In addition to other information in this document, you should carefully consider the following risk factors before making any investment decision in relation to our Shares. Any of the following risks may materially and adversely affect our business, financial condition or results of operations, or otherwise cause a decrease in the trading price of our Shares and cause you to lose part or all of the value of your investment in our Shares.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Our business and future growth prospects rely on consumer demand for our products. Any shift in consumer demand, or any unexpected situation with a negative impact on consumer demand, may materially and adversely affect our business and results of operations.

We operate in an industry that is subject to rapid and unpredictable changes in consumer demand and trends. Our success depends on our ability to identify and respond to constantly shifting consumer demand and trends, develop new and appealing products on a timely basis, and achieve acceptance of such new products by customers.

In particular, we depend on, to a significant extent, continued consumer demand for skincare products and we cannot assure you that consumers will continue to demand such products. If we fail to anticipate and respond appropriately to changing consumer trends and preferences, or if consumer preferences shift away from our products, our brands, results of operations and financial condition may be materially and adversely affected.

Moreover, the choices and preferences of consumers may be influenced by new products that appear in the market. Accordingly, we have been continuously improving the quality, brand awareness and packaging of our existing products, as well as developing, launching and promoting new products to maintain our competitiveness. To support our product upgrade and expansion plans, we need to devote significant resources to researching and developing our products, and recruiting production and marketing professionals that are appropriate for our products. Moreover, we need to explore greater financial, technical or marketing resources to earn greater brand recognition and acquire larger customer bases. All these tasks involve risks, and require substantial planning, effective execution and significant expenditures. We rely on big data analytics and market surveys to anticipate changes and trends in consumer demand and adjust our product mix accordingly. If we misjudge consumer demand, we may incur development, production and marketing costs which we are not able to recover, and our business and results of operations may be adversely affected.

Our business depends on market recognition of our brands. Any damage to our reputation or brands may materially and adversely affect our business, financial condition and results of operations.

We currently derive a large portion of our revenue from our core brands, namely *KANS*, *One Leaf* and *Baby Elephant*. During the Track Record Period, the revenue from sales of *KANS*, *One Leaf* and *Baby Elephant* accounted for 86.6%, 91.8%, 92.2% and 93.0% of our total revenue, respectively. Our continued success and growth therefore depend significantly on our ability to protect and promote, in our existing markets and new markets we intend to enter into, our core brands. Promoting and defending our brands also depend, in part, on securing the cooperation of retailers and distributors and controlling the distribution of our products through our sales channels. If we fail to successfully promote our core brands or to protect and enhance our core brands' identity, or if we fail to launch or operate new brands or fail to protect our brands and brand position, or if we fail to properly supervise the distribution or use of our products by third-party distributors, or if such third-party distributors fail to comply with our policies, the market recognition of our core brands may deteriorate, we may not be able to sell our products at acceptable prices and/or volumes, and, as a result, our results of operations may be adversely affected. Further, we face an inherent business risk of exposure to product liability claims in the event that the use of our products results, or is alleged to result, in undesirable side effects, health or safety issues or damage. If we experience any material product recalls of our products, the reputation of our core brands may suffer damage. We maintain insurance to cover financial loss we may sustain as a result of product liability claims; however, a successful product liability claim against us could cause a deterioration of our core brands, and could be in excess of our available insurance coverage and established reserves, result in legal costs incurred in connection with such claim or other adverse allegations and costs incurred in connection with a product recall campaign or in rectifying any product defects, any of which could have an adverse effect on our business, financial condition and results of operations.

Failure to compete effectively may materially and adversely affect our business, financial condition, results of operations and prospects.

The cosmetics industry is highly competitive and is characterized by consumers' focus on quality and function and frequent introduction of new products. We face strong competition from our existing competitors as well as new industry entrants, including domestic and international manufacturers of skincare products. Some of these manufacturers are large-scale domestic players or multi-national conglomerates with ample business resources, financial resources and/or proven track records in developing and marketing skincare products. We compete on the basis of brand awareness, product development, sales and distribution network, quality and marketing, as well as our ability to tailor our products to consumer preferences and market trends.

Many multinational consumer companies have greater financial, technical or marketing resources, longer operating histories, greater brand recognition or larger customer bases than we do, and may be able to respond more effectively to changing business and economic conditions than we can. In addition, it is difficult for us to accurately predict the timing and scale of our competitors' activities or whether new competitors will emerge in the cosmetics industry. Moreover, further technological breakthroughs, including new and enhanced technologies which increase competition in the online retail market, new product offerings by competitors and the strength and success of our competitors' marketing programs may impede our growth and the implementation of our business strategy.

Our ability to compete also depends on the continued strength of our brands and products, the success of our marketing, innovation and execution strategies, the continued diversity of our product offerings, the successful management of new brand and product introductions and innovations, strong operational execution, including order fulfillment, and our success in entering new markets and expanding our business in existing geographies. In order to compete effectively, we may need to increase our marketing expenses from time to time, which may materially and adversely affect our financial condition and results of operations. If we are unable to maintain our competitive advantages and compete successfully against our competitors and any new industry entrant in the future, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Our business and operations may be materially and adversely affected by natural disasters, health epidemics and pandemics. In particular, the COVID-19 outbreak in China and worldwide has adversely affected, and may continue to adversely affect the economy in China, which in turn may have a material adverse impact on our business and operations.

Our business could be materially and adversely affected by natural disasters, such as snowstorms, earthquakes, fires or floods, the outbreaks of widespread health epidemics, or other events, such as wars, acts of terrorism, environmental accidents, power shortage or communication interruptions. Outbreaks of contagious diseases and other adverse public health developments in China or any other market in which we operate and conduct business could severely damage our supply chain operation, or impair the productivity of our workforce. The outbreak of any severe epidemic disease, such as avian flu, H1N1 flu, SARS or the COVID-19, may disrupt our business operations such as offline sales channels, which could negatively affect our financial condition, results of operations, supply chain management and future prospects.

While COVID-19 has begun to show signs of stabilizing in certain areas of China, the downturn brought by and the duration of the COVID-19 outbreak is difficult to assess or predict and the full impact of the COVID-19 outbreak on our operations will depend on many factors beyond our control. Our business operation and financial results have been materially and adversely affected by the COVID-19 outbreak. Please see "Financial Information – The Impact of Covid-19 Outbreak." Our business, results of operations, financial condition and future prospects may continue to be materially adversely affected to the extent that COVID-19 harms Chinese and global economy in general. Our business operations could be disrupted if any of our employees is suspected of contracting COVID-19, since our employees could be quarantined and/or our offices may be shut down for disinfection. In addition, we may experience inventory shortage if our suppliers of raw materials are affected by COVID-19. Besides, customer demand for our products may decline due to the COVID-19 outbreak. The extent to which the COVID-19 outbreak may impact our business, results of operations and financial condition remains uncertain, and we are closely monitoring its impact on us.

Our sales and marketing strategies may not be able to adapt to market changes, which could harm our business, financial condition and results of operations.

The success of our business and operations depends on our ability to continuously offer quality products that are attractive to consumers. The cosmetics industry is driven in part by technologies, fashion and beauty trends, and consumer preferences and behavior, which may shift quickly and have been heavily affected by the rapidly increasing use and proliferation of social and digital media by consumers, and the speed with which information and opinions are shared. As technologies, industry trends and consumers' preferences and behavior continue to change, we must also continually work to develop, produce and market new products, maintain and enhance the recognition of our brands, achieve a favorable mix of products and refine our approach as to how and where we market and sell our products. Our success depends on our products' appeal to a broad range of consumers whose preferences and behavior cannot be predicted with certainty and may change rapidly, and on our ability to anticipate and respond in a timely and cost-effective manner to industry trends and consumer preferences and behavior through product innovations, product line extensions and marketing and promotional activities, among other things. Drawing on our deep engagement with our customers and our advanced big data analytics, we have been able to anticipate and react to industry trends and consumer preferences and behavior in an effective and efficient manner; however, we cannot assure you that we will be able to successfully anticipate and respond to consumer preferences and behavior at all times, especially as we continue to broaden our customer base and diversify our product offerings aimed at customers with differing characteristics. In addition, our sales and marketing strategies may not be applicable to new brands that we may launch in the future. In such events, we may need to implement new sales and marketing strategies, which may not be effective. If our sales and marketing strategies are unable to accurately anticipate and respond to market changes and consumer preferences and behaviors, we may fail to continuously develop products with wide market acceptance, capture emerging growth opportunities, adopt competitive sales strategies for our existing products, or properly predict and manage our inventory. Such failure could also negatively impact our brand image and result in diminished customer experience and brand loyalty. Any of these occurrences could materially and adversely affect our business, financial condition and results of operations.

Our marketing activities may not be cost-effective in attracting consumers, which may in turn adversely affect our results of operations.

As a part of our strategies, we have invested, and will continue to invest, a large amount of financial and other resources in promoting our brand awareness and acquiring customers, including expanding our marketing and sales teams, strengthening KOL marketing and purchasing advertisements. In 2019, 2020, 2021 and the six months ended June 30, 2022, we incurred RMB1,324.9 million, RMB1,535.8 million, RMB1,572.3 million and RMB607.9 million in selling and distribution expenses, respectively, accounting for 46.1%, 45.4%, 43.4% and 48.2% of our total revenue, respectively. Our marketing and branding activities may not be well received, successful or cost-effective, which may lead to significantly higher marketing expenses in the future. We may also not be able to continue our existing marketing and branding activities, or successfully identify and utilize new trends in marketing strategies, channels and approaches that appeal to or fit into the lifestyle of our targeted customers. We may also fail to adjust our sales and marketing strategies fast enough to stay current with consumers' behavioral changes in using internet and mobile devices. Failure to refine our existing marketing strategies or introduce new effective marketing strategies in a cost-effective manner could negatively impact our business, results of operations and financial condition.

