *VIEW-LAN* branded products focus on sensitive skin stabilization, which strengthen skin barriers and deeply hydrate skins. *VISILAN* branded products focus on anti-aging skincare, which help firm and lift skins. *Cofuxin* is our skincare brand designed for consumers aged from 18 to 25 seeking a solution for skin hydration and moisturization.

### Shengan

*Shengan* is our ginsenosides-based functional food brand. *Shengan* branded functional foods help strengthen immune systems which in turn could also improve sleep quality and maintain healthy conditions.

*Shengan Capsule – Flagship Product under Shengan.*

Shengan Capsule (previously “Hong Sheng Capsule”) is the first functional food product that used ginsenosides that we manufacture in-house. In addition to ginsenosides, Shengan Capsule also has *ganoderma* extract, *angelica* extract and *epimedium* extract. Since its launch, Shengan Capsule has been increasingly accepted by consumers, with a repurchase rate of 45.4% in 2021.

## OUR EXPANDING AND DIVERSIFIED PRODUCT PIPELINE

### Our Product Development and Portfolio Expansion Strategy

Since our incorporation, we have been committed to relentless innovation to offer a multi-brand product portfolio that applies our latest proprietary technologies across skin types, application scenarios, and consumer groups to address diverse and evolving consumer needs. As such, our product development strategy focuses on expanding both applications and product types of our product portfolio. By expanding product applications, such as from skin repair and tightening to anti-aging and whitening, we are able to maximize customer touchpoints by offering a broader array of products with significant complementary value and similar brand positioning to our current product portfolio. By expanding product portfolio, we are able to advance our proprietary technologies to enter into new product categories, such as biomedical materials, to expand our customer reach. With a diversified and expanding product portfolio, we believe we are able to generate additional demand from customers, expand customer base by further penetrating addressable target markets, and capitalize on the increasing demand for technology-based products.

### Our Product Pipeline

We have built a diversified product pipeline to meet the growing market demand for high-quality, technology-based beauty and health products. As of the Latest Practicable Date, our product pipeline included 85 product candidates, comprising 53 functional skincare products, 16 medical dressings and four skin rejuvenation products under our beauty product portfolio, as well as two biomedical products, seven functional foods and three food products for special medical purposes under our health product portfolio.



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### Beauty Product Portfolio

Our beauty products under development primarily comprise (i) functional skincare products; (ii) medical dressings and (iii) skin rejuvenation products. The following table sets forth the key information for the beauty product pipeline:

Product	Indication	Developmental Stage				Estimated Approval
		Product Development	Product Conversion	Type Testing	Product Registration	
Functional Skincare Products	For functions such as skin repair, anti-aging and whitening	Currently developing over 53 new functional skincare products				
Medical Wound Repair Gel	For non-chronic wounds such as post-surgical suture wounds					2022
Spray Dressing for Skin Repair	For the repair of wounds					2022
Recombinant Collagen Sterile Dressing	For post-professional skin treatment skin care					2023
Recombinant Collagen Gynecological Repair Dressing (For External Use)	For OBGYN non-chronic wounds					2023
Recombinant Collagen Anorectal Gel	For hemorrhoid wounds					2023
		Developmental Stage				
		Product Development	Type Testing	Clinical Stage	Product Registration	
Recombinant Collagen Skin Rejuvenation Serums	Intradermal and subcutaneous rejuvenation product for anti-aging (mainly targets facial skin)					Post-2023
Recombinant Collagen Skin Rejuvenation Freeze-Dried Powder	Intradermal and subcutaneous rejuvenation product for anti-aging (mainly targets face wrinkles such as forehead lines and crow's feet)					Post-2023
Recombinant Collagen Skin Rejuvenation Gels	Intradermal and subcutaneous rejuvenation product for anti-aging (mainly targets moderate to severe neck wrinkles)					Post-2024
Cross-linking Recombinant Collagen Skin Rejuvenation Gels	Intradermal and subcutaneous rejuvenation product for anti-aging (mainly targets moderate to severe nasolabial folds)					Post-2024

### Functional Skincare Products

We are currently developing over 53 skincare products for skin repair, anti-aging, and whitening, among which approximately 48 are expected to be recombinant collagen-based and approximately five are expected to be ginsenosides-based, to complement our existing skincare product portfolio. Two key pipeline products are *Comfy Human-like*<sup>®</sup> Recombinant Collagen Repair Serum (可復美Human-like<sup>®</sup>重組膠原蛋白修護精華) and *Collgene Human-like*<sup>®</sup> Recombinant Collagen Cream (可麗金Human-like<sup>®</sup>重組膠原蛋白霜).

#### *Comfy Human-like*<sup>®</sup> Recombinant Collagen Repair Serum

Expected to launch in the second half of 2022, *Comfy Human-like*<sup>®</sup> Recombinant Collagen Repair Serum is designed for all skin types, especially fragile skin. In this product, we deploy our patented recombinant human-like collagen C5HR bionic combination technology (Human-like<sup>®</sup>重組膠原蛋白C5HR仿生組合) which increases the proportion of recombinant human-like collagen promoting skin healing to repair fragile skin barrier and maintain skin stability.

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### *Collgene Human-like® Recombinant Collagen Cream*

Expected to launch in the second half of 2022, *Collgene Human-like® Recombinant Collagen Cream* is designed for all skin types, especially fragile skin. In this product, we deploy our patented recombinant human-like collagen C5HA bionic combination technology. (Human-like®重組膠原蛋白C5HA仿生組合) which increases the proportion of Type III recombinant human collagen targeting anti-aging properties to tighten skin and reduce wrinkles.

### *Medical Dressings*

We are developing 16 medical dressings, among which eight are recombinant collagen-based products, to treat broader types of skin. Two key products are Medical Wound Repair Gel (醫用創面修復凝膠) and Recombinant Collagen Sterile Dressing (重組膠原蛋白無菌敷料).

#### *Medical Wound Repair Gel*

Medical Wound Repair Gel is a sterile gel product for the care of non-chronic wounds such as post-surgical suture wounds. It forms a wet barrier film over the wound surface to protect the wound from infection. Meanwhile, it provides an environment that promotes tissue growth and wound healing, and significantly shortens the recovery time.

We are in the process of completing our product registration for Medical Wound Repair Gel and have passed the registration inspection. We expect to obtain the medical device registration certificate for this product in 2022.

#### *Recombinant Collagen Sterile Dressing*

Recombinant Collagen Sterile Dressing is a sterile medical dressing for post-professional skin treatment skin care. It promotes the repair of damaged skin barriers, and provides a closed, but hydrated, environment for the recovery of damaged skin. Recombinant Collagen Sterile Dressing is provided in a sterile form and can be applied to larger skin surfaces.

As of the Latest Practicable Date, we have completed the development of the formulation for this product and are in the process of trial production and verification. We expect to obtain the medical device registration certificate for this product in 2023.

### *Skin Rejuvenation Products*

According to Frost & Sullivan, recombinant collagen as a filling material has great market prospects and high technological barriers, given recombinant collagen has the ability to promote cell adhesion and proliferation, as well as stimulate collagen regeneration in human body, which provides a safer and better skin rejuvenation effect. We are developing recombinant collagen-based filler products for different body parts, including full-face moisturizing, forehead lines, crow’s feet, necklines and nasolabial folds, as well as to address the evolving and diverse consumer needs. The four pipeline products are Recombinant Collagen Skin Rejuvenation Serums (重組膠原蛋白液體製劑), Recombinant Collagen Skin

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Rejuvenation Freeze-Dried Powder (重組膠原蛋白固體製劑), Recombinant Collagen Skin Rejuvenation Gels (重組膠原蛋白凝膠) and Cross-linking Recombinant Collagen Skin Rejuvenation Gels (交聯重組膠原蛋白凝膠).

### *Recombinant Collagen Skin Rejuvenation Serums*

Recombinant Collagen Skin Rejuvenation Serums are intradermal and subcutaneous rejuvenation products for anti-aging purposes with additional hydration and moisturizing functions, mainly targeting facial skin.

As of the Latest Practicable Date, we were in the process of clinical trials for the Recombinant Collagen Skin Rejuvenation Serums. We expect to obtain the medical device registration certificate for this product after 2023.

### *Recombinant Collagen Skin Rejuvenation Freeze-Dried Powder*

Recombinant Collagen Skin Rejuvenation Freeze-Dried Powder is an intradermal and subcutaneous rejuvenation product for anti-aging purposes, mainly targeting face wrinkles such as forehead lines and crow's feet. It contains extremely pure recombinant collagen which has outstanding biocompatibility and is able to supplement collagen in the skin as well as stimulate autologous collagen regeneration.

As of the Latest Practicable Date, we were in the process of clinical trials for the Recombinant Collagen Skin Rejuvenation Freeze-Dried Powder. We expect to obtain the medical device registration certificate for this product after 2023.

### *Recombinant Collagen Skin Rejuvenation Gels*

Recombinant Collagen Skin Rejuvenation Gels are intradermal and subcutaneous rejuvenation products for anti-aging purposes, mainly targeting moderate to severe neck wrinkles. They contain micro cross-linking recombinant collagen which has outstanding biocompatibility and degradability. The Recombinant Collagen Skin Rejuvenation Gels can immediately fill the fine lines on the skin and simulate autologous collagen regeneration.

As of the Latest Practicable Date, we were at the pre-clinical product development stage for our Recombinant Collagen Skin Rejuvenation Gels. We expect to receive the product approval after 2024.

### *Cross-linking Recombinant Collagen Skin Rejuvenation Gels*

Cross-linking Recombinant Collagen Skin Rejuvenation Gels are intradermal and subcutaneous rejuvenation products for anti-aging purposes, mainly targeting moderate to severe nasolabial folds. They contain strong cross-linking recombinant collagen which has outstanding biocompatibility and degradability. The Cross-linking Recombinant Collagen Skin Rejuvenation Gels can immediately fill the wrinkles on the skin, especially nasolabial folds, and stimulate autologous collagen regeneration.

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As of the Latest Practicable Date, we were at the pre-clinical product development stage for our Cross-linking Recombinant Collagen Skin Rejuvenation Gels. We expect to receive the product approval after 2024.

### **Health Product Portfolio**

#### *Biomedical Materials*

We are developing other biomedical material products, among which the bone repair materials and absorbable biofilms represent two key pipeline products.

#### *Bone Repair Materials*

Our bone repair materials are designed to fill and repair bone defects in the alveolar bone or jawbones as a result of injury or insufficient bone mass. Expected to be registered as a Class III medical device, our bone repair materials utilize the physiological and mechanical properties of absorbable biomedical materials, as well as its compatibility with the human body, to create a stable and suitable material for bone repair.

As of the Latest Practicable Date, we were conducting clinical trials for our bone repair materials and expect our clinical trials to be completed by 2023. We anticipate submitting our product registration application to the NMPA by 2023, with a view to receive product approval in 2024.

#### *Absorbable Biofilms*

In China, absorbable biofilms are widely used in oral implants and maxillofacial surgery with significant market prospects. Our absorbable biofilms are a recombinant collagen-based biomedical material product designed for insulation and filling after tooth extraction, root extraction and alveolar ridge enlargement procedures. Expected to be registered as a Class III medical device, our absorbable biofilms utilize both the structural properties of recombinant collagen, as well as its reparative properties. We are at the pre-clinical product development stage for our absorbable biofilms and expect to commence clinical trials in 2023.

#### *Functional Foods and Foods for Special Medical Purposes*

We are currently developing seven functional foods primarily for boosting immune systems, reducing blood lipid and blood sugar level and improving sleep, and three food products for special medical purposes. Our key functional food product candidate is *Panax Notoginseng* and Red Rice Tablets (三七紅曲片). Our key food for special medical purposes product candidate is a type of nutritional food designed for individuals with dietary restrictions, digestive and absorption issues and metabolic disorders.

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### *Panax Notoginseng and Red Rice Tablets*

Our *Panax Notoginseng* and Red Rice Tablets are ginsenosides-based functional food designed to help decrease blood lipids.

As of the Latest Practicable Date, we completed in-human studies for our *Panax Notoginseng* and Red Rice Tablets and submitted our product registration application to the SAMR in 2020, which was subsequently accepted in the same year. We expect to receive the product approval either after 2023.

### *Nutritional food for dietary restrictions, digestive and absorption issues and metabolic disorders*

Our nutritional food designed for individuals with dietary restrictions, digestive and absorption issues and metabolic disorders provides nutritional support to people with such conditions. It contains carbohydrates, protein, vitamins and minerals that the users can rely on as the source of nutrition to support their nutritional needs.