During the Track Record Period, we engaged a number of KOLs to promote our products, which is in line with the industry norm as confirmed by Frost & Sullivan. Revenue generated from our top five KOLs for 2019, 2020, 2021 and the six months ended June 30, 2022 accounted for 1.8%, 6.4%, 10.3% and 5.9%, respectively, of our total revenues during those periods. However, we cannot guarantee you that we will be able to find suitable KOLs or continue to maintain our business relationships with our existing KOLs to promote our products. We also cannot guarantee you that our marketing strategy in relation to KOLs will be successful or effective in the future as the industry may be affected by factors such as tightening regulations or alternative promotion methods that are beyond our control.

Any quality issues related to our products or the cosmetics industry could result in a loss of customers and sales and, if related to our products, may subject us to product liability claims.

The success of our business depends on our ability to consistently deliver products with high quality and reliability. Maintaining consistent product quality depends significantly on the effectiveness of our quality control systems, which in turn depends on a number of factors, including the design of our quality control systems and our ability to ensure that our employees and other third parties involved in our operations adhere to those quality control policies and guidelines. Although we implement certain quality control standards and measures throughout our entire manufacturing process (see "Business – Product Safety and Quality Control"), we cannot assure you that our quality control systems will prove to be effective at all times, or that we will be able to identify any defects in our quality control systems in a timely manner. If the quality of any of our products deteriorates for any reason, or if consumers do not perceive our products to be effective as they claim to be, we may be faced with returns or cancellations of orders and customer complaints. Even though there have been no quality issues related to our products, allergic reactions or undesirable or unexpected outcomes may occur. In the event that such incidents occur, we may be subject to negative publicity, which could lead to potential loss of consumer confidence. Additionally, our products, like most skincare products, contain a number of ingredients, some of which or the combination of which may have actual or perceived unknown adverse effects on the environment or human health. As a result, there may be, from time to time, complaints or concerns among consumers about certain of our products, or certain cosmetic products in general, which in turn could jeopardize customers' confidence in our products.

Moreover, if any defect or adverse effect of our products or certain skincare or personal care products in general results in property damage or personal injury, we may suffer from product liability claims or product recalls, resulting in financial and reputational damages. These legal claims may be expensive for us to defend even if we prevail in the end. Although we have purchased product liability insurance, we cannot assure you that such insurance covers all risks and compensations. See "Business – Insurance." Furthermore, if there is a pattern of quality issues in the cosmetics industry in general, consumers' perception of, and willingness to purchase, our products may also be negatively affected, regardless of whether such quality issues relate to us. Any quality issues related to our products or the household care industry, actual or perceived, may have a material and adverse effect on our business, financial condition, results of operations and prospects.

Our efforts in developing, launching and promoting new brands and products, and diversifying our brand and product portfolio, may not be successful.

We have consistently devoted our efforts to developing new products and exploring new technology in order to not only adapt to evolving consumer preferences, but also influence market trends. However, we cannot assure you that such efforts will be successful. The new products resulting from such efforts may not be well received by consumers, sometimes due to factors beyond our control.

We also intend to further expand our product portfolio and diversify our brand portfolios by launching new brands in the future. The launch of new product series or brands and entry into new product categories involves inherent risks such as those relating to incorrect judgments regarding consumer preferences, market demand and new brand images and pricing. Failure to successfully diversify our products and brands to adapt to constantly changing consumer preferences and market trends may cause our profit margin to decrease as we will not be able to recoup the associated costs, jeopardize our competitive advantage and market share, and result in continued reliance on our existing products and brands. Any of these events could materially and adversely affect our business, financial condition, results of operations and prospects.

Our efforts in developing and investing in research and development may not generate expected outcomes.

We have been devoted to continuously developing skincare and personal care technologies to be used in our products. As of June 30, 2022, our research and development team consisted of 204 staff; however, we cannot assure you that our future efforts in developing skincare technologies will be successful, in which case, our products may lose their competitive advantage. In addition, we cannot assure you that the skincare and personal care technologies we have developed will be well received by consumers, in which case our business, financial condition, results of operations and prospects could be materially and adversely affected.

In addition, we rely on technology in many aspects of our operations. See "Business – Research and Development." Although we continuously upgrade our technologies to stay abreast of the latest industry developments, we cannot assure you that our investment in these technologies will produce the expected outcomes, in which case our business, financial condition, results of operations and prospects could be materially and adversely affected.

Changes in supply, quality and costs of raw materials, transportation and other necessary supplies or services may impact our business, financial condition and results of operations.

Our raw materials primarily consist of packaging materials and ingredients. Costs of raw materials represent a substantial portion of our total cost of sales. In 2019, 2020, 2021 and the six months ended June 30, 2022, cost of raw materials represented 81.3%, 82.9%, 83.8% and 83.3% of our total cost of sales, respectively. We are subject to fluctuation in the prices of raw materials, as well as transportation and other necessary supplies or services, due to factors beyond our control, such as inflation, fluctuations in currency exchange rates, changes in weather or changes in the supply and demand for such related raw materials. We may not be able to offset price increases by raising the prices of our products, in which case our profit margin will decrease, and our financial condition and results of operations may be materially and adversely affected. Additionally, we may lose our competitive advantage if the prices of our products rise significantly. This in turn could result in loss of sales and customers. In both cases, our business, financial condition and results of operations may be materially and adversely affected.

During the Track Record Period, we generally did not enter into any long-term agreements with our suppliers and negotiated prices with our suppliers on a case-by-case basis. If any of our key suppliers are unable to satisfy our order requirements or significantly increase the price of raw materials, we may experience an interruption, reduction or termination of raw material supplies and will be required to seek alternative suppliers. We cannot assure you that we will be able to find suitable suppliers that can provide raw materials at the same quality and prices or at all. Should this situation arise, we may be exposed to (i) an increase in costs of raw materials, which we may not be able to pass on to our customers, (ii) a reduction in the quality of our raw materials, or (iii) a shortage of raw materials, which may result in an increase in our cost of sales or impair the quality of our products. As such, our business, financial condition and results of our operations may be adversely impacted.

If third-party e-commerce platforms we rely on to sell our products online are interrupted or if our cooperation with such platforms terminates, deteriorates or becomes more costly, our business and results of operations may be materially and adversely affected.

Currently, we rely on third-party e-commerce platforms such as *Tmall*, *JD.com* and *VIP.com*, among others, for online sales of our products and derive a material portion of our online sales revenue through and from such platforms. If such platforms' services or operations are interrupted, if such platforms fail to provide satisfactory customer experience and fail to attract new and retain existing users, if our cooperation with such third-party e-commerce platforms terminates, deteriorates or becomes more costly, or if we fail to incentivize such platforms to drive traffic to our stores or promote the sale of our products, our business and results of operations may be materially and adversely affected. We cannot guarantee that we will be able to find alternative channels on terms and conditions commercially acceptable to us in a timely manner, or at all, especially given their leading position and significant influence in China's e-commerce industry. In addition, any negative publicity about such third-party e-commerce platforms, or any public perception or claims that non-authentic, counterfeit or defective goods are sold on such platforms, be it with merit or proven or not, most of which are beyond our control, may deter visits to the platforms and result in less customer traffic to our stores or fewer sales of our products, which may negatively impact our business and results of operations.

Failure to comply with applicable advertising laws and regulations when promoting our products may subject us to potential risks and penalties.

We advertise our brands and products through various channels, such as *Douyin*, *Tmall*, television channels, billboards, newspapers and magazines, which are subject to applicable PRC laws and regulations. We have been subject to fines by relevant authorities in the past, and while the amount of the fines is immaterial, we have taken measures to ensure our compliance with advertising laws and regulations. For example, from time to time, we may be scrutinised for the source of certain data or choice of certain words used in our advertising. If our employees or the third-party service providers we engage fail to comply with such laws and regulations, or the relevant government authorities, who have discreation in interpreting the laws and regulations, ultimately take a view that is inconsistent with our understanding in the process of administrative law enforcement, we may be subject to potential risks and penalties. We cannot ensure that inadvertent noncompliance will not happen in the future, which may subject us to further penalties imposed by the relevant authorities and may further damage our brand image and reputation. We may need to increase compliance costs in the future to comply with applicable advertising laws and regulations. Accordingly, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We may not be able to efficiently manage our inventory risks.

Our business requires us to manage a large volume of inventory effectively. We depend on our forecasts of demand for, and popularity of, various products to make purchasing decisions and to manage our inventory of stock-keeping units. Demand for products, however, can change significantly between the time inventory, components, packaging materials and ingredients are ordered and the date of sale. Demand may be affected by seasonality, new product launches, rapid changes in product cycles and pricing, product defects, promotions, changes in consumer spending patterns, changes in consumer tastes with respect to our products and other factors, and our consumers may not purchase products in the quantities that we expect. It may be difficult to accurately forecast demand and determine appropriate levels of product or componentry. If we fail to manage our inventory effectively or negotiate favorable commercial terms with third-party manufacturers and suppliers, we may be subject to a heightened risk of inventory obsolescence, a decline in inventory values, and significant inventory write-downs or write-offs in the case of overestimation of consumer demand, or increased costs to secure necessary production and delivery delays in the case of underestimation of consumer demand. In 2019, 2020, 2021 and the six months ended June 30, 2022, we recorded under other expenses RMB69.8 million, RMB57.8 million, RMB66.9 million and RMB21.5 million of inventory impairment and scrap, respectively. An inability to meet consumer demand and delays in the delivery of our products to our customers could result in reputational harm and damaged customer relationships. In addition, if we are required to lower sale prices in order to reduce inventory level or to pay higher prices to our manufacturers and suppliers, our profit margins might be negatively affected. Any of the above may materially and adversely affect our business, financial condition and results of operations.

We are subject to risks relating to the warehousing of our products and logistical problems.

Before delivery of products to end-customers or third-party distributors, we temporarily store them in warehouses owned by ourselves or our third-party logistics service providers as supplemental warehousing facilities. If we or any third-party warehousing provider engaged by us fail to store our inventory at optimal conditions, such as at optimal temperatures and humidity levels, the quality and shelf-life of our products may be adversely affected, and we may as a result suffer damage to our reputation, which may adversely affect our results of operations. We maintain property-related insurance that covers financial losses we may sustain as a result of accidents, including fire, explosion, lightning strike, rainstorm and other disasters; however, if such accidents were to occur, causing damages to the products we sell or our warehouses, our ability to supply products to third-party distributors and deliver goods to end-customers could be adversely affected. We rely on our enterprise resource planning and other related information technology systems for the ordering, delivery arrangement and inventory management of our products. We may experience disruptions and technical failures or errors in the operation of such systems. Also, we rely on independent third-party logistics companies for the distribution and transportation of our products. The services provided by such logistics companies could be suspended, which could interrupt the supply of our products to points of sale due to force majeure or other unforeseen events. Delivery disruptions may occur for various reasons beyond our control, including poor handling, transportation bottlenecks, natural disasters and labor strikes, and could lead to delayed or lost deliveries or damaged goods.

The occurrence of any of these incidents could also require us to make significant unanticipated capital expenditures. Lost sales or increased costs that we may incur due to such disruption of operations and delay in delivery may not be recoverable under our existing insurance policies, and prolonged business disruptions could result in a loss of end-customers. If any one or more of the above risks were to materialise, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We may face inadequate production capacity issue, which could hinder our capabilities to satisfy customers' demand and growth prospects.

As of the Latest Practicable Date, we had one plant in Shanghai, China and one plant in Okayama, Japan. See "Business – Our Supply Chain – Our Production Bases." We cannot assure you that we will be able to meet the overall demand for our products or specific demand for any of our products in particular, should the production in any of our production facilities be disrupted in the future, especially during the period when we experience high demand for some or all of our products. See "– We may experience disruptions and delays in our production, which may materially and adversely affect our results of operations and financial condition." Under these circumstances, our business, financial condition, results of operations and prospects may be materially and adversely affected.

In the future, as our business grows, we may need to expand our production capacity by various measures including construction of new premises. See "Business – Our Supply Chain – Our Production Expansion Plan." We cannot assure you that our new premises will be ready in time or our production capacity will otherwise be successfully expanded. A number of factors could delay our expansion plan or increase our costs, including:

- failure to raise sufficient funds to establish and maintain working capital to operate our business at the new premises;
- failure to obtain environmental and regulatory approvals, permits or licenses from the relevant government authorities in a timely manner;
- failure to find new sites for our production facilities;
- shortage or late delivery or increased prices of building materials and production equipment resulting in late delivery of the premises for our use and occupancy;
- various factors affecting construction progress and resulting in late delivery of the premises for our use and occupancy; and
- technological changes, capacity expansion or other changes to our plans for the new premises necessitated by changes in market conditions.

Failure to expand our production capacity could hinder our capacity to satisfy customers' demand and growth prospects. Furthermore, if market demand declines in the future, we may not be able to recoup the costs incurred for construction of new premises and maintenance of expanded production capacity. The delay or cancellation of our expansion could also subject us to disputes with various counterparties, including, but not limited to, general contractors and sub-contractors, equipment suppliers, financiers and relevant government authorities. As a result, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Any failure by our suppliers to supply raw materials or provide services that are consistent with our standards or applicable regulatory requirements could harm our brands, cause consumer dissatisfaction, and require us to find alternative suppliers of such raw materials or services.

We use multiple third-party suppliers and a limited number of manufacturers based in China and overseas to procure our raw materials. We engage our third-party suppliers and manufacturers on a purchase order basis, and are not party to long-term contracts of more than one year with any of them. The supply ability of these third parties may be affected by competing orders placed by other customers and the demands of those customers. If we experience significant increases in demand, or need to replace a significant number of existing suppliers, there can be no assurance that additional supply capacity will be available when required on terms that are acceptable to us, or at all, or that any supplier will allocate sufficient capacity to us in order to meet our requirements.

Furthermore, our third-party suppliers may:

- have economic or business interests or goals that are inconsistent with ours;
- take actions contrary to our instructions, requests, policies or objectives;
- be unable or unwilling to fulfill their obligations under relevant purchase orders, including obligations to meet our production deadlines, quality standards, pricing guidelines and product specifications, and to comply with applicable regulations, including those regarding the safety and quality of products and ingredients;
- have financial difficulties;
- encounter raw material or labor shortages;
- encounter increases in raw material or labor costs which may affect our procurement costs;
- disclose our confidential information or intellectual property to competitors or third parties;

- engage in activities or employ practices that may harm our reputation; and
- work with, be acquired by, or come under control of, our competitors.

The occurrence of any of these events, alone or together, could have a material adverse effect on our business, financial condition and results of operations. In addition, such problems may require us to find new third-party suppliers, and there can be no assurance that we would be successful in finding third-party suppliers meeting our standards of innovation and quality. Hence, our business, financial condition and results of operations may be materially and adversely affected.

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 rely on trademarks, copyrights, patents and the domain names we use to protect our brands and proprietary information, technologies and processes. Our principal intellectual property assets include the registered trademarks "*KANS*," "*One Leaf*" and "*Baby Elephant*." Our trademarks are valuable assets that support our brands and consumers' perception of our products.

Although we have existing and pending trademark registrations for our brands in China and in the foreign countries in which we operate, we may not be successful in asserting trademark or trade name protection in all jurisdictions. We also have not applied for trademark protection in all relevant foreign jurisdictions and cannot assure you that our pending trademark applications will be approved. Third parties may also oppose our trademark applications domestically or abroad, or otherwise challenge our use of the trademarks. In the event that our trademarks are successfully challenged, we could be forced to rebrand our products in some jurisdictions, which could result in the loss of brand recognition and could require us to devote resources to advertising and marketing new brands.

In addition, counterfeiting and imitation have occurred in the past for many consumer products, including skincare and personal care products. As our brands are well-known in China, we have in the past experienced counterfeiting and imitation of our products. We are unable to guarantee that counterfeiting and imitation would not occur or, if it does occur, that we would be able to detect and address the problem effectively. Any occurrence of counterfeiting or imitation could impact negatively upon our reputation and brand names, lead to loss of consumer confidence in our brands, and, as a consequence, adversely affect our results of operations. Consequently, we do our utmost to fight against any counterfeiting and imitation of our products or brands.

The laws of some foreign countries do not protect our proprietary rights as fully as do the laws of European Union member states or the United States. As a result, we may not be able to protect our intellectual property rights adequately by legal means in some of the jurisdictions where we do business.

Litigation may be necessary in the future to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. The costs required to protect our trademarks, trade names and patents, including legal fees and expenses, could be substantial. Litigation may also be necessary to defend against claims of infringement or invalidity by others as we actively pursue innovation in the cosmetics and toiletries industry and enhance the value of our intellectual property portfolio. An adverse outcome in litigation or any similar proceedings could adversely affect our business, financial condition and results of operations. In addition, the diversion of management's attention and resources while addressing any intellectual property litigation claim, regardless of whether the claim is valid, could be significant and could significantly affect our business, financial condition and results of operations.

See "Business – Intellectual Property" for further information relating to our intellectual property.

We may be subject to risks in relation to our sales to retailers and distributors.

We manage a broad sales and distribution network and sell our products through both online and offline channels. During the Track Record Period, we sold our products to certain retailers and distributors, which further sell our products to consumers.We cannot assure you that we will be able to maintain our relationships with our key retail and distribution partners in the future. Should any of the retailers and distributors reduce substantially the demands for our products or terminate the business relationship with us, we may experience a decline in our sales performance. Due to the large number of our retailers and distributors, it is difficult to monitor their practices. Non-compliance by any of our retailers and distributors with the relevant agreements or our sales policies may adversely affect our ability to implement development strategies. If any of the distributors fail to distribute our products to their customers in a timely manner, or carry out actions which are inconsistent with our business strategy, it may affect our future sales. In addition, although we have contractual relationships with our distributors, we cannot assure you that the distributors will at all times comply with our sales policies or that they will not develop any sub-distributors. This may in turn materially and adversely affect our business, financial condition, results of operations and prospects.

We are exposed to risks in relation to our consignment arrangements with our retailers.

We have no ownership or managerial control over any of our retailers under consignment arrangements. We cannot assure you that our retailers will at all times strictly adhere to the terms and conditions under our consignment arrangement. Any wrongdoing of them may harm our business or give rise to product liability claims or customer complaints against us. If any of our online retailers fails to distribute our products in a timely or effective manner or in accordance with the terms of our consignment arrangements, or at all, or if our consignment arrangements are suspended, terminated or otherwise expired without renewal, our business, financial condition and results of operations may be materially and adversely affected.

The retailers may not be able to market and sell our products successfully or maintain their competitiveness as a result of various factors. The loss of our retailers, reduced orders from them or reduce in sales price, could adversely affect our access to consumers and/or our sales volume and revenue. Please see "Business – Our Sales Channels." If we fail to successfully maintain our relationships with our retailers or our retailers fail to operate successfully, our ability to effectively sell our products could be negatively impacted.

Our delivery, return and exchange policies may adversely affect our results of operations.

We have adopted shipping policies that do not necessarily pass the full cost of shipping on to our customers. We also have adopted customer-friendly return and exchange policies that make it convenient and easy for customers to change their minds within seven days after completing direct online purchases from us. We may also be legally required to adopt new or amend existing return and exchange policies from time to time. These policies improve customers' shopping experience and promote customer loyalty, which in turn help us acquire and retain customers. However, these policies also subject us to additional costs and expenses which we may not recoup through increased revenues. If our delivery, return and exchange policies are misused by a significant number of customers or if the return or exchange rates increase beyond historical records or otherwise substantially, our costs may increase significantly, and our results of operations may be materially and adversely affected. If we revise these policies to reduce our costs and expenses, our customers may be dissatisfied, which may result in loss of existing customers or failure to acquire new customers at a desirable pace, which may materially and adversely affect our results of operations.

Laws and regulations related to e-commerce activities in China may impose additional requirements and obligations on our online operations.