## RESEARCH AND DEVELOPMENT

### **Our R&D Strategy and Focus**

We are committed to investing in R&D, which are pivotal to our success to date. Our R&D activities focus on (i) the continued fundamental research and advancement of our proprietary synthetic biology technologies to design, develop and manufacture various types of recombinant collagen, rare ginsenosides and other bioactive ingredients which can be used for our current and future products, and (ii) the development and launch of new products to expand our product portfolio.

We continuously design and develop novel recombinant collagen and rare ginsenosides with favorable biological properties. Such bioactive ingredients are then applied to develop new products or improve existing product lines. For example, capitalizing on our patented recombinant human-like collagen bionic combination technology, we reformulate some of our marketed products by integrating four types of recombinant collagen to broaden customer reach. We believe our innovation and R&D on proprietary synthetic biology technologies helped us achieve and maintain the leadership position in collagen-based product industry in China.

Leveraging our profound industry insights, we take a market-oriented approach when formulating our product development strategies, with the goal to offer a diversified and expanding product portfolio addressing evolving and diverse consumer demand. For example, we are developing skin rejuvenation products and next-generation biomedical materials, including recombinant collagen-based fillers and freeze-dried powder, bone repair materials and absorbable biofilms, to offer consumers more diversified options as well as to capture the growth opportunities of skin rejuvenation and biomedical material market in China. See “– Our Expanding and Diversified Product Pipeline” for more details of our pipeline products.

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As of the Latest Practicable Date, our R&D efforts have resulted in 75 patents and pending patent applications, a diverse portfolio of 105 SKUs as well as a pipeline of 85 product candidates. We established the Shaanxi Province Engineering Research Center for Biomaterials (陝西省生物材料工程研究中心) in 2010 and then established the National and Local Engineering Research Center for Biomaterials (生物材料國家地方聯合工程研究中心) in 2012. Moreover, we are the first collagen-based product company with a patent awarded the National Technology Invention Award in 2013 in China, established a Post-doctoral Research Center (博士後工作站) in 2015, and are the first collagen-based product company with a patent awarded the China Patent Gold Award in 2016 in China. In 2021, we established the Shaanxi Province Key Laboratory of Passive Medical Devices (陝西省無源醫療器械重點實驗室), and we became the first company selected by the National Clinical Research Center for Skin and Immune Diseases (國家皮膚與免疫疾病臨床醫學研究中心) to conduct collaborative R&D on dermatology, showcasing our leadership in skincare R&D in the country.

The R&D of our marketed products generally involves initial product development, prototype testing and filing or registration, before the products are mass produced and commercialized. According to Frost and Sullivan, the R&D generally take approximately six to 12 months for functional skincare products, 12 to 36 months for medical dressings and 24 to 36 months for functional foods. For certain Class III medical devices, clinical trials are required and the R&D process may take more than 36 months.

### **Our Synthetic Biology Technology Platform**

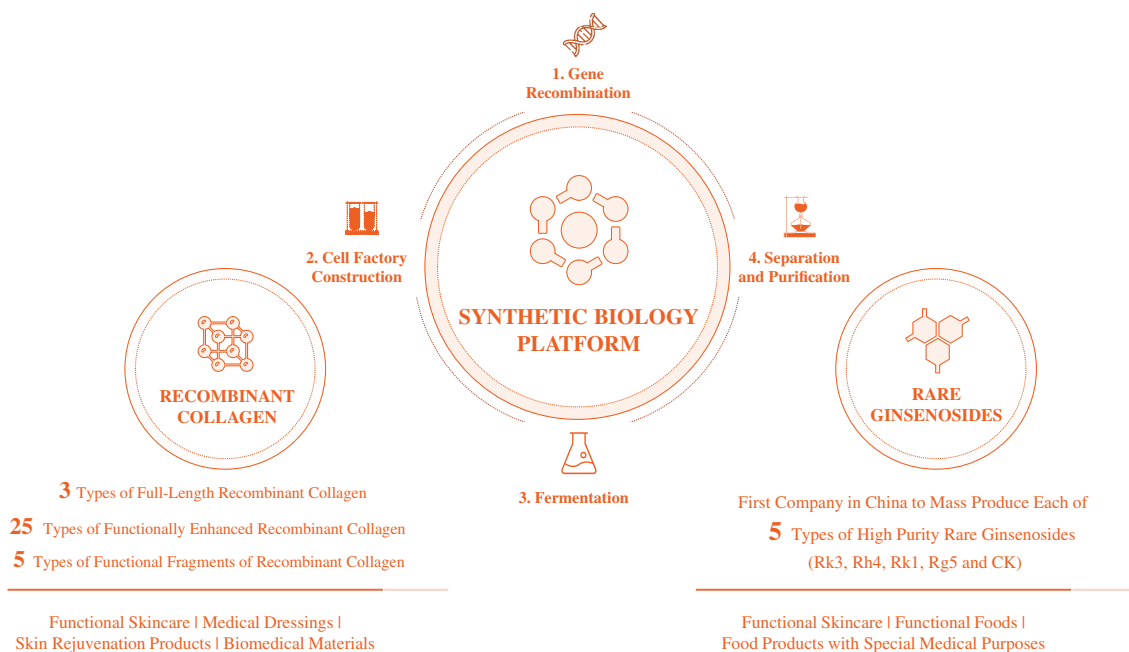
Our foundational R&D and product development are centered on our proprietary synthetic biology technology. Synthetic biology is an interdisciplinary area that involves the application of engineering principles to biology, which aims at design and fabrication of biological components and systems. Synthetic biology technologies enable production of ingredients for beauty and health products more sustainably and reliably at a larger scale and of consistent quality, compared to certain traditional methods, namely extractions from petrochemicals, animal sources and plant-based sources. As such, synthetic biology has a broad spectrum of potential applications in cosmetics, food and medicine.

We design and develop recombinant collagen, rare ginsenosides and other bioactive ingredients with our proprietary synthetic biology technology. We believe our synthetic biology technology is hard to replicate as it has integrated years of cross-disciplinary research and accumulated know-how on biotechnology, biochemistry and bioengineering encompassing the core components such as gene recombination, cell factory construction, fermentation, separation and purification. We have built a diversified and expanding product portfolio for a wide group of consumers across application scenarios on top of our synthetic biology technology platform.



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The following diagram describes the synthetic biology technology platform:



### *Synthetic Biology Approach to Recombinant Collagen*

We apply synthetic biology approach to manufacture recombinant collagen, which comprise four key components: gene recombination, cell factory construction, fermentation and separation/purification.

- **Gene recombination.** To develop new recombinant collagen, we start with identifying and obtaining the target gene through gene synthesis. The target genes will have sequences that serve as the blueprint for synthesis of the desired proteins.
- **Cell factory construction.** After obtaining the target gene, we select an appropriate expression system according to the sequence and characteristics of the target recombinant collagen and construct a genetically engineered bacterium (e.g. *E. Coli*) to be used to produce recombinant collagen in cell culture through fermentation.
- **Fermentation.** Once the expression system and genetically engineered bacterium are in place, recombinant collagen are produced through a fermentation process. In order to ensure efficient production, we have developed innovative technologies to modulate and regulate the production process. During the fermentation process, enzyme inhibitors and substrates are also added to maximize our yield and prevent recombinant collagen from degrading.
- **Separation and Purification.** Once fermentation is complete, we conduct a separation and purification process to isolate the recombinant collagen from the fermentation products. The technology and efficacy of the separation and purification process are critical in achieving high purity levels for recombinant collagen as purity is highly correlated with safety and efficacy and is a prerequisite for use in certain medical products. Our separation and purification process includes an innovative adsorption process which enables us to shorten batch processing times and improve yields and purity of recombinant collagen.

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### *Technological Breakthroughs*

The ability to produce recombinant collagen at a large scale and with high quality is critical to the commercialization of recombinant collagen-based products. Since our inception, we have achieved multiple technological breakthroughs. For example, we have developed and applied high-density fermentation and highly efficient separation and purification techniques to resolve the efficiency issues that had previously hindered the commercialization of recombinant collagen-based products globally. This breakthrough enables us to achieve a industry-leading level of recombinant collagen expression as well as to achieve a 90% yield rate after one round of processing from our recombinant *E. coli* target proteins, which is the industry-leading purification and yield rate, according to Frost & Sullivan.

Efficient and consistent protein expressions enable us to increase manufacturing scale while ensuring the high quality of recombinant collagen. As of the Latest Practicable Date, we had one of the largest recombinant collagen manufacturing capacities globally. Moreover, our recombinant collagen has a purity level of 99.9% which meets industry standards for medical-grade materials, as well as bacterial endotoxin levels below 0.1EU/mg which is significantly superior to industry standards for medical-grade materials, according to Frost & Sullivan. We believe our manufacturing know-how and prowess constitute a key competitive advantage and technological barriers to entry.

### *Our Proprietary Recombinant Collagen*

To date, we have constructed a recombinant collagen molecule library containing (i) three types of full-length recombinant collagen, namely Type I, Type II and Type III recombinant human collagen, and (ii) 25 types of functionally enhanced recombinant collagen and five types of functional fragments of recombinant collagen.

- ***Full-length recombinant collagen*** is a type of recombinant collagen that is completely identical to the amino acid sequence of the human collagen chain obtained by high-density fermentation after genetically engineering human collagen gene into microorganisms. As such, this type of recombinant collagen has high levels of biocompatibility and low levels of immunogenicity in humans and demonstrates excellent safety levels.
- ***Functionally enhanced recombinant collagen*** is formed through repetitions of a fragment that is completely identical to the amino acid sequence of the human collagen chain. Functionally enhanced recombinant collagen achieves stable structure and enhanced functions through the repetitions of sequences.

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We have developed four major recombinant collagen under each of full-length recombinant collagen and functionally enhanced recombinant collagen, namely Type I recombinant human collagen and Type III recombinant human collagen, recombinant human-like collagen and small-molecule recombinant collagen peptide. We formulate one or combinations of different types of recombinant collagen in most of our professional skin treatment products to amplify the various skincare properties of our products.

- ***Type I recombinant human collagen*** promotes pro-epithelial cell growth, which plays a critical role in skin repair.
- ***Type III recombinant human collagen*** promotes the growth of fibroblasts and the secretion of collagen by fibroblasts, which offers anti-aging properties.
- ***Recombinant human-like collagen*** promotes cell migration, a critical process in the development and maintenance of multicellular organisms for tissue formation and wound healing, and as such repairs damaged skin.
- ***Small-molecule recombinant collagen peptide*** is a highly versatile type of recombinant collagen and is easily absorbed by skin, promotes cell growth, and provides nutrition for cell growth and collagen secretion.

### ***Synthetic Biology Approach to Rare Ginsenosides***

In relation to rare ginsenosides, we apply synthetic biology technologies in our unique fermentation processes, which are one of the key manufacturing steps to derive rare ginsenosides. Specifically, we currently utilize genetically engineered enzymes and microbial strains to obtain desired rare ginsenosides. Moreover, we are in the process of developing the third synthetic biology approach that is to synthesize rare ginsenosides by utilizing genetically engineered bacteria strains without any input of raw ginsenosides.

### ***Technology breakthroughs***

Although rare ginsenosides have long been believed to possess a number of health and nutritional benefits, obtaining rare ginsenosides in large quantities has been difficult. Moreover, as ginsenosides in their natural form often demonstrate low levels of bioactivity, it necessitates further processing to convert the rare ginsenosides to achieve the desired bioactivity, potency, purity and stability.

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Since we commenced R&D on rare ginsenosides in 2012, we have developed industry-leading rare ginsenosides manufacturing technologies to transform raw ginsenosides into a highly active form, as well as synthesize and mass-produce rare ginsenoside to apply its properties for a broad array of health purposes. Leveraging our proprietary technologies, we have resolved the low-efficiency issue in biotransformation and rapid inactivation of rare ginsenosides, which had been a significant limiting factor for large-scale production of rare ginsenosides in the industry. For example, our production efficiency for CK ginsenoside is more than 20 times higher than any other companies reported globally. The crude form of CK ginsenosides after biotransformation is significantly more concentrated than the CK ginsenoside found in plants at its natural content.

### *Our rare ginsenosides*

We are the first company in China to mass produce each of five types of high purity rare ginsenosides, namely Rk3, Rh4, Rk1, Rg5 and CK, at a hundred kilogram-scale with one of the largest rare ginsenosides production capacities in the world, according to Frost & Sullivan. We deploy different combinations of these five types and plan to utilize new types of rare ginsenosides in our rare ginsenosides technology-based health products. With different combinations of various rare ginsenosides, we can maximize and enrich the functionalities and efficacy of our health products. In particular, the rare ginsenosides have the following health benefit potentials according to Frost & Sullivan:

- **Rk3** promotes liver function and reduces blood lipids and blood sugar level.
- **Rh4** relieves inflammation of the intestinal tract and reduces blood lipids and blood sugar level.
- **Rk1** inhibits the proliferation of tumor cells.
- **Rg5** induces apoptosis of certain cancer cells and reduces blood lipids and blood sugar level.
- **CK** induces apoptosis of tumor cells and improves the immune systems.