As the e-commerce industry is evolving rapidly in China, new laws and regulations may be adopted to address new issues that arise from time to time and to impose additional restrictions on our e-commerce business. If the PRC government establishes stricter regulatory requirements on e-commerce activities in the future, we may need to comply with additional obligations with respect to our business on online channels, and we cannot assure you that we would be able to meet the evolving regulatory requirements in a timely manner. In 2019, 2020, 2021 and the six months ended June 30, 2022, the revenue derived from our sales through online channels accounted for 52.4%, 75.2%, 74.6% and 73.8% of our total revenue, respectively. Although we are not operators of e-commerce platforms, we may still need to change our online sales models to comply with the new regulations, which could affect our operation structure, require additional investment or make it more onerous to operate online business. In addition, any non-compliance with such rules and regulations may also adversely affect our online business, which would further impair our profitability.

We may not be able to retain or promptly recruit senior management members or other key personnel required for our operations.

The composition and continued commitment of our management team has been a key element of our success and ability to operate effectively. Our future success is also significantly dependent upon the continued service of our key executives and other personnel who make up our management team, and our ability to attract and retain personnel who have the necessary experience and expertise. Although we believe we offer our management team and employees competitive compensation packages and a collaborative working environment, we cannot guarantee you that if we experience any significant, material changes to the composition of our management team, we would be able to recruit suitable or qualified replacements, and may incur additional expenses to recruit and train new personnel, which could disrupt our business and limit our ability to grow. Further, if we lose our senior management or key personnel to our competitors, our competitiveness, operations and our ability to grow may be adversely affected.

We may be unable to attract and retain the research and development personnel required for our operations.

Our success and future growth depend largely upon the continued services of our experienced and skilled research and development personnel and our product development capability. We have established a Sino-Japan dual R&D center system involving our R&D staff in Shanghai, China and Kobe, Japan. We cannot assure you that we will be able to attract competent researchers to our group in the future, and that our existing research and development personnel will not voluntarily terminate their employment with us. The failure to attract personnel with cosmetic research expertise or loss of any of our research and development personnel could be detrimental to our operations. Experienced personnel in the cosmetics industry are in high demand, and competition for relevant talents is intense. Many of the companies with which we compete for experienced research and development personnel have greater resources than we have. We cannot assure you that we will be able to attract and maintain adequate skilled research and development personnel necessary for us to execute our research and development efforts, nor can we guarantee that staff costs will not increase as a result of a shortage in the supply of skilled research and development personnel. If we fail to attract new research and development personnel or fail to retain and motivate our current research and development personnel, our business and prospects could be adversely affected.

Any failure to obtain, maintain or renew any of the requisite licenses, permits, registrations and filings required for our business could adversely affect our operations.

Our operations such as manufacturing and sales of cosmetics products in China require multiple licenses, permits, filings and approvals. Certain licenses, permits or registrations we hold are subject to periodic renewal. If we fail to maintain or renew one or more of our licenses and certificates when their current terms expire, or obtain such renewals in a timely manner, our operations could be disrupted. If we fail to properly renew and maintain any of such requisite licenses on time, we may face penalties. In addition, given the constant evolution of government regulations governing our business, it might become increasingly onerous for us to comply with such evolving regulations, and any non-compliance may expose us to liability. In case of any non-compliance, we may have to incur monetary expenses and divert substantial management time and resources to resolving any deficiencies. We may also experience negative publicity arising from such deficiencies, which may adversely affect our business and financial performance.

Further, due to uncertainties of interpretation and implementation of existing laws and the adoption of additional laws and regulations, the licenses, permits, registrations or filings we hold may be deemed insufficient by PRC governments, which may restrain our ability to expand our business scope and may subject us to fines or other regulatory actions. Furthermore, as we develop and expand our business scope, we may need to obtain additional permits and licenses, and we cannot assure that we will be able to obtain such permits on time or at all.

We may experience disruptions and delays in our production, which may materially and adversely affect our results of operations and financial condition.

As of the Latest Practicable Date, we manufactured our products at our two production bases located in Shanghai, China and Okayama, Japan. Natural or man-made disasters, such as adverse weather, fires, technical or mechanical difficulties, storms, explosions, earthquakes, strikes, acts of terrorism, wars and outbreaks of epidemics, or other interruptions such as power and water suspension, may cause significant damage to our production facilities, which could be costly and time-consuming to reinstate and could cause significant disruptions to our operations. We may incur additional costs and may experience a disruption in the supply of products until the affected production facilities become available and operational.

Additionally, we rely on the timely supply of our raw materials, including packaging materials and ingredients, in order to carry out our production plans as scheduled. Any delays or disruptions in raw material supplies from our suppliers may have a material and adverse impact on our ability to meet our contractual obligations to customers. In addition, any natural or man-made disasters or other unanticipated catastrophic events, including adverse weather, fires, technical or mechanical difficulties, storms, explosions, earthquakes, strikes, acts of terrorism, wars and outbreaks of epidemics could disrupt our transportation channels and impair the operations of our suppliers, and impede our ability to manufacture and deliver our products to customers in a timely manner. For example, incidents such as the COVID-19 outbreak in the first quarter of 2020 and 2022 have put extra strain on offline distribution channels. Furthermore, from March 28 to April 18, 2022, in response to the local government's pandemic controlling measures, our Fengxian Plant has temporarily suspended its production activities. See "Financial Information – Impact of COVID-19." Any disruption or delay in our production in the future could have an adverse impact on our ability to produce sufficient quantities of products, which could in turn impair our ability to meet the needs of our customers. In such cases, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Any failure or perceived failure to comply with data privacy and security laws, or other concerns about our practices or policies with respect the collection, use, storage, retention, transfer, disclosure, and other processing of data, could damage our reputation and deter current and potential users from using our services.

Currently, we rely on third-party e-commerce platforms such as *Tmall, JD.com* and *VIP.com*, among others, for online sales of our products. Although we do not collect users' personal information and other data directly, the aforementioned third-party e-commerce platforms share the transaction-related information of certain users with us, to the extent where it is necessary for the conclusion or performance of the contracts between the users and us. We only use such information or data we obtain for entering into and performing the aforementioned contracts, including delivering of our products, providing after-sales services and sending the most up-to-date information on our brands and online stores as authorized. We are subject to a variety of laws and regulations relating to data security and privacy, including restrictions on the collection, use, storage, retention, transfer, disclosure and other processing of data. The interpretation and application of laws, regulations and standards relating to cybersecurity, data protection and privacy remain uncertain and are constantly changing, and these regulations are also affected by different interpretations or significant changes which leads to uncertainty about the scope of our responsibility in this regard. For instance, on June 10, 2021, the Standing Committee of the National People's Congress promulgated the Data Security Law of the People's Republic of China (《中華人民共和國數據安全法》) (the "Data Security Law," effective since September 1, 2021). The Data Security Law sets out a number of obligations on data security and privacy undertaken by entities and individuals engaged in data-related activities. It also prohibits any individual or entity in China from providing data stored in China to foreign judicial or law enforcement departments without the approval of the competent authorities in China. The Personal Information Protection Law of the People's Republic of China (《中華人民共和國個人信息保護法》) (the "Personal Information Law"), which was promulgated on August 20, 2021 and shall come into effect on November 1, 2021, reiterates the situations in which personal information processors can handle personal information and codifies the requirements for such cases. The Personal Information Law defines the scope of application, the definition of personal information and sensitive personal information, the legal basis for the processing of personal information, and the basic requirements for notification and consent. While we strive to comply with our privacy guidelines as well as all applicable data protection laws and regulations, any failure or perceived failure to comply may result in proceedings or actions against us by government entities or others, and could damage our reputation. User and regulatory attitudes towards privacy are evolving, and future regulatory or user concerns about the extent to which personal information is shared with merchants or others may adversely affect our ability to share certain data with merchants, which may limit certain methods of targeted marketing.

Our information technology networks and systems may encounter malfunction, unexpected system failure, interruption, insufficiency or security breaches.

We rely on information technology networks and systems to market and sell our products, to process, transmit and store electronic and financial information, to manage and monitor a variety of business processes and activities and to comply with regulatory, legal and tax requirements. We are dependent on a variety of information systems to effectively process and fulfill customer orders. We also depend on our information technology infrastructure for digital marketing activities, for managing our various distribution channels, for electronic communications among our personnel, customers, manufacturers and suppliers and for synchronization with our manufacturers and logistics providers on demand forecast, order placements and manufacturing and service status and capacity. These information technology systems, some of which are managed by third parties, may be susceptible to damage, disruptions or shutdowns due to failures during the process of upgrading or replacing software, databases or components, power outages, hardware failures, computer viruses, attacks by computer hackers, telecommunication failures, user errors or catastrophic events. Any material disruption of our systems, or the systems of our third-party manufacturers, e-commerce platforms or service providers, could disrupt our ability to track, record and analyze the products that we sell and could negatively impact our operations, shipment of goods, ability to meet customer requests, ability to process financial information and transactions, and ability to receive and process orders or engage in normal business activities. If our information technology systems suffer damage, disruption or shutdown, we may incur substantial costs in repairing or replacing these systems, and if we do not effectively resolve the issues in a timely manner, our business, financial condition and results of operations maybe materially and adversely affected, and we could experience delays in reporting our financial results.

Our Controlling Shareholder has substantial influence over our Company, and his interests may not be aligned with the interests of our other Shareholders.

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

We may be subject to intellectual property infringement claims, which may be expensive to defend and may disrupt our business and operations.

We cannot be certain that our operations or any aspects of our business do not or would not infringe upon or otherwise violate patents, copyrights or other intellectual property rights held by third parties. We have been, and from time to time in the future may be, subject to legal proceedings and claims relating to the intellectual property rights of others. In addition, there may be other third-party intellectual properties that are infringed by our products, services or other aspects of our business. There could also be existing patents of which we are not aware that our products may inadvertently infringe. There can be no assurance that holders of patents purportedly relating to some aspect of our technology platform or business, if any such holders exist, would not seek to enforce such patents against us in the PRC or any other jurisdictions, as applicable. Furthermore, the application and interpretation of PRC patent laws and the procedures and standards for granting patents in the PRC are still evolving and are uncertain, and there can be no assurance that PRC courts or regulatory authorities would agree with our analysis. If we are found to have violated the intellectual property rights of others, we may be subject to liability for our infringement activities or may be prohibited from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives of our own. In addition, we may incur significant expenses, and may be forced to divert management's time and other resources from our business and operations to defend against these third-party infringement claims, regardless of their merits. Successful infringement or licensing claims made against us may result in significant monetary liabilities and may materially disrupt our business and operations by restricting or prohibiting our use of the intellectual property in question, which may materially and adversely affect our business, financial condition and results of operations.

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

Certain of our customers settled payments with us through third-party payment arrangements (the "**Third-party Payment Arrangements**"). Since January 7, 2022, we have ceased all third-party payments. For further information, see "Business – Third-Party Payment Arrangements."

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

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

We enter into a wide variety of contractual arrangements with different counterparties in the ordinary course of our business. We generally grant a credit period to retailers of 45 to 90 days for sales and purchase arrangements. Our net trade and bills receivables as of December 31, 2019, 2020, 2021 and June 30, 2022 amounted to RMB396.9 million, RMB340.8 million, RMB374.9 million and RMB295.9 million, respectively. In 2019, 2020, 2021 and the six months ended June 30, 2022, our trade and bills receivables turnover days were 62.5 days, 45.2 days, 39.6 days and 51.3 days, respectively. We had incurred net impairment losses for trade receivables in 2019 and 2021. Our senior management regularly reviews the recoverability of overdue balances of trade and bills receivables and may make impairment provision when needed. As there is limited financial or public information on many of our counterparties, we cannot assure you that all of our counterparties are creditworthy and reputable and will not default on us in the future, despite our efforts to conduct credit assessments on them. As a result, we are exposed to risks that our counterparties may fail to fulfill their obligations to us under our contracts.

Our expansion and/or development plans to be financed with net [REDACTED] may not be successful.

We may consider growing our business through organic growth, and investments in and/or acquisitions of companies that are complementary to our business in the future. Our ability to complete the acquisition depends upon our ability to identify suitable targets and to obtain necessary funding for the acquisitions. We have limited experience in acquisitions. Our net [**REDACTED**] may not be able to cover the target investment, and we may not be able to obtain bank loans or other financing resources to complete the relevant acquisition. We may expose to risks if our expansion and/or development plans to be financed with net [**REDACTED**] fail.

We recorded negative operating cash flows in the six months ended June 30, 2022.

We had a net cash generated from operating activities of RMB77.4 million, RMB266.0 million and RMB335.2 million in 2019, 2020 and 2021, respectively. We had a net cash used in operating activities of RMB74.6 million in the six months ended June 30, 2022 primarily due to (i) the 31.1% decrease in our revenue mainly in relation to (a) the impact of COVID-19 on our production and delivery in Shanghai, from RMB1,831.7 million in the six months ended June 30, 2021 to RMB1,262.4 million in the six months ended June 30, 2022. See "Financial Information – Period-To-Period Comparison of Results of Operations – Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021." (b) our marketing efficiencies as our sales and marketing staff's capabilities to conduct offline marketing activities, such as customer visit and market research, were limited due to travel restrictions; and (c) our new product development and existing product upgrades as our R&D activities were affected during the same time; (ii) our accelerated settlement with trade and bills payables with our suppliers for supplier management maintenance and enhancement during the same time and (iii) the increase in our tax paid as we settled certain tax payables as of December 31, 2021. We may continue to record negative operating cash flows in the future, which may affect our liquidity position and our ability to finance our operations.

We recorded net liabilities and net current liabilities in the past.

We had net liabilities of RMB193.7 million as of December 31, 2019 primarily due to our accumulated loss as of January 1, 2019. We had net current liabilities of RMB869.0 million and RMB175.2 million as of December 31, 2019 and December 31, 2020, respectively, as compared to net current assets of RMB223.0 million and RMB77.6 million as of December 31, 2021 and June 30, 2022. We recorded net current liabilities of RMB869.0 million as of

December 31, 2019 primarily due to (i) our RMB717.9 million trade and bills payables; (ii) our RMB507.5 million other liabilities in relation to our obligation to repurchase equity held by Series A investors in our Company, which was terminated in 2020. See "Financial Information – Other liabilities"; and (iii) our RMB348.9 million interest-bearing bank and other borrowings. We recorded net current liabilities of RMB175.2 million as of December 31, 2020 primarily due to (i) our RMB549.1 million trade and bills payables; (ii) our RMB500.2 million other payable and accruals; and (iii) our RMB271.0 million interest-bearing bank and other borrowings. We recorded a net current assets position of RMB223.0 million and RMB77.6 million as of December 31, 2021 and June 30, 2022. However, we may continue to record net current liability position in the future, which may affect our liquidity position and our ability to finance our operations.

The fair value of our financial assets at fair value through profit or loss ("financial assets at FVTPL") and our financial assets at fair value through other comprehensive income ("financial assets at FVOCI") are subject to changes beyond our control. Fluctuations in the changes in fair value of such financial assets at FVTPL and financial assets at FVOCI would affect our financial results.

Our financial assets at FVTPL during the Track Record Period comprised structured deposits only. As of December 31, 2019, 2020 and 2021 and June 30, 2022, our structured deposits, which met the definition of financial assets at FVTPL in accordance with our accounting policies (refer to note 2.3 of the Accountants' Report attached to this document as appendix I), amounted to nil, nil, nil and RMB29.0 million, respectively. Our financial assets at FVOCI during the Track Record Period comprised bills receivables only. As of December 31, 2019, 2020 and 2021 and June 30, 2022, our bills receivable, which met the definition of financial assets at FVOCI in accordance with our accounting policies, amounted to RMB10.0 million, RMB19.4 million, RMB9.8 million and RMB10.5 million, respectively. There are a range of factors that may cause adverse changes in fair value of our financial assets at FVTPL and our financial assets at FVOCI, including, but not limited to, general economic conditions, changes in market interest rates and exchange rates, stability of the capital markets and credit risk of counterparty, which are beyond our control. Any of these factors, among others, could cause the fair value of our financial assets at FVTPL and our financial assets at FVOCI to fluctuate substantially, which would, in turn, affect our financial results.

We may be exposed to impairment loss risks associated with our prepayments, other receivables and other assets.

During the Track Record Period, our prepayments mainly consisted of prepaid advertising and endorsement expenses, prepaid marketing expenses and payments in advance for procurement of goods and services. Our other receivables mainly consisted of various operating deposits in our business operation. Our other assets mainly consisted of deductible input VAT, corporate income tax recoverable and right-of-return assets. Our prepayments, other receivables and other assets amounted to RMB259.0 million, RMB135.3 million, RMB201.7 million and RMB219.5 million as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively. As of December 31, 2019, 2020, 2021 and June 30, 2022, we made impairment allowance of RMB2.3 million, RMB2.3 million, RMB3.1 million and RMB3.5 million, respectively. While we did not experience any material impairment loss during the Track Record Period, we cannot assure you that we will not incur any material impairment losses in the future.

We may not be able to recover our deferred tax assets, which may adversely affect our financial condition in the future.

We are required to make judgments, estimates and assumptions about the carrying amounts of our deferred tax assets. As of December 31, 2019, 2020, 2021 and June 30, 2022, we had deferred tax assets of RMB198.3 million, RMB150.0 million, RMB103.1 million and RMB99.6 million, respectively. For details of the movements of our deferred tax assets during the Track Record Period, see Note 19 of the Accountants' Report set out in Appendix I to this document. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses, can be utilized. This requires significant judgment on the tax treatments of certain transactions and also an assessment on the probability, timing and adequacy of future taxable profits available for the deferred tax to be recovered. The estimates and associated assumptions are based on historical experience and other relevant factors. As a result, actual results may differ from these accounting estimates. The realization of deferred income tax assets depends primarily on our estimate of whether sufficient future profits will be available. If sufficient future taxable profits are not expected to be generated or if taxable profits are lower than expected, we may fail to recover our deferred tax assets, which may have a material adverse effect on our financial condition in the future.

We recorded gain on disposal of a subsidiary in 2019, which was non-recurring in nature.

We recorded RMB67.5 million of gain on disposal of a subsidiary in 2019 under other income and gains. Such gain was due to the disposal of one of our subsidiaries, Shanghai Biyoulan, which was mainly engaged in cosmetic products manufacturing, for production capacity aggregation. For more details, See Note 33 to the Accountants' Report set out in Appendix I to this document. Such gain was non-recurring in nature and we cannot assure you that we will continue to make similar disposal transactions in the future.

We may incur impairment losses on our other intangible assets.

Our other intangible assets mainly represent software we purchased for our business operations, which are measured on initial recognition at cost if acquired separately or at fair value if acquired under business combination. As of December 31, 2019, 2020, 2021 and June 30, 2022, we had other intangible assets of RMB23.2 million, RMB20.1 million, RMB18.2 million and RMB19.0 million, respectively. Our other intangible assets are tested for impairment annually and when there is an indicator for impairment. For details on the impairment assessment methods for our other intangible assets, see Note 2.3 to the Accountants' Report set out in Appendix I to this document. During the Track Record Period, we had not incurred any impairment losses on our other intangible assets. The assessment of impairment losses involves a significant degree of management judgments as well as estimates in determining the key assumptions, and unpredictable adverse changes in the future may also result in decreases in the value of our other intangible assets. Therefore, we cannot assure you that these assumptions and estimates would not result in outcomes that require a material adjustment to the carrying amounts of these other intangible assets in the future, which may in turn result in impairment losses. Significant impairment losses on other intangible assets may have a material adverse effect on our financial condition and results of operations, and may in turn limit our ability to obtain financing in the future.

We may not be able to fulfil our obligation in respect of contract liabilities, which may adversely affect our results of operations, liquidity and financial position.