### **Our R&D Team**

As of December 31, 2021, we had an R&D team of 84 members, representing 12.6% of our total employees. We have assembled an R&D team with a diverse academic background, including biochemistry and molecular biology, biotechnology, biological sciences, biochemistry, bioengineering, fermentation engineering, applied chemistry, food science and engineering, traditional Chinese medicine, pharmaceutical engineering and pharmacy.

Our core R&D personnel have had over ten years of experience of R&D on fermentation technology, biomedical materials and natural active products. Most of our R&D personnel also have work experience in biological engineering, pharmaceutical engineering and preventive medicine. 43 members have a master's degree or above, representing 51.2% of our R&D team as of December 31, 2021.

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Our R&D team is divided into two teams which perform different functions, namely the technology R&D team and the product R&D team.

- Our technology R&D team primarily focuses on researching and developing new technologies for professional skin treatment products, functional foods and foods for special medical purposes. Additionally, our technology R&D team is responsible for upgrading and improving our synthetic biology technologies to design, develop and manufacture recombinant collagen and other bioactive ingredients at scale including more efficient recombinant collagen fermentation technology as well as more advanced expression and mechanisms of action of different types of recombinant collagen.
- Our product R&D team is mainly responsible for designing and developing new finished products, upgrading existing products based on in-depth industry insights and market research.

We have entered into legally binding confidentiality and non-compete agreements with our key employees as well as employees involved in our R&D activities. We have also entered into employment agreements, pursuant to which any intellectual property conceived and developed during their employment belongs to us and they waive all relevant rights or claims to such intellectual property.

### **Our R&D Collaborations**

We primarily collaborate with medical institutions and academic institutions with respect to R&D activities. We conduct joint clinical research projects and knowledge sharing sessions with medical institutions on a regular basis to obtain relevant clinical data and feedback on our products.

Moreover, we have collaborated with Northwest University to jointly execute the joint research projects such as high-density fermentation technology of recombinant collagen, preparation and properties of recombinant human-like collagen, as well as innovative development and testing of biomaterials. With respect to these research projects, Northwest University and us jointly engaged in theoretical and foundational research, while we have taken lead in the R&D on the commercial application as well as on mass-production technology of bioactive ingredients.

According to the relevant cooperation agreement, Northwest University, upon our requests, shall transfer, or grant us the exclusive right of use of its patents on the technologies that were jointly developed by Northwest University and us, and enjoy the non-commercial right of using such technologies such as publishing papers, applying for research subjects and further development of such technologies. In the meantime, we have the right to the commercialization of the patented technologies. We believe the joint research activities are complementary to both of Northwest University and us. As of the Latest Practicable Date, we are the patent holders of eight patents derived from the joint research projects. We will continue this complementary relationship with Northwest University and explore more joint research projects with respect to recombinant collagen and other bioactive ingredients.

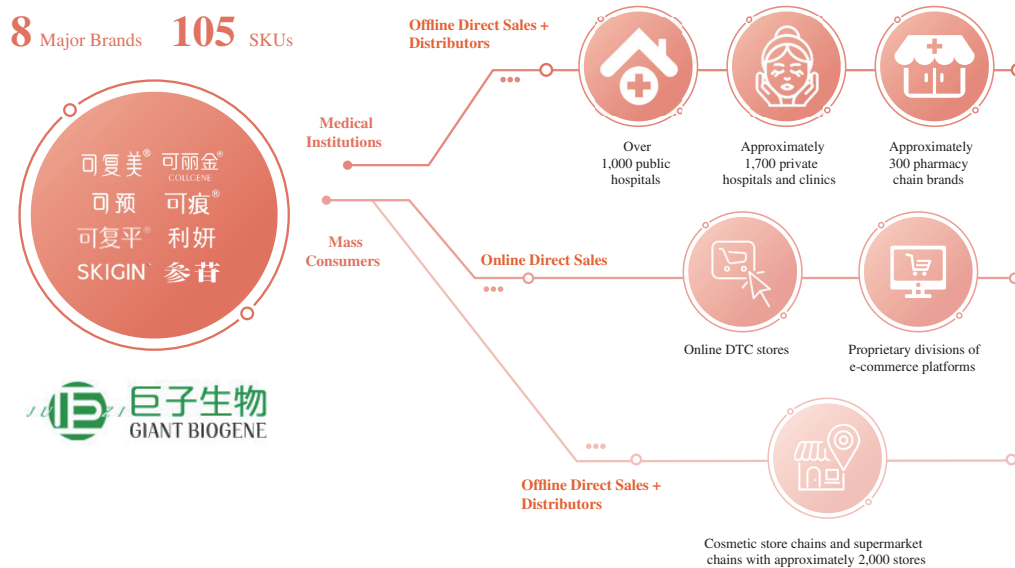
## BUSINESS

### SALES, DISTRIBUTION AND MARKETING

#### Our Omni-channel Sales and Distribution Network

We have established an omni-channel sales and distribution network to effectively reach our customers under our dual-pronged “medical institution + mass consumer” sales strategy.

#### Our Dual-Pronged “Medical Institution + Mass Consumer” Sales Strategy



Our brands such as *Comfy* were initially designed to provide skincare solutions for skin with problematic conditions. Therefore, we have developed a dedicated sales channel to medical community. The sales to medical institution customers have become the foundation of our brand equity. As our reputation in developing and manufacturing quality recombinant collagen-based products continued to grow, and the endorsements and supports we received from reputable hospitals and medical professionals continued to increase, we expanded our sales network to mass market.

As of the Latest Practicable Date, we have sold and distributed products to over 1,000 public hospitals, approximately 1,700 private hospitals and clinics, as well as approximately 300 pharmacy chain brands across China. We have also built a nationwide mass market sales network through direct sales and distributors. Our direct sales primarily include DTC stores on e-commerce and social media platforms including Tmall, JD.com, Douyin, Xiaohongshu, and Pinduoduo, as well as sales to proprietary division of e-commerce platforms such as JD.com and Vipshop. Our mass market distribution covers individual consumers, cosmetic store chains and supermarket chains including Watsons, Afiona, and THE COLORIST, Ole’, Hualian Group and Hema Fresh with approximately 2,000 stores in China.



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The following table sets forth the breakdown of our revenue by sales channel for the years indicated:

	For the Year Ended December 31,					
	2019		2020		2021	
	Amount	%	Amount	%	Amount	%
	<i>(RMB in million, except percentages)</i>					
<b>Direct sales</b>	<b>192.8</b>	<b>20.1</b>	<b>331.0</b>	<b>27.8</b>	<b>689.6</b>	<b>44.4</b>
– Online direct sales						
through our DTC stores	156.2	16.3	274.2	23.0	574.1	37.0
– Online direct sales to						
e-commerce platforms	1.9	0.2	33.0	2.8	70.1	4.5
– Offline direct sales	34.7	3.6	23.8	2.0	45.4	2.9
<b>Sales to distributors</b>	<b>763.9</b>	<b>79.9</b>	<b>859.5</b>	<b>72.2</b>	<b>862.9</b>	<b>55.6</b>
<b>Total</b>	<b>956.7</b>	<b>100.0</b>	<b>1,190.5</b>	<b>100.0</b>	<b>1,552.5</b>	<b>100.0</b>

### *Direct sales*

We directly sell our products to customers through both online and offline channels. During the Track Record Period, our revenue from direct sales was RMB192.8 million, RMB331.0 million and RMB689.6 million, respectively, accounting for 20.1%, 27.8% and 44.4% of our total revenue for the same years, respectively.

Our online direct sales customers are mainly (i) individual consumers who purchase our products through our DTC stores, and (ii) e-commerce platforms such as JD.com and Vipshop who sell our products to customers through their self-operated divisions. As sales through e-commerce platforms continue to be a growing trend with respect to skincare products, our online direct sales have experienced significant increases throughout the Track Record Period. We generally allow our individual consumers to return or exchange our products in a condition suitable for a second sale within seven days from the delivery according to the relevant laws and regulations. Our offline direct sales increased in 2021, while experienced a decrease in 2020 primarily under the impact of COVID-19 pandemic as the medical institutions suspended or lowered operational activities.

We enter into one-year standard sales agreements with e-commerce platforms who are our online direct sales customers. The salient terms of the standard sales agreements include contract term, pricing policy, payment and credit terms, logistics arrangements and return policies. The price and volume are specified in purchase orders. We deliver our products to e-commerce platforms before they make payments. Subject to any specific arrangements, we

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generally grant a credit period of 60 days to e-commerce platforms. E-commerce platforms are entitled to return products to us under various circumstances, including product quality issues, obsolete inventory, or product returns from consumers to such online retailers.

Our offline direct sales customers are mainly hospitals, clinics, pharmacy chains, cosmetic store chains and supermarket chains. We enter into standard sales agreements with offline direct sales customers. The salient terms of the standard sales agreements include price, payment and credit terms, logistics arrangements and return policies. The volume are specified in purchase orders. We allow payment after we deliver our products to offline direct sales customers. We generally grant a credit period of 30 days to 180 days to offline direct sales customers. We generally do not accept product returns from offline direct sales customers except due to product quality defects.

For the years ended December 31, 2019, 2020 and 2021, the value of products returned from our direct sales channels was immaterial as to our total revenue for the same years, respectively.

### *Sales to Distributors*

In addition to direct sales, we also engage distributors to sell our products. The relationship between our distributors and us are as sellers and buyers. Leveraging on distributors’ industry and customer resources, we believe our distributorship model helps us scale our operations and replicate our success in a cost-efficient manner. For the years ended December 31, 2019, 2020 and 2021, our revenue from sales to distributors was RMB763.9 million, RMB859.5 million and RMB862.9 million, respectively, accounting for 79.9%, 72.2% and 55.6% of our total revenue for the same years, respectively. To our best knowledge, our distributors primarily sell our products to their customers such as individual consumers, hospitals, clinics, pharmacy chains, cosmetic store chains and supermarket chains.

### *Our Distributorship Network*

We believe that distributors with strong sale channel management capabilities as well as sales and distribution experience of skincare products can help us penetrate a broader user base and increase our market share as well as enhance our brand awareness efficiently. The engagement of distributors to sell professional skin treatment products and functional foods are industry norm in China, according to Frost & Sullivan.

We maintain a nationwide distribution network. As of December 31, 2021, we had business relationship with 406 distributors across China. The following table sets forth the number of our distributors and their movements during the Track Record Period:

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	For the Year Ended December 31,		
	2019	2020	2021
<b>At the beginning of the period</b>	<b>151</b>	<b>299</b>	<b>374</b>
Newly appointed	155	85	81
Terminated	(7)	(10)	(49)
Net increase/(decrease)	148	75	32
<b>At the end of the period</b>	<b>299</b>	<b>374</b>	<b>406</b>

During the Track Record Period, we had a net increase in the total number of distributors. We discontinued our relationships with seven, ten and 49 distributors in 2019, 2020 and 2021, respectively, primarily because these distributors failed to meet our distributor assessment requirements such as sales capabilities and compliance with our distribution policies. In 2019, 2020 and 2021, we also appointed 155, 85 and 81 new distributors, respectively, primarily driven by our business expansion. To the best of our knowledge, as of December 31, 2021, all of our distributors were Independent Third Parties.

We typically enter into standard distribution agreements, which are sales and purchase agreements in nature, with our distributors. The salient terms of our standard distribution agreements used during the Track Record Period are set out below:

- *Duration.* The agreement generally has a term of one year.
- *Designated distribution area.* The distributors are not allowed to sell our products outside of their designated distribution areas.
- *Minimum purchase requirements.* We generally do not have minimum purchase requirements for our distributors.
- *Deposit.* We require distributors to pay us a deposit, which serves as a guarantee for their execution of the distribution agreements. If our distributors fail their sales targets or sell our products outside the designated distribution area, we have the right to retain the deposit.
- *Sales and performance targets.* We set monthly and annual sales and performance targets for our distributors. If the distributors fail to meet 80% of the sales targets for a quarter, we are allowed to engage other distributors in the designated distribution area. If the distributors fail to meet 50% of the sales targets for a quarter, we are allowed to terminate the distributor and retain the deposit.
- *Pricing policy.* We sell to our distributors at a discount to the recommended retail price. We also provide the recommended retail prices to our distributors.

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- *Payment and credit terms.* We typically require distributors to make payments before we deliver the products to them, while we grant credit period to certain large-scale distributors with good creditworthiness.
- *Logistics.* We are responsible for delivering our products to locations agreed between distributors and us.
- *Warranty.* We represent that the products we sell meet the requirements of relevant laws and regulations.

We generally do not accept returns from our distributors unless there are product defects with our products. For the years ended December 31, 2019, 2020 and 2021, the value of products returned from our distributors was immaterial as to our total revenue for the same years, respectively.

### *Distributors' Selection and Management*

We have adopted selective distributor recruitment standards to ensure that our distributors are qualified and resourceful. We select our distributors based on their experience and business performance in the skincare industry, particularly in distributing functional skincare products and medical dressings. Our distributors are typically (i) corporates whose business scope covers sales of skincare products with strong operational capabilities and sales networks, and (ii) corporates that specialize in medical dressings sales with the requisite licenses in distributing medical dressings in China, as well as established relationships with medical institutions within their designated regions.

We regularly review the performance of distributors through a stringent selection process and annual assessment. We consider various factors in renewing agreements with distributors, including their qualifications, sales and marketing capabilities, sales network, financial resources, customer resources and synergies with our brands.

In addition, we proactively manage our distributors to comply with the requirements of relevant laws and regulations. We require our distributors to have adequate storage conditions and facilities, a sufficient number of quality management personnel, and adequate sales channels resources. In addition, we have set up a performance evaluation mechanism to assess the monthly, quarterly and annual sales performance of our distributors in order to identify and select the best distributors according to their performance. Furthermore, we maintain regular dialog with distributors to understand the latest issues encountered during the sales and marketing activities and help them address and resolve these issues to maintain a healthy and effective distribution network.

We believe that our sales are driven by the actual consumer demand and therefore we are subject to minimal risk of channel stuffing in our distribution network, primarily because (i) we generally require full payment before delivering products to distributors or grant a short credit period to selective large-scale distributors; (ii) we generally do not allow returns of

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products sold to distributors except for product defects; (iii) we do not set minimum purchase requirements for distributors; and (iv) we require distributors to report to us regularly on, and to maintain a reasonable level of, their inventory. In addition, we visit our distributors to understand their inventory levels and discuss with them their sales strategy and expected market demands on a regular basis.

### **Pricing Policy**

We implement a competitive and effective pricing policy that complies with the relevant laws and regulations. We adopt different pricing policies to direct sales and sales to distributors. Our products are generally sold at the recommended retail price to our direct sales customers. We consider a number of factors in determining the recommended retail prices of our products, including the prices of our competitors, the costs of our products and feedback from customers. We determine the prices of our products sold to distributors by taking into account a few factors such as sales channels, marketing and promotion costs for the sales channels, designated distribution areas, as well as the number of end customers the distributors can reach. See “- Sales, Distribution and Marketing – Our Omni-channel Sales and Distribution Network” for the revenue breakdown by sales channels. During the Track Record Period and up to the Latest Practicable Date, we had been able to maintain a relatively stable price level for our products.

### **Product Tracing**

We have adopted measures to reduce the negative impact of counterfeits on our products. For instance, we entered into agreements with third-party service providers to create a unique device identification system, which provides a anti-counterfeiting code for most of our products. The system will store the records for each scanning and will automatically alert once the same code has been scanned more than twice, which will be automatically stored in our database. At the same time, our marketing personnel will conduct random checks of the circulation for each code. Furthermore, we will impose certain penalties on the distributors if we discover that they are selling products outside the designated regions. While those efforts may enhance our ability to ensure the integrity of our products, brand and reputation, we may nonetheless encounter risks associated with counterfeits from time to time. See “Risk Factors – Risks Relating to Our Business and Industry – 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.”

During the Track Record Period and up to the Latest Practicable Date, there was no material complaint, claim, litigation or investigation of adverse events concerning the quality and safety of our products.

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### Third-Party Payment Arrangements

#### *Background*

During the Track Record Period, certain of our customers (the “**Relevant Customer(s)**”) settled their payments with us through third-party payors (the “**Third-party Payment Arrangement(s)**”). 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. No individual Relevant Customer had made a material contribution to our revenue during the Track Record Period.

During the Track Record Period and up to the date of this document, other than accepting such payments, we have not proactively initiated any Third-Party Payment Arrangements, nor have we participated in other forms in any of such arrangements. In addition, during the Track Record Period and up to the date of this document, we have not provided any discount, commission, rebate, or other benefits to any of the Relevant Customers or the third-party payors to facilitate or encourage the Third-Party Payment Arrangements.

The third-party payors primarily consisted of legal representatives, business partners, individual shareholders, employees, and immediate relatives of the Relevant Customers. Our Directors have confirmed that all third-party payors are independent of our Group and each of our respective Directors, senior management, and shareholders.

#### *Reasons for Utilizing Third-Party Payment Arrangements*

During the Track Record Period, the Relevant Customers primarily were small-scale companies. According to Frost & Sullivan, it is a relatively common practice in the professional skin treatment industry in China for these entities to settle payments through third-party payors to their vendors and service providers. Our Relevant Customers settled their payments with us through third-party payors primarily because our Relevant Customers mainly operated their business in a small scale or in the form of sole proprietorship and preferred settlement of payments through bank accounts of the third-party payors for convenience.

#### *Mitigation measures and cessation of third-party payment arrangements*

To secure our interest against risks associated with Third-Party Payment Arrangements, we have implemented a series of mitigation measures. We required the Relevant Customers to communicate with us the relevant information, including, among others, the reasons for the Third-Party Payment Arrangements and the identity of the involved third-party payors. And we required the Relevant Customers to sign a tripartite agreement for the delegation of payment with the third-party payor and us (the “**Agreement**”), or provide us with a letter for delegation of payment (the “**Delegation Letter**”). In the Agreement and the Delegation Letter, it is specified that the Relevant Customer (i) delegates its payment obligation under the terms of the original purchase agreement with us to the respective third-party payor, and (ii) confirms that the other terms under the original purchase agreement remain unchanged and effective. The Relevant Customers and the third-party payors also undertake in the Agreement that we are released from any disputes which may arise from the Third-Party Payment Arrangements.



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We have ceased all Third-Party Payment Arrangements since March 2022. We have also obtained the tripartite confirmation letters (the “**Confirmation Letters**”) from the majority of the Relevant Customers and the third-party payor confirming that (i) the Relevant Customer delegated its payment obligation under the terms of the original purchase agreement with us to the respective third-party payor; (ii) the amount listed in the Confirmation Letter was fully paid by the third-party payor to us on behalf of the Relevant Customers; and (iii) we had no disputes arising from the Third-party Payment Arrangements with the Relevant Customers and the third-party payors.

### *Enhanced Internal Control Measures*

Our Directors are responsible for formulating and overseeing the implementation of our internal control measures and the effectiveness of our quality management system. We have also established a Corporate Governance Committee comprising Mr. Yan, Ms. Fang Juan and Mr. Shan Wenhua, which is dedicated to ensuring the adequacy and effectiveness of regulatory compliance procedures and internal control system. See “Directors and Senior Management.” To prevent the reoccurrence of and potential risks from the Third-Party Payment Arrangements going forward, we have implemented enhanced internal control measures. For example, with respect to the payment from third-party payors’ accounts after our cessation of Third-Party Payment Arrangements, our marketing department will refund and inform the Relevant Customers and third-party payors that such arrangements are no longer accepted. We ship our products only after the payment from our customers’ corporate accounts is verified by our finance department.

### **Our Science- and Knowledge-Driven Branding and Marketing**

#### *Our Marketing Philosophy*

Our brands are positioned as technology-based beauty brands with products which have been receiving broad recognition among the medical community and the mass consumer market due to their differentiated skincare efficacy. Our science- and knowledge-driven marketing activities are built around this positioning to convey the benefits of bioactive ingredients to consumers, and further increase our brand awareness.

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### *Marketing Channels*

We implement our science- and knowledge-driven marketing philosophy through multiple channels, primarily including (i) academic engagements with the medical community and professionals through professional knowledge sharing sessions, (ii) online marketing activities, and (iii) offline marketing activities. We carry out our marketing activities with an aim to communicate with our customers and enhance our brand reputation based on skincare knowledge and the actual efficacies of our products.

### *Academic Community Engagements*

In the recent years, we have been regularly participating in top-tier academic conferences and dermatology industry seminars held by organizations such as the Chinese Medical Association (中華醫學會) and the Chinese Medical Doctor Association (中國醫師協會), which attract well-known dermatologists and dermatology specialists across the nation. We believe participation in such events provides us with access to the latest academic views and insights on skin treatment from the professionals. In these conferences and seminars, we delivered keynote speeches to share our latest R&D results. This enables us to expand our academic reach, enhance our brand awareness, and build our comprehensive network of professional opinion leaders in the academic and medical community.

### *Online Marketing*

We have a dedicated marketing team with strong market insights focusing on the development of marketing campaigns on various e-commerce platforms and social media platforms such as Tmall, JD.com, Xiaohongshu and Douyin. Our marketing team has established a proven marketing evaluation model for measuring the effectiveness and conversion rates of our marketing activities, and continuously optimizes the online interactions between our customers and us.

Our online brand promotional and advertising campaigns are featured with activities providing customers with professional skincare knowledge and the actual efficacies of our products. For example, we collaborate with professional testing institutions to conduct efficacy tests and safety assessments on our products. Through these results, we communicate with our customers about the reliability and efficacies of our products. We also interact with customers by providing professional skincare knowledge through our unique live streaming matrix, which includes celebrities, cosmetics formula-savvy beauty bloggers, as well as dermatology-focusing influencers. For example, in March 2022, we launched a series of online marketing campaigns under the theme of “skin issues identification office (肌膚問題鑑定司)”. We invited skincare specialists to interact with our customers in live streaming sessions regarding their skin issues and the solutions offered by our products, attracting over 260,000 audiences and quickly becoming one of the hot topics on Weibo. Moreover, to promote scientific skin care, we publish scientific periodicals about skin care through the official accounts of *Comfy* and *Collgene* on social media platforms to help our customers find the most suitable skincare solutions while maintaining our customer loyalty.

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Our marketing activities have effectively enhanced our brand awareness and converted the traffic on e-commerce and social media platforms into our customers. During the annual “6.18” shopping festival launched by Tmall in 2021, there were over 5 million visits to our *Comfy* brand flagship store on Tmall and the retail sales value reached RMB70 million, which represented an increase of more than 300% from 2020. As of the Latest Practicable Date, our proprietary online stores on multiple e-commerce platforms had more than five million followers, including our official accounts’ followers and our online store accounts’ subscribers.

### *Offline Marketing*

Offline marketing is an important channel for us to provide our partners and consumers with on-site experience and professional services. We have been holding several “tracing back to the source (溯源)” events where we invite KOLs, professional institutions and media for site visits to our production site to introduce our core technologies and value proposition behind our brands and products. Through their respective fields of influence, we have been able to deliver our efforts and commitments to the technology-based products to the mass market consumers. We also held round table forums for dermatologists and consumers to have in-depth discussions on skincare topics, enhancing our brand awareness among them. In addition, we advocate our products through advertising screens and pop-up stores in shopping malls, and posters at cosmetics store chains such as Watsons, Afiona, and THE COLORIST.

## MANUFACTURING

We produce recombinant collagen, rare ginsenosides as well as recombinant collagen-based and rare ginsenosides technology-based products in-house. Leveraging proprietary recombinant collagen and rare ginsenosides manufacturing technologies, our end-to-end manufacturing platform enables us to achieve high product quality, mass production, swift product launches and cost advantages.

We perform routine and preventative maintenance on our manufacturing machinery and equipment to ensure that they function properly at all times and comply with the relevant laws and regulations. During the Track Record Period, we had not experienced any material or prolonged stoppage of production due to equipment failure, and we had not experienced any material accidents during our manufacturing process.

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### Manufacturing of Recombinant Collagen

Our existing manufacturing facilities for recombinant collagen are located in Xi’an, and are equipped with two sets of fermentation systems, pretreatment system, purification system, freeze-drying system and its supporting extraction equipment and testing equipment and other supporting equipment with an annual production capacity of 10,880 kg. We currently have one production line of recombinant collagen and are in the process of constructing new manufacturing facilities in Xi’an with a designed production capacity of 212,500 kg. The expected significant increase in production capacity is in anticipation of the launch of new products in our pipeline. We expect the new manufacturing facilities to commence production in the second half of 2022. See “– Manufacturing – Expansion Plan” for more details.