Our contract liabilities are primarily advance payments from customers and sales rebates. As of December 31, 2019, 2020, 2021 and June 30, 2022, we had contract liabilities of RMB182.3 million, RMB128.9 million, RMB81.1 million and RMB74.2 million, respectively. There is no assurance that we will be able to fulfil our obligations in respect of contract liabilities. If we fail to honor our obligations under our contracts with customers, the amount of contract liabilities will not be recognized as revenue, and our customers may also require us to refund the prepayments they have made, which may in turn adversely affect our liquidity position. In addition, if we fail to honor our obligations under our contracts with customers, it may also adversely affect our relationship with such customers, which may in turn affect our results of operations in the future. As a result, our results of operations, liquidity and financial position may be materially and adversely affected.

Our share-based compensation expenses may cause shareholding dilution to our existing Shareholders and have a material and adverse effect on our financial performance.

We adopted share incentive plans for the benefit of our directors, officers and employees as remuneration for their services provided to us to incentivize and reward the eligible persons who have contributed to our success. In 2019, 2020, 2021 and the six months ended June 30, 2022, we incurred share-based compensation expenses of RMB9.0 million, RMB53.0 million, RMB41.4 million and RMB2.3 million, respectively. To further incentivize our employees, we may grant additional incentive shares in the future. Issuance of additional shares with respect to such share-based payment may dilute the shareholding percentage of our existing shareholders. Expenses incurred with respect to such share-based payment may also increase our operating expenses and therefore have a material and adverse effect on our financial performance.

We are subject to risks and uncertainties associated with our investments in associates.

We have invested in associated companies and may continue to do so in the future. The performance of our associates has affected, and will continue to affect, our results of operations and financial position. Our investments in these companies are recorded as investments in associates, which amounted to RMB1.9 million, RMB4.9 million, RMB1.6 million and

RMB1.3 million as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively. We recorded share of profits of associates of RMB0.5 million and RMB1.9 million in 2019 and 2020, respectively, whilst in 2021 and the six months ended June 30, 2022, we recorded share of losses of associates of RMB0.1 million and RMB0.4 million, respectively. Our investments in associates and results of operations might be affected by the share of results of associates. If the share of profits of these associates were to fluctuate, our results of operations may be adversely affected.

Meanwhile, our investments in associates are subject to liquidity risk if no dividend is declared by associates. Our ability to realize our anticipated investment returns will depend on the associates' ability to pay dividends or complete [**REDACTED**] or trade sale, which in turn relies on, among other things, the business and financial performance of our associates. There is no assurance that our invested associates will declare or pay any dividends. Even if we recognize share of profits of these associates under equity reporting method, our investment would not generate any cash flow for us unless our investees declare and pay dividends to us.

Furthermore, investment in associates are not as liquid as other investment products as our ability to promptly sell our interests in one or more of our associates is limited due to changing economic, financial and investment conditions, which are beyond our control. We also cannot predict the length of time needed to find a purchaser and to complete the relevant transaction. Therefore, the illiquidity nature of our investment in associates may significantly limit our ability to respond to adverse changes in the performance of our associates. As a result, we may not be able to realize the anticipated economic and other benefits from our associates.

Discontinuation of any of the preferential tax treatments or imposition of any additional taxes and surcharges could adversely affect our financial condition and results of operations.

Our PRC subsidiaries are incorporated in the PRC and are governed by applicable PRC income tax laws and regulations. The EIT Law and its implementing rules, impose a statutory rate of 25% on PRC enterprises. Under the EIT Law, its implementation regulations and other relevant rules, companies qualified as "High and New Technology Enterprise" are entitled to enjoy a preferential enterprise income tax rate of 15%. One of our subsidiaries obtained its qualification as a High and New Technology Enterprise in 2018 and 2021, and was subject to a reduced preferential tax rate of 15% during the Track Record Period. In addition, some of our PRC subsidiaries are qualified as small and micro enterprises and were therefore entitled to a preferential corporate income tax rate of 20% during the Track Record Period.

Preferential tax treatments and incentives granted to us by PRC governmental authorities are subject to review and may be adjusted or revoked at any time in the future. We cannot guarantee that the preferential tax treatments and incentives to which our PRC subsidiaries are currently entitled would be successfully renewed. There can be no assurance that the local tax authorities will not, in the future, change their position and discontinue any of our current tax treatments, potentially with retrospective effect. The discontinuation of any of our current tax treatments could materially increase our tax obligations and adversely impact our net income.

Failure to obtain government grants that may be available to us, or the discontinuation, reduction or delay of any of the government grants currently enjoyed by us in the future could adversely affect our business, financial condition, results of operations and prospects.

During the Track Record Period, we have received government grants and financial subsidies, primarily including tax returns, subsidies, rewards, and financial assistance in relation to our contribution to the local economy and our research and development activities. In 2019, 2020, 2021 and the six months ended June 30, 2022, we recorded under other income and gains RMB60.3 million, RMB64.5 million, RMB77.5 million and RMB38.7 million of government grants, respectively.

Some of the government grants we received are discretionary incentives under policies adopted by PRC local government authorities and thus are non-recurring in nature. Local governments may decide to change or discontinue such grants or financial subsidies at any time. The discontinuation, reduction or delay of these government grants and financial subsidies could adversely affect our business, financial condition, results of operations and prospects. In addition, we may not be able to successfully or timely obtain the government grants and subsidies that may become available to us in the future, and such failure could adversely affect our business, financial condition, results of operations and prospects.

We are not in full compliance with social insurance and housing provident funds regulations.

Under the applicable PRC laws, we are required to contribute, as an employer, to social insurance (including pension fund, unemployment insurance, medical insurance, work-related injury insurance and maternity insurance) and housing provident funds for the benefit of our employees.

According to the Social Insurance Law, if an employer engages third-party human resource agencies to pay the social insurance or fails to make social insurance contributions in full, the relevant authorities could order the employer to pay, within a prescribed time limit, the outstanding amount with an additional late payment penalty at the daily rate of 0.05%, and if the employer fails to make the overdue contributions within such time limit, a fine equal to one to three times the outstanding amount may be imposed. According to the Housing Accumulation Funds Regulation, if the employer engages third-party human resource agencies to pay the housing provident funds or fails to register and establish an account for housing provident fund, the authority could order the employer to correct it within a prescribed time limit, where failure to do so at the expiration of the time limit shall results in a fine of not less than RMB10,000 nor more than RMB50,000 being imposed. Where an employer is overdue in the payment and deposit of, or underpays, the housing provident fund, the authority could order it to make the payment and deposit within a prescribed time limit, and where the payment and deposit has not been made after the expiration of the time limit, an application may be made to a People's Court of the PRC for compulsory enforcement.

During the Track Record Period, some of our subsidiaries engaged third-party human resource agencies to pay social insurance and housing provident fund for some of our employees. This is mainly because we have a large number of employees who are our employees working in a number of cities across the nation. We engaged third-party human resource agencies as we do not have legal entities to pay social insurance premium or housing provident funds for them locally.

In addition, we failed to make social insurance contributions and housing provident funds for our employees in full. We may therefore be ordered by the relevant authorities to pay the outstanding amount within the prescribed period, failing which we may be subject to a penalty or subject to specific enforcement by the People's Court. See "Business – Employees." We cannot assure you that we will not be subject to any order to rectify this non-compliance incident in the future, nor can we assure you that there are no, or will not be any, relevant employee complaints against us. Any such order may adversely and materially affect our business, financial condition, results of operations and prospects.

Failure to comply with environmental, health and safety and fire control laws and regulations may subject us to fines or penalties or incur costs that could materially and adversely affect the success of our business.

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

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

Animal testing can result in liability and other issues, including potential disruption to our facilities as a result of protests against animal testing.

We engaged third-party institutions with requisite licenses to conduct the animal testing for the safety and efficacy of our products in accordance with the applicable requirements of relevant laws. Please see "Business – Occupational Health, Safety And Environmental Measures – Environmental Protection – Animal Testing." Acts of vandalism and other acts by animal rights activists, who object to the use of animals for such purposes, including protests at or near our facilities or offices, could have an adverse effect on our operations or reputation.

Animal testing conducted by third-party institutions must be conducted in compliance with applicable laws and regulations in the jurisdictions in which those activities are conducted. Although we have conducted background search before the engagement, we cannot assure you that such institution will remain certain assurances and certifications, as well as an accreditation, from governmental authorities. If an enforcement agency determines that the third-party institutions' equipment, facilities, laboratories or processes do not comply with applicable standards, it may issue an inspection report documenting the deficiencies and setting deadlines for any required corrective actions. In such event, our product registration procedure to relevant governmental authorities may experience delay or rejection. We may also suffer from reputational loss if animal testing institutions or the act of using animal testing for cosmetics products are disapproved by the public. As a result, our business, financial condition and results of operations may be materially and adversely affected.

We have not completed registration procedures with relevant authorities for some of our leased properties, and these properties may have title defects.

We lease some properties as our offices, dormitories and warehouses. As of June 30, 2022, with respect to five out of 12 of our leased properties in the PRC, the lessors have not provided valid title certificates or relevant authorization documents evidencing their rights to lease the properties.

As a result, we cannot assure you that we will not be subject to any challenges, lawsuits or other actions taken against us with respect to the properties leased by us for which the relevant lessors do not hold valid title certificates. If any leases of such properties were successfully challenged, we may be forced to relocate our operations on the affected properties and may be forced to cease these activities in the event we face challenges in relation to our properties. If we fail to find suitable replacement properties on terms acceptable to us for the affected operations, or if we are subject to any material liability resulting from third-party challenges to our lease of properties for which we or our lessors do not hold valid titles, our business, financial condition and results of operations may be materially and adversely affected. In addition, under the relevant PRC law, all lease agreements are required to be registered with the relevant land and real estate administration bureaus. However, as of the Latest Practicable Date, we had only obtained the registration certificate for four of our leased properties, and the lease agreements with respect to our remaining leased properties had not been registered and filed with the relevant land and real estate administration bureaus in the PRC because the relevant lessors failed to provide necessary documents for us to register the leases with the local government authorities. As advised by our PRC Legal Advisors, failure to complete the registration and filing of lease agreements will not affect the validity of the lease agreements or result in us being required to vacate the leased properties. However, the relevant PRC authorities may require us to complete registrations within a specified timeframe and may impose a fine ranging from RMB1,000 to RMB10,000 for each of such lease agreements. See "Business – Properties."