The following table sets forth our production capacity, production volume and utilization rate of our existing manufacturing facilities for recombinant collagen for the years indicated:

	<b>For the Year Ended December 31,</b>		
	<b>2019</b>	<b>2020</b>	<b>2021</b>
	<i>(kg, except the percentages)</i>		
Production capacity <sup>(1)</sup>	10,880	10,880	10,880
Production volume	7,589.2	7,013.6	9,083.4
Utilization rate <sup>(2)</sup>	69.8%	64.5%	83.5%

*Notes:*

- (1) Calculated based on the following assumptions: (i) all product lines are functioning at their full capacity; (ii) our production facilities operate 23 hours per day; (iii) we operate 340 working days per year. According to the Frost & Sullivan Report, our capacity calculation method, including the assumptions used therein, is generally in line with the practice of the relevant industry in China.
- (2) Calculated by dividing the production volume for a year by the production capacity of the same year.

The utilization rate of our production facilities for recombinant collagen decreased from 69.8% in 2019 to 64.5% in 2020, mainly because we suspended production for a short period of time due to the impact of the COVID-19 pandemic in 2020. The utilization rate of our production facilities for recombinant collagen increased from 64.5% in 2020 to 83.5% in 2021, mainly as a result of the ramping up of our capacity in response to the increasing production and sales of our recombinant collagen-based products.

### Manufacturing of Rare Ginsenoside

Our manufacturing facilities for rare ginsenoside are located in Xi’an, with an annual production capacity of 630.0 kg. We currently have one production line of rare ginsenoside and are equipped with a sterilization reaction kettle, centrifuge, crushers and vacuum drying machine. We are in the process of constructing new manufacturing facilities in Xi’an with a designed production capacity of 267,800 kg. We expect the new manufacturing facilities to commence production in the second half of 2024. See “– Manufacturing – Expansion Plan”.

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The following table sets forth our production capacity, production volume and utilization rate of our manufacturing facilities for rare ginsenoside for the years indicated:

	<b>For the Year Ended December 31,</b>		
	<b>2019</b>	<b>2020</b>	<b>2021</b>
	<i>(kilogram, except for the percentages)</i>		
Production capacity <sup>(1)</sup>	630.0	630.0	630.0
Production volume	166.0	236.7	524.9
Utilization rate <sup>(2)</sup>	26.4%	37.6%	83.3%

*Notes:*

- (1) Calculated based on the following assumptions: (i) all product lines are functioning at their full capacity; (ii) our production facilities operate 20 hours per day; (iii) we operate 300 working days per year. According to the Frost & Sullivan Report, our capacity calculation method, including the assumptions used therein, is generally in line with the practice of the relevant industry in China.
- (2) Calculated by dividing the production volume of a year by the production capacity of the same year.

The utilization rate of our production facilities for rare ginsenoside increased from 26.4% in 2019 to 37.6% in 2020, and further increased to 83.3% in 2021, mainly as a result of the ramping up of our capacity in response to the increasing demands.

### Manufacturing of Our Marketed Products

During the Track Record Period, our marketed products primarily include functional skincare products, medical dressings, and functional foods. We schedule the production according to the orders we receive as well as the level of inventories. We make production plans on a daily, weekly and monthly basis. We believe that such manufacturing arrangements enable us to maintain reasonable inventory levels, achieve production efficiency and capture the market demand in an agile and flexible manner.

As of December 31, 2021, we had two manufacturing plants for marketed products in Xi'an. The manufacturing cycle of our functional skincare products ranges from nine to 13 days, the manufacturing cycle of our medical dressings ranges from 11 to 15 days, and the manufacturing cycle of our functional food ranges from 12 to 13 days. We own all the machinery and equipment used in the manufacturing of our marketed products.

Our manufacturing plants are equipped with 11 production lines for functional skincare products, six production lines for medical dressings, and two production lines for functional foods. Our production lines are highly automated and easy to use to achieve high production efficiency as well as the safety and quality of our products. Our manufacturing facilities for functional foods are capable of producing two types of products, namely capsules and tablets.

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The following table sets forth our production capacity, production volume and utilization rate of manufacturing facilities for our marketed products for the years indicated:

	<b>For the Year Ended December 31,</b>		
	<b>2019</b>	<b>2020</b>	<b>2021</b>
	<i>(unit, except for the percentages)</i>		
<b>Functional skincare products</b>			
Production capacity <sup>(1)</sup>	32,760,000	45,150,000	55,230,000
Production volume	15,822,388	24,808,491	42,717,475
Utilization rate <sup>(2)</sup>	48.3%	55.0%	77.3%
<b>Medical Dressings</b>			
Production capacity <sup>(1)</sup>	44,082,500	43,260,000	57,200,000
Production volume	27,028,120	25,372,567	50,360,732
Utilization rate <sup>(2)</sup>	61.3%	58.7%	88.0%
<b>Functional foods</b>			
Production capacity <sup>(1)</sup>	N/A <sup>(3)</sup>	2,100,000	3,150,000
Production volume	N/A <sup>(3)</sup>	146,108	258,392
Utilization rate <sup>(2)</sup>	N/A <sup>(3)</sup>	7.0% <sup>(4)</sup>	8.2% <sup>(4)</sup>

*Notes:*

- (1) Calculated based on the following assumptions: (i) all product lines are functioning at their full capacity; (ii) our production facilities operate seven hours per day; (iii) we operate 300 working days per year. According to the Frost & Sullivan Report, our capacity calculation method, including the assumptions used therein, is generally in line with the practice of the relevant industry in China.
- (2) Calculated by dividing production volume for a year by production capacity for the same year.
- (3) We commenced production of ginsenosides-based functional foods in-house in 2020 and therefore the data in 2019 is not applicable.
- (4) The utilization rates of the production facilities for functional foods were relatively low. We have two production lines for functional foods, the production capacity of which is designed for not only current customers' demands but also our future expansion. We believe such a design is reasonable for our business.

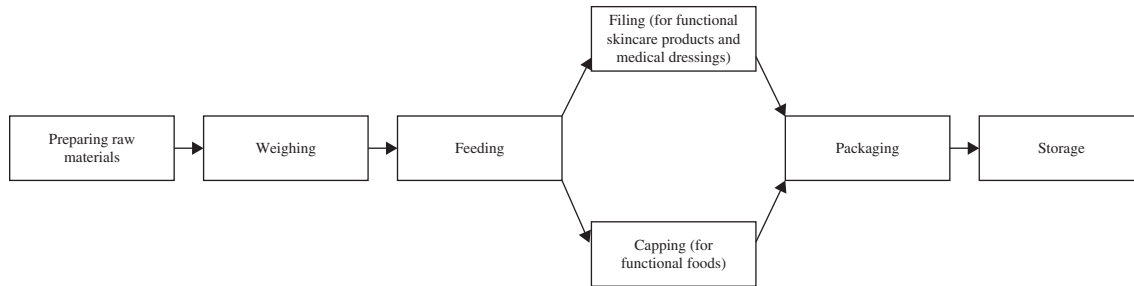
During the Track Record Period, the general increases in the utilization rate of the production facilities for functional skincare products were mainly due to the ramping up of our production capacity in response to the increasing customers' demands.

The utilization rate of production facilities for medical dressings decreased from 61.3% in 2019 to 58.7% in 2020, primarily because our current production facilities for medical dressings were relocated in May 2019. The utilization rate of production facilities for medical dressings increased from 58.7% in 2020 to 88.0% in 2021, mainly due to the ramping up of our production capacity in response to the increasing customers' demands.



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The following diagram briefly illustrates the manufacturing process of our marketed products:



- *Preparing raw materials.* We prepare the raw materials (including bioactive ingredients for particular products) based on the principle of “first in, first out”, and in accordance with the production instructions. The packages of raw materials are cleaned and disinfected before the raw materials enter the workshop.
- *Weighing.* We collect raw materials from the storage room and weigh them in accordance with the sequence and amounts specified in the production instruction orders.
- *Feeding.* We typically feed the weighed raw materials into the preparation tank or emulsifier according to the sequence and amounts specified in the production instruction orders, and control the feeding process based on the specified parameters.
- *Filling (for functional skincare products and medical dressings) and capping (for functional foods).* After inspection, the semi-finished skincare products and medical dressings are filled in the inner packaging materials, and the semi-finished functional foods are filled in capsule shells and bottled and capped. This procedure has high standards for a clean environment, and thus the equipment and tools need to be cleaned and disinfected before filling to achieve the warranted level of clean environment. This step is subject to quality inspection.
- *Packaging.* Before mass packaging, the first batch of products is subject to inspections. The packaging process strictly follows the requirements of product packaging procedures, including coding and boxing requirements.
- *Storage.* The finished products need to undergo quality inspection, and only qualified products will be packaged in transit boxes and transported to our warehouse for storage.

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### Expansion Plan

We believe the bioactive ingredients-based product market is expected to grow as consumer demands for technology-based beauty and health products continue to increase. In order to capture the significant market opportunities, we plan to enhance our production capacity by expanding our production lines. We plan to execute five production capacity expansion plans, including the expansion of two existing manufacturing facilities and the construction of three new manufacturing plants.

We believe that the newly built and expanded manufacturing facilities will significantly enhance the production capacity for the existing products as well as lay a solid foundation for the production of our pipeline products such as skin rejuvenation products and food for special medical purposes. As of the Latest Practicable Date, we expected to further incur a total investment of approximately RMB1,480.8 million for these manufacturing facilities, which will be primarily funded by our internal resources and the net [REDACTED] from the [REDACTED]. See “Future Plans and Use of [REDACTED] – Use of [REDACTED]”. The following table set forth certain details of our expansion plans:

Project	Location	Expected/Actual Construction commencement date	Expected construction completion date	Expected designed annual production capacity	Expected capital expenditure
					<i>(RMB in millions)</i>
Expansion of Existing Fermentation Workshop for Recombinant Collagen	Xi’an	June 2021	Second half of 2022	212,500 kg of recombinant collagen	33.0
New Science and Technology Park Primarily for Production of Functional Foods and Food for Special Medical Purposes	Fengxi, Shaanxi province	July 2021	First half of 2024	five million units of functional foods and food for special medical purposes	226.3
New Industrial Park Primarily for Production of Skin Rejuvenation Products and Biomedical Materials	Xi’an	June 2022	First half of 2024	100.1 million units of skin rejuvenation products and biomedical materials	576.6
New Production Workshop for Rare Ginsenosides	Xi’an	Second half of 2022	Second half of 2024	267,800 kg of rare ginsenosides	488.5
Expansion of Workshop for Functional Skincare Products	Xi’an	First half of 2025	Second half of 2026	34 million units of functional skincare products	156.5

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### QUALITY MANAGEMENT

Product quality is vital to our business, since any potential quality defect may cause significant risks to customers who applied or consumed our products. As such, we have instituted a comprehensive and stringent quality management system to ensure that we comply with applicable industry and national standards and regulations. We have obtained the cosmetics production license, medical device production license and food production license, and have strictly followed the relevant quality management standards to maintain the high quality of our products. In terms of disinfection products, we obtained a sanitation license for disinfection product manufacturers. We have also received accreditations for our production quality management, including ISO13485 medical devices quality management system, ISO22716 quality management system for skincare products and CFSAN skincare products quality management certifications from US FDA.

### Raw Materials

We have established a rigorous procurement and supply system and systematic procurement policies, with which we seek to ensure the integrity of our raw materials and packaging materials. We have developed an evaluation system to evaluate our raw material suppliers. We require them to provide their legal qualifications and product qualification certificates, and only purchase raw materials from qualified suppliers. Our technology department formulates internal control quality standards for raw materials, auxiliary materials and packaging materials, and our quality management department is responsible for the acceptance and inspection of the materials. We will immediately return defective goods to suppliers if we discover any products that do not conform to our internal requirements to prevent any defective goods from entering the process of manufacturing. In addition, we will impose penalties on the suppliers if the defects have any adverse impacts on our sales.

### Manufacturing

We have implemented comprehensive quality control procedures for our manufacturing activities. Our quality management personnel strictly monitor the process indicators for each manufacturing line and spot-check their implementation. In addition, our technology department is responsible for formulating internal control standards for finished products, semi-finished products and intermediate products according to approved product technical requirements, industry standards, and national standards. Our technology department also regularly conduct sample inspections to ensure the quality of the manufactured products.

### Equipment

We have designed a set of internal policies and procedures with respect to our equipment management. Our safety and environment protection department is responsible for formulating equipment maintenance plans, and conducting maintenance according to the plan to ensure that the equipment operates in the best condition. The quality management department, production department and safety and environmental protection department are required to regularly inspect the quality of production and public facilities, and verify the accuracy of our measuring instruments.

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### Warehousing

Our warehouse management personnel maintain detailed policies over warehouse management. We separate our warehouse into three segments: the finished product warehouse, the raw and auxiliary materials warehouse and the packaging material warehouse, each of which is equipped with the required lighting, ventilation, temperature and humidity. We store materials and products separately according to their properties and uses to prevent mix-up of materials and products to ensure their safety and quality.

### OUR CUSTOMERS

Our customers primarily include individual consumers, e-commerce platforms, hospitals, clinics, pharmacy chains, cosmetic store chains, supermarket chains as well as our distributors. Revenue generated from our largest customers for the years ended December 31, 2019, 2020 and 2021, accounted for 52.2%, 49.3% and 29.3%, respectively, of our total revenues during those periods. Revenue generated from our five largest customers for the years ended December 31, 2019, 2020 and 2021, accounted for 58.9%, 55.5% and 38.7%, respectively, of our total revenues during those periods.

The table below sets forth the details of our five largest customers for the periods indicated:

<u>Customer</u>	<u>Amount of revenue</u>	<u>% of total revenue</u>	<u>Customer type</u>	<u>Commencement of business relationship</u>
<i>(RMB'000)</i>				
<b><i>Year ended December 31, 2019</i></b>				
Xi'an Chuangkecun	499,274	52.2	Distributor	2015
Customer A	26,541	2.8	Distributor	2018
Customer B	15,096	1.6	Distributor	2018
Customer C	11,958	1.2	Distributor	2015
Customer D	10,484	1.1	Hospital	2018
<b>Total</b>	<b>563,353</b>	<b>58.9</b>		
<b><i>Year ended December 31, 2020</i></b>				
Xi'an Chuangkecun	586,939	49.3	Distributor	2015
Customer E	29,767	2.5	Distributor	2020
Customer F	20,259	1.7	Distributor	2019
Customer G	13,371	1.1	Distributor	2017
Customer C	10,955	0.9	Distributor	2015
<b>Total</b>	<b>661,291</b>	<b>55.5</b>		

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<b>Customer</b>	<b>Amount of revenue</b>	<b>% of total revenue</b>	<b>Customer type</b>	<b>Commencement of business relationship</b>
	<i>(RMB'000)</i>			
<b><i>Year ended December 31, 2021</i></b>				
Xi'an Chuangkecun	454,459	29.3	Distributor	2015
Customer E	63,116	4.1	Distributor	2020
Customer F	37,097	2.4	Distributor	2019
Customer H	24,943	1.6	Distributor	2020
Customer G	20,590	1.3	Distributor	2017
<b>Total</b>	<b>600,205</b>	<b>38.7</b>		

As of the Latest Practicable Date, none of our Directors, their associates or any of our shareholders (who owned or to the knowledge of Directors had owned more than 5% of our issued share capital) had any interest in any of our five largest customers.

### **Our Relationship with Xi'an Chuangkecun**

We commenced transacting with Xi'an Chuangkecun in 2015. Xi'an Chuangkecun purchase our skincare products and functional foods and sell the same through its own sales channels. Our Directors believe that there will not be any material adverse change in the relationship between our Group and Xi'an Chuangkecun in the future, as (i) we have maintained a well-established business relationship with Xi'an Chuangkecun since our cooperation, and Xi'an Chuangkecun made no breach to our cooperation agreements with it, and (ii) Xi'an Chuangkecun had an extensive customer base which is beneficial to our business.

For the years ended December 31, 2019, 2020 and 2021, Xi'an Chuangkecun was among our five largest customers. Our revenue derived from Xi'an Chuangkecun as a percentage of total revenue decreased from 52.2% for the year ended December 31, 2019 to 49.3% for the year ended December 31, 2020, and further significantly decreased to 29.3% for the year ended December 31, 2021.

Mr. Yan, our Co-founder, executive Director, chairman of the Board and chief executive officer, together with Shaanxi Giant Biotechnology, a subsidiary of the Company, were the only shareholders of Xi'an Chuangkecun at the time of its incorporation in 2015. Mr. Yan transferred all his equity interests in Xi'an Chuangkecun to Mr. Zhang Bing in September 2017. Mr. Zhang Bing, a shareholder of Xi'an Chuangkecun, was a director of Xi'an Giant Biogene from September 2009 to May 2020. Shaanxi Giant Biotechnology transferred all its equity interests in Xi'an Chuangkecun to Mr. Ma Xiaoxuan in September 2017. Mr. Ma Xiaoxuan, a shareholder, director and general manager of Xi'an Chuangkecun, was a general manager of Xi'an Giant Biogene and resigned from our Group in May 2019.

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We have entered into a standard distributorship agreement with Xi'an Chuangkecun. Our Directors are of the view that the transactions with Xi'an Chuangkecun during the Track Record Period and up to the Latest Practicable Date were conducted on normal commercial terms and the pricing policy adopted for such transactions as well as the contract terms we offered were comparable to those of the similar transactions with other major customers. The credit terms granted to Xi'an Chuangkecun range from seven to 30 days. During the Track Record Period, Xi'an Chuangkecun paid us via bank wire transfer.

We endeavor to diversify our customer base by expanding online sales channels as well as our distributor base. We have been enhancing our online marketing efforts to increase the proportion of our online direct sales, and will also improve our offline sales through various channels. We believe the revenue contribution from Xi'an Chuangkecun is expected to further decrease in terms of the percentage of our total revenue in the future. According to Frost & Sullivan, the size of the recombinant collagen-based product market in China was RMB10.8 billion in 2021, and is expected to surge from RMB18.5 billion in 2022 to RMB108.3 billion in 2027, at a CAGR of 42.4%. With the tailwind of a rapid growing market and our commitment to diversifying our customer base, we believe that we are well-positioned to reduce the customer concentration in the future.

### OUR SUPPLIERS

Our suppliers primarily include DTC store operating services providers, construction services providers, packaging materials suppliers and raw materials suppliers. Purchases from our largest supplier for the years ended December 31, 2019, 2020 and 2021, accounted for 9.3%, 7.2% and 4.6%, respectively, of our total purchase amount during those periods. Purchases from our five largest suppliers for the years ended December 31, 2019, 2020 and 2021 accounted for 29.2%, 20.5% and 15.8%, respectively, of our total purchase amount during those periods.

As of the Latest Practicable Date, none of our Directors, their associates or any of our shareholders (who owned or to the knowledge of the Directors had owned more than 5% of our issued share capital) had any interest in any of our five largest suppliers.

### RAW MATERIALS

During the Track Record Period, our marketed products primarily include functional skincare products, medical dressings and functional foods. The principal raw materials for our marketed products include in-house produced recombinant collagen and rare ginsenosides, as well as chemicals and natural ingredients we purchased from third parties.

We produce all recombinant collagen and rare ginsenoside used in our marketed products. The main raw materials for recombinant collagen are glucose, inorganic salts and yeast powder. The purchase price of such raw materials remained generally stable throughout the Track Record Period. The key raw materials for rare ginsenosides are raw ginsenosides which we purchase from reliable and experienced suppliers in China. The purchase price of the different types of raw ginsenoside have remained generally stable throughout the Track Record Period.

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We procure most of our other raw materials from well-known suppliers in China. During the Track Record Period and up to the Latest Practicable Date, we had not experienced significant difficulties in maintaining reliable sources of supplies and expect to be able to maintain adequate sources of quality supplies in the future. The purchase prices of raw materials for our medical dressings and skincare products, as well as functional foods are all based on market price. We check the prices with multiple suppliers and purchase from the suppliers with the most favorable terms. We also pay close attention to the market price and assess the risk of price fluctuations.

### INVENTORY MANAGEMENT

Our inventories consist of raw materials and finished goods. As of December 31, 2019, 2020 and 2021, we had inventories of RMB50.9 million, RMB64.7 million and RMB89.4 million, respectively. See “Financial Information – Discussion of Major Balance Sheet Items – Current Assets/Liabilities – Inventories.”

We typically maintain an inventory level of raw materials based on the customer orders, sales plan and logistics timeline. Our skincare products generally have a shelf life of two to three years, while both our medical dressings and our functional foods generally have a shelf life of two years. We maintain in-house warehousing facilities in Xi’an to meet the needs of our day-to-day operations. We have a dedicated warehouse management team, with three branches for packaging materials, raw materials and finished products, respectively. Our warehouse management team checks our inventory on a daily, monthly, quarterly and yearly basis, and, in addition to our regular inventory checks, also carry out supplementary inventory checks from time to time. We also regularly monitor our raw materials to check their expiry dates and re-inspect the raw materials three months before the expiry dates.

We have optimized our inventory management through the enterprise resources planning system to track the movement of our inventories. The system enables us to monitor inventory levels and view inventory reports on a real-time basis, which in turn helps us maintain optimal inventory levels and improve our efficiency. We have also adopted and implemented certain safekeeping measures such as fire prevention, theft prevention, moisture prevention, pest control and deterioration prevention. Furthermore, we strictly control the temperature and humidity of our warehouse and ensure the tidiness of our warehouse and its surroundings.

### DELIVERY AND LOGISTICS

We engage third-party logistic service providers in China for the delivery of our products. Under the direct sales model, we are typically responsible for shipping our products directly to our customers. Under the distributorship model, we typically deliver our products to distributors at their designated place of delivery, who subsequently deliver the products to their respective customers. We generally adopt the same shipping process when shipping to our direct sales customers and our distributors.

In selecting our logistic service providers, we primarily consider factors such as geographic coverage, reliability, customer evaluations, speed and costs of their delivery services. It typically takes three to four days from our customer’s submission of orders with us to the delivery to its designated address.



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### COMPETITION

We were the second-largest professional skin treatment product company measured by retail sales in China in 2021; the largest collagen-based professional skin treatment product company measured by retail sales in China in each of 2019, 2020 and 2021; the second-largest rare ginsenosides technology-based functional food company by retail sales in China in 2021 with a market share of 24.0%, according to Frost & Sullivan. Our *Collgene* (可麗金) and *Comfy* (可復美) were the third and the fourth best-selling professional skin treatment brand, respectively, in China in terms of retail sales in 2021, according to the same source.

We are competing with incumbent professional skin treatment product manufacturers and functional foods producers as well as new entrants. Some of them may have greater resources of capital, technology, brand equity, sales channels, R&D and marketing than we do, and may be able to develop more attractive products than ours. However, leveraging our market leadership positions, we believe that we are well-positioned to capture the significant growth opportunities in the bioactive ingredient-based beauty and health product market in China. See “Industry Overview” for more details of the competitive landscape of the industries that we are operating in.

### INTELLECTUAL PROPERTY

Intellectual property rights are fundamental to our business, and we devote significant time and resources to their development and protection. We rely on a combination of intellectual property registrations, contractual restrictions, and confidentiality procedures to establish and protect our proprietary technologies, know-how and other intellectual property rights. As of the Latest Practicable Date, we had registered 340 trademarks, 34 patents and 41 pending patent applications in China. For detailed information about our material intellectual property, see “Appendix IV – Statutory and General Information – B. Further Information about Our Business – 2. Intellectual Property Rights.”

We implement a set of comprehensive measures to protect our intellectual property, in addition to making trademark and patent registration applications. Key measures include: (i) establishing a dedicated intellectual properties legal task force to guide, manage, supervise and monitor our daily work regarding intellectual properties, (ii) applying for registration of our intellectual properties before we start our business, (iii) timely registration, filing and application for ownership of our intellectual properties, (iv) actively tracking the registration and authorization status of intellectual properties and take action in a timely manner if any potential conflicts with our intellectual properties are identified, (v) separating physical areas for technology development areas and business secrets protection areas which are only accessible with authorization under strict visiting rules, and (vi) clearly stating all rights and obligations regarding the ownership and protection of intellectual properties in all employment contracts and commercial contracts we enter into.

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In addition, we protect our know-how through timely registration of patents and confidentiality agreements and non-competition agreements with our employees. Despite our efforts, third parties may still obtain and misappropriate our intellectual property or our know-how without authorization. Unauthorized use of our intellectual property and know-how by third parties and the expenses incurred in protecting our intellectual property rights and know-how may adversely affect our business and the results of operations. For details of related risks, see "Risk Factors – Risks Relating to Our Business and Industry – 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."

We strive to ensure compliance with applicable intellectual property laws. Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, we were not involved in any intellectual property infringement actions brought by third parties that, individually or in the aggregate, would have a material and adverse effect on our business, result of operations and financial condition. See "Risk Factors – Risks Relating to Our Business and Industry – 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."

## DATA PRIVACY AND SECURITY

We implement internal policies to protect the security and confidentiality of personal information that we collect and store in the ordinary course of our business, including customers' social network identity information, address and contact information, which is used for account registration and product delivery, as well as the customers' purchase histories. We highly value the protection of the privacy and personal information of our customers, and also treat and process customers' personal information with high prudence. Such data are stored on our private cloud and sensitive information is desensitized if downloaded. We have not bought any personal data and prohibit anyone from selling such data.