Any negative publicity or misconduct regarding our brand ambassadors or KOLs that promotes our products could adversely affect our business.

We market our products through both online and offline media and partner with brand ambassadors. We also undertake engaging promotional partnerships with KOLs on major e-commerce platforms for special events such as Singles Day.

However, we cannot assure you that any of our brand ambassadors' endorsements or advertisements will remain effective and compatible with the messages that our brands and products aim to convey. Furthermore, we cannot give assurance that any of these brand ambassadors will remain popular or any of their images will remain positive. Our KOLs or brand ambassadors may face the recent tightening regulations target widespread tax avoidance, which may impose risks to our business. Any of our brand ambassadors' deterioration of image or misconduct, including, but not limited to, inappropriate speech, unethical behavior or offense against the relevant laws and regulations would have a significant impact on our brand images and subsequently the sales of our products. During the Track Record Period, we have terminated business cooperations with celebrities or KOLs before the end of contractual terms due to their inappropriate behaviors or negative publicities. Although we have set up comprehensive internal control measures to prevent our spokesman or brand ambassador from conducting wrongdoings which may cause negative impacts on our reputation or brand images, we cannot guarantee that such measures would be effective at all times. Although we will take proactive measures to mitigate its impact once the similar incidents occur, we cannot guarantee you that our business, financial condition, results of operations will not be affected. In the event that we need to replace our brand ambassador, we may not be able to find suitable candidates in a timely manner. In addition, we may have to dispose relevant packaging materials, removing advertising and marketing materials, which may incur additional expenses. During the Track Record Period, such expenses amounted to nil, nil, approximately RMB1.4 million and nil, respectively. Our marketing plans may be disrupted or fail as we may require more time to prepare new market materials and may therefore miss special events. We may also initiate claims, disputes or legal proceedings against KOLs or brand ambassadors for compensation, which may divert our management's attention and cause us to incur additional litigation expenses and costs. We may also be involved in negative publicities, which may reduce our brand image. If any of these situations occurs, our business, financial condition and results of operations could be materially and adversely affected.

Any negative publicity regarding our Company, Directors, employees or products, regardless of its veracity, could adversely affect our business.

Our image is sensitive to the public's perception of us as a business in entirety, which includes not only the quality, safety and competitiveness of our products, but also our corporate management and culture. We cannot guarantee that no one will, intentionally or incidentally, distribute information about us, especially information regarding the quality and safety of our products or our internal management matters, that may result in negative perception of us by the public. Any negative publicity about our Company, Directors, employees or products, regardless of veracity, could lead to potential loss of consumer confidence or difficulty in retaining or recruiting talents that are essential to our business operations. As a result, our business, financial condition, results of operations, reputation and prospects may be materially and adversely affected.

We may be involved in claims, disputes and legal proceedings in our ordinary course of business.

From time to time, we may be involved in claims, disputes and legal proceedings in our ordinary course of business. These may concern issues relating to, among others, breach of contract, employment or labor disputes, antitrust, infringement of intellectual property rights and environmental matters. In particular, the manufacture and sales of our products subjects us to potential product liability claims if our products are proved to have failed to meet relevant health and safety or other laws and regulations, or cause, or are alleged to have caused, illness or health issues. If we fail in defending against any product liability claims, we may be subject to substantial damages to compensate the claimants. Any claims, disputes or legal proceedings initiated by us or brought against us, with or without merit, may result in substantial costs and diversion of resources and may materially harm our reputation. Furthermore, claims, disputes or legal proceedings against us may be due to defective supplies sold to us by our suppliers, who may not be able to indemnify us in a timely manner, or at all, for any costs that we incur as a result of such claims, disputes and legal proceedings.

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

Fraud or other misconduct by our employees, such as unauthorized business transactions, bribery and breach of our internal policies and procedures, or by third parties, such as breach of law, may be difficult to detect or prevent. Such misconduct could subject us to financial loss and sanctions imposed by governmental authorities while seriously damaging our reputation. This may also impair our ability to effectively attract prospective users, develop customer loyalty, obtain financing on favorable terms and conduct other business activities.

Our risk management systems, information technology systems and internal control procedures are designed to monitor our operations and overall compliance. However, we may be unable to identify non-compliance or suspicious transactions promptly, or at all. Furthermore, it is not always possible to detect and prevent fraud or other misconduct committed by our employees or third parties, and the precautions we take to prevent and detect such activities may not be effective. Therefore, we are subject to the risk that fraud or other misconduct may have previously occurred but was undetected, or may occur in the future. This may materially and adversely affect our business, financial condition and results of operations.

Any economic downturn may adversely affect consumer discretionary spending and demand for our products and services, which may have a material and adverse impact on our business and results of operations.

Our skincare products may be considered discretionary items for consumers. Factors affecting the level of consumer spending for such discretionary items include general economic conditions and other factors, such as consumer confidence in future economic conditions, consumer sentiment, the availability and cost of consumer credit, levels of unemployment, and tax rates. Unfavorable economic conditions may lead consumers to delay or reduce purchases of our products and consumer demand for our products may not grow as we expect. Our sensitivity to economic cycles and any related fluctuation in consumer demand for our products and services may have an adverse effect on our results of operations and financial condition.

If we fail to maintain adequate internal controls, we may not be able to effectively manage our business and may experience errors or information lapses affecting our business.

Our success depends on our ability to effectively utilize our standardized management system, information systems, resources and internal controls. As we continue to expand, we will need to modify and improve our financial and managerial controls, reporting systems and procedures and other internal controls and compliance procedures to meet our evolving business needs. If we are unable to improve our internal controls, systems and procedures, they may become ineffective and adversely affect our ability to manage our business and cause errors or information lapses that affect our business. Our efforts in improving our internal control system may not result in eliminating all risks. If we are not successful in discovering and eliminating weaknesses in our internal controls, our ability to effectively manage our business may be affected.

RISKS RELATING TO CONDUCTING OPERATIONS IN CHINA

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

The majority of our businesses, assets, operations and revenues are located in or derived from our operations in the PRC and, as a result, our business, financial condition and results of operations are subject to the economic, political, social and regulatory environment in the PRC. The PRC government regulates the economy and industries by imposing industrial policies and regulating the PRC's macro economy through fiscal and monetary policies.

During the past decades, the PRC government has taken various actions to promote the market economy and the establishment of sound corporate governance in business entities. Through strategically allocating resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing governmental policy support to particular industries or companies, it also exerts significant influence over China's economic growth.

Our performance has been and will continue to be affected by China's economy, which, in turn, is influenced by the global economy. The uncertainties relating to the global economy as well as the political environment in various regions of the world will continue to impact China's economic growth. While China's economy has experienced significant growth in the past few decades, growth has been uneven across different regions and economic sectors, and there can be no assurance that such growth can be sustained. We are unable to predict all the risks and uncertainties that we face as a result of current economic, political, social and regulatory developments, and many of these risks are beyond our control. All such factors may materially and adversely affect our business and operations as well as our financial performance.

Uncertainties with respect to the PRC legal system and changes in applicable laws and regulations could adversely affect us.

The PRC legal system is a civil law system based on written statutes. Unlike the common law system, it is a system in which decided legal cases have little precedential value. The PRC legal system evolves rapidly, and the interpretations of many laws, regulations and rules may contain inconsistencies. However, these laws, regulations and legal requirements are constantly changing and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to us. In addition, we cannot predict the effect of future developments in the PRC legal system, particularly with regard to our industry, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof. Such unpredictability towards our contractual, property (including intellectual property) and procedural rights could adversely affect our business and impede our ability to continue our operations.

Restrictions on the remittance of Renminbi into and out of the PRC and governmental control of currency conversion may limit our ability to pay dividends and other obligations, and affect the value of your investment.

The PRC government imposes control on the convertibility of Renminbi into foreign currencies. We receive most of our revenue in Renminbi. We may convert a portion of our revenue into other currencies to meet our foreign currency obligations, such as payments to certain suppliers. Shortages in the availability of foreign currency may restrict our ability to remit sufficient foreign currency, or otherwise satisfy our foreign currency-denominated obligations.

Under the existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade-and service-related foreign exchange transactions, can be made in foreign currencies without prior SAFE approval by complying with certain procedural requirements. However, approval from or registration with competent government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may, at its discretion, restrict access to foreign currencies for current account transactions in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders. Furthermore, there can be no assurance that new regulations will not be promulgated in the future that would have the effect of further restricting the remittance of Renminbi into or out of China.

We are a PRC enterprise and we are subject to PRC tax on our global income, and any dividends paid to investors and gains on the sale of our H Shares by our investors may be subject to PRC tax. Under the EIT Law of the PRC, our offshore subsidiaries may be subject to PRC income tax on their worldwide taxable income.

As a PRC-incorporated company, under applicable PRC tax laws, we are subject to a tax of up to 25% on our global income. Under applicable PRC tax laws, regulations and statutory documents, non-PRC resident individuals and enterprises are subject to different tax obligations with respect to dividends received from us or gains realized upon the sale or other disposition of our H Shares.

Non-PRC individuals are generally subject to PRC individual income tax under the Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法) with respect to PRC source income or gains at a rate of 20%. We are required to withhold related tax from dividend payments paid to non-PRC resident individuals, unless specifically exempted by the tax authority of the State Council or reduced or eliminated by an applicable tax treaty. However, pursuant to the Circular on Certain Policy Questions Concerning Individual Income Tax (《財政部、國家稅務總局關於個人所得稅若干政策問題的通知》) issued by the MOF and SAT on May 13, 1994, the income gained by foreign individuals from dividends and bonuses of foreign-invested enterprises are exempted from individual income tax for the time being. According to the Circular Declaring that Individual Income Tax Continues to Be Exempted over Individual Income from Transfer of Shares issued by the MOF and the STA (《財政部國家稅務總局關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) effective as of March 30, 1998, income from individuals' transfer of stocks of listed companies continued to be temporarily exempted from individual income tax. On February 3, 2013, the State Council approved and promulgated the Notice of Suggestions to Deepen the Reform of System of Income Distribution (《國務院批轉發展改革委等部門關於深化收入分配制度改革若干意見的通知》). On February 8, 2013, the General Office of the State Council promulgated the Circular Concerning Allocation of Key Works to Deepen the Reform of System of Income Distribution (《國務院辦公廳關於深化收入分配制度改革重點工作分工的通知》). According to these two documents, the PRC government is planning to cease foreign individuals' tax exemption for dividends obtained from foreign-invested enterprises, and the MOF and the SAT should be responsible for making and implementing details of such plan. However, relevant implementation rules or regulations have not been promulgated by the MOF and the SAT. Considering these uncertainties, non-resident individual holders of our H Shares should be aware that they may be obligated to pay PRC income tax on the dividends and bonus realized from the H Shares.