In order to strengthen the management of our database, ensure the normal and effective operation of the database, and ensure the security of the database, we have designated database administrators to carry out the responsibilities of daily maintenance, authority control, security protection and other management of the database. Our IT director is responsible for the authorization and approval of database users. Our IT personnel report data security conditions to senior IT officers on a regular basis, and the senior IT officers report such conditions to the Board of Directors. When selecting cloud service providers, we take into account various factors including the grade of network security protection, the capabilities of preventing distributed denial of service (DDoS) and challenge collapsar (CC) attacks, the size of the Internet platform, as well as the industry norm for the desired protection level.

### Database Security Management

We have implemented strict database security management measures. We strictly prohibit anyone from leaking business data from the database. When business data is inquired, an application must be made to the technical director. Any physical access to the database is controlled. We keep every record of database user creation, deletion and change.

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Our database administrators check the security configuration of the database system and ensure that it meets the security configuration requirements. In addition, our database administrators are responsible for checking the log of the database system regularly to discover security problems timely. Our database administrators regularly check the system and eliminate existing loopholes in a timely manner.

We have developed a backup strategy for the database system and regularly back up the database system. Our database administrators are responsible for the backup of configuration parameters and related files of the database system. We have adopted various backup methods and strategies according to the system situation and backup content, including full backup, incremental backup, and differential backup.

Furthermore, we have taken multiple measures to prevent and deal with hacker attacks, including protection through both software and hardware such as hardware firewalls and traffic cleaning equipment, timely repair of server vulnerabilities, timely repair of code vulnerabilities such as structured query language (SQL) injection, and prevent cross-site scripting (XSS) attacks and arbitrary file uploads, and improving website application firewall configuration.

### LICENSES, PERMITS AND APPROVALS

Our PRC Legal Advisors have advised that we had obtained all licenses, permits, and certificates necessary to conduct our operations in all material respects from the relevant government authorities in China, and such licenses, permits, and approvals remained in effect as of the Latest Practicable Date.

The following table sets out a list of material licenses, permits, and approvals currently held by us.

<u>License/Permit</u>	<u>Holder</u>	<u>Expiry date</u>
Cosmetics Manufacturing Certificate (化妝品生產許可證)	Xi'an Giant Biogene	October 17, 2026
Medical Device Manufacturing Certificate (醫療器械生產許可證)	Shaanxi Giant Biotechnology	December 20, 2025
Class I Medical Device Manufacturing Registration Certificate (第一類醫療器械生產備案)	Shaanxi Giant Biotechnology	N/A
Class II Medical Device Business Registration Certificate (第二類醫療器械經營備案)	Shaanxi Giant Biotechnology	N/A
Class II Medical Device Business Registration Certificate (第二類醫療器械經營備案)	Xi'an Giant Biogene	N/A

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License/Permit	Holder	Expiry date
Internet Sales of Medical Devices Registration Certificate (醫療器械網絡銷售備案)	Shaanxi Giant Biotechnology	N/A
Internet Sales of Medical Devices Registration Certificate (醫療器械網絡銷售備案)	Xi’an Giant Biogene	N/A
Qualification Certificate for Drug Information Services on the Internet (互聯網藥品信息服務資格證書)	Shaanxi Giant Biotechnology	August 14, 2023
Domestic Functional Food Registration Certificate (國產保健食品備案)	Xi’an Giant Biogene	N/A
Food Production License (食品生產許可證)	Xi’an Giant Biogene	January 7, 2024
Food Business License (for prepackaged foods and functional foods) (食品經營許可證)(預包裝食品、保健食品)	Xi’an Giant Biogene	July 12, 2026
Food Business License (for hot foods) (食品經營許可證)(熱食類食品)	Xi’an Giant Biogene	July 29, 2024
Food Business License (for prepackaged foods and functional foods) (食品經營許可證)(預包裝食品、保健食品)	Shaanxi Giant Biotechnology	June 12, 2022
Food Business License (for prepackaged foods and functional foods) (食品經營許可證)(預包裝食品、保健食品)	Shaanxi Giant Teyi	January 6, 2024

Xi’an Giant Biogene has independently developed the product formula, product technology, manufacturing process with respect to Shengan Capsule in 2011 (collectively referred to as the “**Shengan Capsule Technology**”). Xi’an Giant Biogene transferred the Shengan Capsule Technology to Xi’an Jinniu Biological Engineering Co., Ltd. (the “**Xi’an Jinniu**”), an Independent Third Party, free of charge. Xi’an Jinniu exclusively entrusted Xi’an Giant Biogene to manufacture and sell Shengan Capsule after Xi’an Jinniu had obtained the functional food approval. Since then, Xi’an Giant Biogene have born all the costs and have

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retained all the income in relation to the manufacture and sales of Shengan Capsule. In April 2022, we have entered into agreement with Xi'an Jinniu, pursuant to which Xi'an Jinniu agreed to transfer the Shengan Capsule Technology to us free of charge and acknowledged that the ownership and the economic interests of Shengan Capsule belong to our Group. We have also submitted the application for the new functional food approval which has been accepted by the government authority in April 2022.

Our PRC Legal Advisors conducted an interview with the relevant government authority in April 2022 and was advised and confirmed that: (i) the arrangements of manufacture and sales of Shengan Capsule between Xi'an Jinniu and us after Xi'an Jinniu obtained the functional food approval does not violate the applicable laws and regulations in China; (ii) our Group can continue to manufacture and sell Shengan Capsule before we obtain the new functional food approval for Shengan Capsule with no violation of the applicable laws and regulations in China; and (iii) our Group has not been and would not be imposed any administrative penalties under the current arrangement of the manufacture and sales of Shengan Capsule.

## EMPLOYEES

As of December 31, 2021, we had 669 employees, the majority of whom were based in Xi'an, Shaanxi. The following table sets forth the number of our employees by function as of December 31, 2021.

<b>Function</b>	<b>Number of employees</b>	<b>% of Total</b>
R&D	84	12.6
Manufacturing	256	38.3
Sales and marketing	175	26.1
Administration	154	23.0
<b>Total</b>	<b>669</b>	<b>100.0</b>

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Our success depends on our ability to attract, retain and motivate qualified personnel. We recruit new employees through campus recruiting and experienced recruiting. We also engage third-party recruiters to reach candidates with an education background in biology, chemistry and other relevant subjects and R&D working experiences in medical or cosmetics companies for our R&D team. We evaluate each candidate based on their educational background, professional knowledge, necessary skills, interview performance, relevant experience, and professional ethics. As part of our human resources strategy, we offer employees competitive salaries, performance-based cash bonuses and other incentives. We have adopted a comprehensive training protocol, pursuant to which we provide pre-employment training to our new employees and internal transfer employees, and regular continuing technical training to our employees. We also provide necessary to employees who are responsible for quality controls to ensure that they are competent for their work.

Our employees have formed employee unions. We believe we maintain a good working relationship with our employees, and we have not experienced any material labor dispute or any difficulty in recruiting staff for our operations during the Track Record Period and up to the Latest Practicable Date.

As required under PRC regulations, we participate in various employee social security plans that are organized by applicable local municipal and provincial governments, including housing, pension, medical, work-related injury, maternity, and unemployment benefit plans. We enter into employment contracts and agreements regarding confidentiality, intellectual property, and non-competition with our executive officers, managers, and employees.

During the Track Record Period and as of 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. See "Risk Factors – Risks Relating to Our Business and Industry – 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."

Our Directors believe that such an incident would not have a material adverse effect on our business or results of operations, considering that: (i) we had not been subject to any administrative actions, fines or penalties during the Track Record Period and up to the Latest Practicable Date due to such incident; (ii) as of the Latest Practicable Date, we had not received any notification from the relevant PRC authorities requiring us to register the accounts of social insurance and housing provident fund, pay for the shortfalls or any overdue charges with respect to social insurance and housing funds; (iii) we were neither aware of any employee complaints filed against us nor involved in any labor disputes with our employees with respect to social insurance and housing funds during the Track Record Period and up to the Latest

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Practicable Date; (iv) we will register the accounts of social insurance and housing provident fund, make full contributions or pay any shortfall and overdue charges within a prescribed time period if demanded by the relevant government authorities; and (v) we have made financial provision for the shortfalls and any overdue charges with respect to social insurance and housing funds. As advised by our Legal Advisors, considering the aforementioned circumstances, the risk that we would be subject to material administrative penalties by relevant authorities is relatively low. 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.

We have enhanced our internal control measures. We have designated our human resources department to review and monitor the requirements for the registration of social insurance accounts and housing funds accounts, and the reporting and contributions of social insurance and housing provident fund. We will consult our PRC legal counsel on a regular basis for advice on relevant PRC laws and regulations to keep us abreast of relevant regulatory developments.

## PROPERTIES

Our corporate headquarters is located in Xi'an, Shaanxi. As of the Latest Practicable Date, we owned land use rights of six parcels of land in the PRC with land use right certificates, with an aggregate area of approximately 126,372 sq.m., which were primarily used as our manufacturing facilities. As of the Latest Practicable Date, among the six parcels of land we owned, three parcels, with an aggregate site area of approximately 66,017 sq.m., have buildings under construction. See "– Manufacturing – Expansion Plans."

In 2021, we began the construction of our new science and technology park primarily for production of functional foods and foods for special medical purposes on a parcel of land with an aggregate area of approximately 22,612 sq.m. in Xi'an without first obtaining the construction permit as required by applicable laws and regulations. We have suspended our construction activities on this parcel of land. As advised by our PRC Legal Advisors, according to the applicable laws and regulations, we may be subject to a fine amounting to 1% to 2% of the value of the construction contract. As of the Latest Practicable Date, we had not received any penalties from the competent government authority, and we were under the process of applying for the requisite construction permit.

As of the Latest Practicable Date, we owned two buildings in the PRC with building ownership certificates, with a total gross floor area of approximately 33,411 sq.m. in the PRC, used primarily as manufacturing facilities.



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As of December 31, 2021, none of the properties held by us had a carrying amount of 15% or more of our consolidated total assets. According to Chapter 5 of the Hong Kong Listing Rules and section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this document is exempt from the requirements of section 342(1)(b) of the Companies (Winding up and Miscellaneous Provisions) Ordinance to include all interests in land or buildings in a valuation report as described under paragraph 34(2) of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance.

## INSURANCE

We consider our insurance coverage to be adequate as we have in place all the mandatory insurance policies required by PRC laws and regulations and in accordance with the commercial practices in our industry, including social security for our employees and commercial and compulsory traffic insurance for our vehicles. We maintain food safety liability insurance to protect against the risks in relation to our functional foods. We also purchased safety liability insurance for our production personnel. However, in line with general market practice, we do not maintain any business interruption insurance or product liability insurance, which is not mandatory under PRC laws. We do not maintain keyman life insurance or insurance policies covering damages to our technical infrastructure. During the Track Record Period, we have not made or been the subject of any material insurance claims. Any uninsured occurrence of business disruption, litigation or natural disaster, or significant damages to our uninsured equipment or facilities could have a material adverse effect on our results of operations. See "Risk Factors – Risks Relating to Our Business and Industry – Our insurance coverage may be inadequate to protect us from the liabilities we may incur."

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### AWARDS AND RECOGNITION

We received recognition for the quality and popularity of our business. The following table sets forth some significant awards and recognition related to our Group and our intellectual properties:

<u>Award Year</u>	<u>Award/Certificate</u>	<u>Issuing Organization</u>
<i>National level</i>		
2021	First entity settled in the base of science and technology innovation and transformation (首家入駐科創與轉化基地)	National Clinical Research Center for Dermatologic and Immunologic Diseases
2016	China Patent Gold Award (中國專利獎金獎)	PRC State Intellectual Property Office and World Intellectual Property Organization
2016	China Petroleum and Chemical Industry Federation Award for Technological Invention (中國石油和化工聯合會技術發明獎)	China Petroleum and Chemical Industry Federation
2013	The Second Prize of National Technology Invention Award, 1st Completer (Creation and Application of Human-like Collagen Biomaterials) (類人膠原蛋白生物材料的創製及應用, 國家技術發明獎二等獎)	State Council
<i>Provincial or Municipal level</i>		
2021	First Prize, Shaanxi Province Science and Technology (陝西省科學技術一等獎)	Shaanxi Provincial Department of Science and Technology
2021	Key & Core Technological Innovation Demonstration Entity (2020年度硬科技創新示範單位)	Administrative Commission of Xi’an Hi-tech Industries Development Zone
2021	Industrial Boutique in Shaanxi (陝西省工業精品) (for <i>Collgene</i> Human-like Collagen Safety Repair Spray)	Industry and Information Technology Department of Shaanxi Province
2021	National Key & Core Technology Star Enterprise (全國硬科技企業之星)	Administrative Commission of Xi’an Hi-tech Industries Development Zone
2021, 2020, 2019, 2018 2020	Top 100 Private Enterprises in Xi’an (西安市民營企業100強) Excellent Enterprise of Advanced Manufacturing Industry for the Year of 2019 (2019年度先進製造業優秀企業)	Xi’an Federation of Industry and Commerce Administrative Commission of Xi’an Hi-tech Industries Development Zone

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<b>Award Year</b>	<b>Award/Certificate</b>	<b>Issuing Organization</b>
2020, 2017	High-tech Enterprises (高新技術企業)	Department of science and technology of Shaanxi Province, Department of Finance of Shaanxi Province, State Taxation Administration of Shaanxi Taxation Bureau, Local Tax Bureau of Shaanxi Province
2020	Outstanding New Product of Shaanxi Province (陝西省優秀新產品)	Industry and Information Technology Department of Shaanxi Province
2019	High-quality Development Star Enterprise for the Year of 2018 (2018年度高質量發展明星企業)	Administrative Commission of Xi'an Hi-tech Industries Development Zone
2018, 2012	First Prize, Shaanxi Province Science and Technology (陝西省科學技術一等獎)	Shaanxi Provincial People's Government
2017, 2009	First Prize, Shaanxi Province Science and Technology for Colleges (陝西省高等學校科學技術一等獎)	Shaanxi Provincial Department of Education
2016	First Prize, Xi'an Science and Technology (西安市科學技術一等獎)	Xi'an Municipal People's Government
2015	"Specialized and New" Medium and Small-sized Enterprise of Shaanxi Province (陝西省"專精特新"中小企業)	Shaanxi Medium and Small-sized Enterprises Promotion Bureau
2013	Private Technological Enterprise of Shaanxi Province (陝西省民營科技企業)	Shaanxi Provincial Department of Science and Technology

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### LEGAL PROCEEDINGS AND COMPLIANCE

#### Legal Proceedings

From time to time, we may become involved in legal proceedings in the ordinary course of our business. During the Track Record Period and up to the Latest Practicable Date, we had not been and were not a party to any material legal, arbitral or administrative proceedings, and we were not aware of any pending or threatened legal, arbitral or administrative proceedings against us or our Directors that could, individually or in the aggregate, have a material adverse effect on our business, financial condition, and results of operations.

#### Compliance

We are subject to various regulatory requirements and guidelines issued by the regulatory authorities in China. During the Track Record Period and up to the Latest Practicable Date, we did not experience any noncompliance incident, which taken as a whole, in the opinion of our Directors, is likely to have a material and adverse effect on our business, financial condition or results of operations.

### ENVIRONMENTAL, SAFETY, HEALTH AND SOCIAL MATTERS

We are subject to various health, safety, social and environmental laws and regulations and our operations are regularly inspected by local government authorities. In order to ensure compliance with the relevant environmental and social laws and regulations in the PRC, we have various governance measures in place to oversee the implementation of environmental, social and governance (“ESG”) related policies, which are set forth in our standard operating procedures.

Our Directors consider that establishing and implementing sound ESG principles and practices will increase the investment value of our Company and provide a long-term return to our stakeholders. We have governance measures in place to monitor and collect ESG-related data for preparing disclosure in compliance with requirements of the Environmental, Social and Governance Reporting Guide (“**ESG Reporting Guide**”) in Appendix 27 to the Listing Rules, upon the [REDACTED] and when appropriate. To ensure the effectiveness of our ESG risk management measures and respective internal control systems, our Board is responsible for overseeing the formulation and reporting of our ESG strategies and determining the ESG-related risks. In addition, we intend to, among others, identify the material ESG areas, discuss with our key shareholders the material ESG areas identified and discuss among our management to ensure all material ESG areas which are important to our business development are reported and comply with the recommendation of the ESG Reporting Guide.

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Our Board has the overall responsibility for ensuring an effective risk management and internal control mechanism and for reviewing its effectiveness to safeguard our assets and our Shareholders' interests. Upon the [REDACTED] and when appropriate, the enterprise risk assessment will be conducted at least once annually to cover the current and potential risks in our business, including but not limited to the risks arising from ESG and climate-related matters. Our Board will continuously assess or engage qualified independent third parties to evaluate the risks and review our existing strategy, metrics and targets as well as internal controls, and necessary improvement measures will be implemented to manage and mitigate such risks.

### **Environmental Matters**

We endeavor to minimize any adverse impact on the environment resulting from our business activities. During the Track Record Period and up to the Latest Practicable Date, we have been in compliance with environmental laws and regulations applicable to our operations in all material respects and there had been no material claim or penalty imposed on us as a result of a violation of environmental laws and regulations that would materially and adversely affect our business, financial condition or results of operations.

To ensure our production is compliant with applicable environmental protection laws and regulations, we have assigned various departments the duty of environmental protection implementation and management, such as closely monitoring the change of local environmental laws and regulations and updating relevant internal production requirements accordingly, regularly monitoring and keeping track of the resources consumptions and environmental risks and impacts during the production process, and enhancing our employees' environmental protection awareness by education and training.

### ***Emissions***

The major emissions produced in our business activities include production and domestic wastewater, as well as exhaust gases. For the year ended December 31, 2021, we emitted approximately 8,900 cubic meters of wastewater.

In order to comply with the relevant environmental laws and regulations, we have adopted various measures to manage our emissions. We have established a special wastewater processing system to make sure that the processed water meets the governmental emission requirement. We also have utilized purifiers to break down the volatile organic compounds in the exhaust gases. Furthermore, to prevent the spread of bacteria and microorganisms during fermentation, we place filters at both the intake and exhaust ports of the fermentation tank which is sealed, and take bacteria inactivation measures before discharging fermentation waste liquid.

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### *Use of Energy and Water*

Our resource consumption principally comprises gas consumption, energy consumption and water consumption to support our business operations, including production facilities, warehouses and offices. For the year ended December 31, 2021, we consumed approximately 252,532 cubic meters of gas with an intensity of approximately 163 cubic meters per RMB million revenue, and approximately 3,686,250 kWh of electricity with an intensity of approximately 2,374 kWh per RMB million revenue. We also consumed approximately 55,361 cubic meters of water, with an intensity of approximately 36 cubic meters per RMB million revenue. We will make continuous efforts in working toward the target of reducing the level of our average annual energy consumption and water consumption per revenue over the next three years.

### *Climate-related Risks*

Potential physical risks can arise from extreme weather events such as flooding and typhoons. Our assets may be subject to the risk of flooding that could result in direct damage to our assets. We have backed up our information and data by storing them in a server-based storage system, which in turn minimizes the potential impact of disruptive climate events and their potential impact on our business.

We have established and put in place various measures to mitigate and manage the risks from environmental, social and climate-related issues. We will conduct an enterprise risk assessment at least once a year to cover the current and potential risks that arose in our business including, but not limited to, the risks arising from the ESG aspects and strategic risks around disruptive forces such as climate change. Our Board will assess or engage qualified independent third parties to evaluate the risks and review our existing strategy, targets and internal control, and necessary improvements will be implemented to mitigate such risks.

### **Health and Work Safety**

Our safety production management team consists of multiple departments and persons in charge across our Group. We have incorporated into our employee handbooks certain safety guidelines where, for instance, accidents arise. And strict compliance with the handbook is compulsory. We have arranged occupational health examinations for new employees. Each of our employees also signed a safety production responsibility letter to get familiar with their safety production responsibilities. We have also conducted company-level, department-level and team-level safety production training and helped our employees to obtain knowledge of relevant laws and regulations as well as our safety rules. We encourage our employees to get familiar with our safety evacuation exits and obtain the basic knowledge of fire safety and safety operation rules and organize emergency practice drills on a regular basis.

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We have developed occupational health monitoring files, distributed protective equipment for employees involved in occupational hazard factors and supervised their use of such equipment. We check our equipment on a regular basis to ensure that they are in a safe condition. In November 2020, we completed a danger investigation and carried out a risk assessment. We also carry out regular and special safety inspections to prevent safety accidents.

In the event of an accident, we will investigate the accident, prepare a report to the management and take corrective actions effectively. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any significant incidents or accidents in relation to workers’ safety.

### **Social Responsibilities**

We are committed to contributing to various charitable causes, with a special focus on hospitals in which we can leverage our resources and expertise. For instance, since 2018, we have made several donations in cash and household goods in Shaanxi to support poverty alleviation activities. On May 25, 2020, the national skincare day, we, together with the Dermatologist Branch of the PRC Medical Doctor Association, held a public welfare event by arranging free clinics with face-to-face and one-on-one consultations, in more than 550 public hospitals across the country. As part of the public welfare event, we also gifted participants products under *Collgene*, *Comfy* and *Keyu*.

In March 2022, we donated our products worth RMB5.7 million to people working for the prevention and control of the COVID-19 pandemic in Shaanxi to help them solve skin issues that resulted from the extended use of face masks and protective clothing.

We truly appreciate the services of our employees, and care about their well-being. To that end, we offer employee benefits such as housing allowances, vehicle allowances, cultural and social events, and holiday and birthday gifts.

### **RISK MANAGEMENT AND INTERNAL CONTROL**

#### **Risk Management**

We are exposed to various risks during our operation. Key operational risks faced by us include, among others, changes in the regulatory environment in China, our ability to offer quality products, safe production, and competition from other market players. See “Risk Factors.” In addition, we face numerous market risks, such as interest rate, credit and liquidity risks that arise in the normal course of our business. See “Financial Information – Disclosures about Financial Risks.”



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In order to address these risks, we have established, and currently maintain, risk management and internal control systems consisting of policies and procedures that we consider appropriate for our business operations. We are dedicated to continually improving these systems.

From an operational standpoint, we continually identify and evaluate risks relating to our operations, such as the risk to our plants, general operational layout, transportation, buildings, production technology, logistics, main equipment, operating environment, quality management, safety management, and all personnel who enter into our plants, and to formulate our risk control measures accordingly. We also have various methods to identify our major potential hazards, including, but not limited to, events that may occur during the course of our routine activities, such as potential hazardous events during normal business operations, production and service activities; unforeseeable accidents, such as power outages, water outages, shutdowns, maintenance; activities relating to personnel entering the workplace; and infrastructures at the workplace, such as buildings, production equipment, raw materials and other leased infrastructure.

Our analysis methods include work safety analysis, field experience analysis, a safety checklist and exposure likelihood and consequences analysis. Our personnel are responsible for identifying as many actual and potential risk factors as possible through on-site observation and collected data, including, but not limited to, unsafe behaviors, unsafe state of the object, management defects and the impacts from the environment.

Our administrative department is responsible for evaluating the risks to determine the severity and likelihood, and preparing the lists of major risk factors, which is reviewed by the technology department and approved by the representatives of managers. We conduct identification and evaluation of risk factors and review the effectiveness of identification, risk evaluation and control measures once a year to improve the relevant risk management system. Our departments also consider whether to include establishing occupational health and safety goals and indicators into the KPIs for our management from time to time depending on the situation, such as the need to implement or replace certain major risks.

We generally update the risk evaluation and corresponding control measures according to the development of production, operations and management. We timely update those measures in terms of changes such as occupational health and safety policy, laws, regulations, standards and related requirements, requirements for internal audit, external audit, and management review, and raw and auxiliary materials.

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### Internal Control

We have designated responsible personnel in our Group to monitor our ongoing compliance by us with the relevant PRC laws and regulations that govern our business operations and oversee the implementation of any necessary measures. In addition, we plan to provide our Directors, senior management and relevant employees with continuous training programs and/or updates regarding the relevant PRC laws and regulations on a regular basis with a view to proactively identify any concerns and issues relating to any potential non-compliance.

We have adopted a set of internal rules and policies governing the conduct of our employees. We have placed anti-bribery and anti-corruption clauses in our employees’ handbooks to ensure that our employees comply with our internal rules and policies as well as the applicable laws and regulations. We also include anti-bribery and anti-corruption clauses in our business contracts, confidential and non-competition agreements with our Directors and senior management, key technology personnel, and other key personnel.

We offer onboard training to our new employees and continuing training to our existing employees to enhance their knowledge and awareness of the relevant policies and regulations. We also discuss the latest regulatory requirements in China.

In addition, we have established an audit committee to review and supervise the financial reporting process and internal control system, as well as a corporate governance committee which is dedicated to ensuring the adequacy and effectiveness of regulatory compliance procedures and internal control system. See “Directors and Senior Management” for the qualifications and experience of these committee members as well as a detailed description of the responsibility of our audit committee and corporate governance committee.