Non-PRC resident enterprises that do not have establishments or premises in the PRC, or that have establishments or premises in the PRC but their income is not related to such establishments or premises, are subject to PRC EIT at the rate of 10% on dividends received from PRC companies and gains realized upon disposition of equity interests in the PRC companies pursuant to the EIT Law and other applicable PRC tax regulations and statutory documents, which may be reduced or eliminated under special arrangements or applicable treaties between the PRC and the jurisdiction where the non-resident enterprise resides. Pursuant to applicable regulations, we intend to withhold tax at a rate of 10% from dividends paid to non-PRC resident enterprise holders of our Shares (including HKSCC Nominees and payments through CCASS). Non-PRC resident enterprises that are entitled to be taxed at a reduced rate under an applicable income tax treaty will be required to apply to the PRC tax authorities for a refund of any amount withheld in excess of the applicable treaty rate, and payment of any such refund will be subject to the PRC tax authorities' verification. As of the Latest Practicable Date, there were no specific rules on how to levy tax on gains realized by non-resident enterprise holders of H Shares through the sale or transfer by other means of H Shares.

There remains uncertainty as to the interpretation and application of the relevant PRC tax laws by the PRC tax authorities, including whether and how individual income tax or EIT Law tax on gains derived by holders of our Shares from their disposition of our Shares may be collected. If any such tax is collected, the value of our H Shares may be materially and adversely affected.

Under the EIT Law, an enterprise established outside the PRC with "de facto management bodies" within China is considered a "resident enterprise," meaning that it is treated in a manner similar to a Chinese enterprise for PRC EIT purposes. The implementing rules of the EIT Law define "de facto management bodies" as "management bodies that exercise substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise. In addition, the Notice Regarding the Determination of Chinese- Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》), or Circular 82, specifies that certain Chinese-controlled offshore incorporated enterprises, defined as enterprises incorporated under the laws of foreign countries or territories and that have PRC enterprises or enterprise groups as their primary controlling shareholders, will be classified as resident enterprises if all of the following are located or resident in China: (i) senior management personnel and departments that are responsible for daily production, operation and management; (ii) financial and personnel decision-making bodies; (iii) key properties, accounting books, company seal and minutes of board meetings and shareholders' meetings; and (iv) half or more of senior management or directors having voting rights. The State Administration of Taxation of the PRC, or SAT, has subsequently provided further guidance on the implementation of Circular 82.

As most of our operational management is currently based in the PRC, our offshore subsidiaries may be deemed to be "PRC resident enterprises" for the purpose of the EIT Law. If our offshore subsidiaries are deemed PRC resident enterprises, they could be subject to the EIT at 25% on our global income, except that the dividends they receive from our PRC subsidiaries may be exempt from the EIT to the extent such dividend income constitutes "dividends received by a PRC resident enterprise from its directly invested entity that is also a PRC resident enterprise." It is, however, unclear what type of enterprise would be deemed a "PRC resident enterprise" for such purposes. The EIT on our subsidiaries' global income could significantly increase our tax burden and adversely affect our cash flows and profitability.

Payment of dividends is subject to restrictions under PRC law and regulations.

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

Moreover, our operating subsidiaries in the PRC may not have distributable profit as determined under PRC GAAP. Accordingly, we may not receive sufficient distributions from our subsidiaries and joint ventures for us to pay dividends. Failure by our operating subsidiaries and joint ventures to pay us dividends could adversely impact our ability to make dividend distributions to our Shareholders and our cash flow, including periods in which we are profitable.

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

We are a company incorporated under the laws of the PRC and the majority of our assets and subsidiaries are located in the PRC. The majority of our Directors, Supervisors and senior management reside within the PRC. The assets of these Directors, Supervisors and senior management also may be located within the PRC. As a result, it may not be possible to effect service of process upon most of our Directors, Supervisors and senior management outside the PRC. Moreover, the PRC does not have treaties providing for reciprocal recognition and enforcement of court judgments in the United States, the United Kingdom, Japan or most other countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, in the PRC or Hong Kong, recognition and enforcement of court judgments from the jurisdictions mentioned above may be difficult or impossible. On July 14, 2006, the Supreme People's Court of Mainland and the Government of the Hong Kong Special Administrative Region signed an Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) (the "**2006 Arrangement**"), where any designated People's Court of the PRC or Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement, any party concerned may apply to the relevant People's Court of the PRC or Hong Kong court for recognition and enforcement of the judgment.

Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in dispute have not agreed to enter into such a choice of court agreement in writing. Although this arrangement became effective on August 1, 2008, the outcome and effectiveness of any action brought under the 2006 Arrangement remain uncertain.

On January 18, 2019, the Supreme People's Court of the PRC and the government of the Hong Kong Special Administrative Region signed an Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (《關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排》) (the "**2019 Arrangement**"). Although the 2019 Arrangement has been signed, it remains unclear when it will come into effect. When the 2019 Arrangement becomes effective, it will supersede the 2006 Arrangement and any party concerned may apply to the relevant PRC court or Hong Kong High Court for recognition and enforcement of the effective judgments in civil and commercial cases under the 2019 Arrangement, but will be subject to the conditions set forth in the 2006 Arrangement. Therefore, the outcome and effectiveness of any action brought under the 2019 Arrangement is still uncertain. There can be no assurance that an effective judgment that complies with the 2019 Arrangement can be recognized and enforced in a PRC court.

Although we will be subject to the Listing Rules and the Codes on Takeovers and Mergers and Share Repurchases of Hong Kong upon the [**REDACTED**] of our H Shares on the Stock Exchange, the holders of H Shares will not be able to bring actions on the basis of violations of the Listing Rules and must rely on the Stock Exchange to enforce its rules. The Listing Rules and the Codes on Takeovers and Mergers and Share Repurchases of Hong Kong do not have the force of law in Hong Kong.

Fluctuations in exchange rates could result in foreign currency exchange losses.

Fluctuations in exchange rates between the Renminbi and the U.S. dollar, Japanese Yen and other currencies may be affected by, among other things, changes in China's political and economic conditions, as well as international economic and political developments. The value of the Renminbi has been under pressure of appreciation in recent years. Due to international pressures on the PRC to allow more flexible exchange rates for the Renminbi and the economic situation and financial market developments in the PRC and abroad, the PRC government has decided to proceed further with reform of the Renminbi exchange rate regime and to enhance Renminbi exchange rate flexibility. We imported a significant portion of our cosmetic ingredients, therefore, our business is subject to such uncertainties relating to exchange rates and may be materially and adversely affected correspondingly. In addition, being a China-based company [**REDACTED**] in Hong Kong, any significant change in the exchange rates of the Hong Kong dollar against the Renminbi may materially and adversely affect any dividends payable on our H Shares in Hong Kong dollars.

RISKS RELATING TO THE [REDACTED]

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

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

The price and trading volume of our H Shares may be volatile, which could lead to substantial losses to investors.

The price and trading volume of our H Shares may be subject to significant volatility in response to various factors beyond our control, including the political uncertainties in Hong Kong and the general market conditions of the securities in Hong Kong and elsewhere in the world. In particular, the business and performance and the market price of the shares of other companies engaging in similar business may affect the price and trading volume of our H Shares. In addition to market and industry factors, the price and trading volume of our H Shares may be highly volatile for specific business reasons, such as fluctuations in our revenue, earnings, cash flows, investments, expenditures, regulatory developments, relationships with our suppliers and customers, movements or activities of key personnel, or actions taken by competitors. Moreover, shares of other companies listed on the Hong Kong Stock Exchange with significant operations and assets in China have experienced price volatility in the past, and it is possible that our H Shares may be subject to changes in price not directly related to our performance but related to the overall political and economic conditions in Hong Kong, the PRC or elsewhere in the world.

You will incur immediate and significant dilution if the [REDACTED] of the [REDACTED] is higher than the net tangible asset value per H Share, and may experience further dilution if we issue additional Shares in the future.

The [**REDACTED**] of the [**REDACTED**] is higher than the net tangible asset value per Share immediately prior to the [**REDACTED**]. Therefore, purchasers of the [**REDACTED**] in the [**REDACTED**] will experience an immediate dilution in *pro forma* consolidated net tangible asset value. There can be no assurance that if we were to immediately liquidate after the [**REDACTED**], any assets will be distributed to Shareholders after the creditors' claims. To expand our business, we may consider [**REDACTED**] and issuing additional Shares in the future. Purchasers of the [**REDACTED**] may experience dilution in the net tangible asset value per Share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible asset value per Share at that time.

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

The market price of our H Shares could decline as a result of future sales of a substantial number of our H Shares or other securities relating to our H Shares in the public market, or the issuance of new shares or other securities, or the perception that such sales or issuances may occur. Future sales, or anticipated sales, of substantial amounts of our securities, including any future offerings, could also materially and adversely affect our ability to raise capital at a specific time and on terms favorable to us. In addition, our Shareholders may experience dilution of their holdings if we issue more securities in the future. New shares or shares-linked securities issued by us may also confer rights and privileges that take priority over those conferred by the H Shares.

There will be a gap of several days between pricing and trading of our H Shares, and the price of our H Shares when trading begins could be lower than the [REDACTED].

The initial price to the public of our H Shares sold in the [**REDACTED**] is expected to be determined on the [**REDACTED**]; however, the H Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be five business days after the [**REDACTED**]. As a result, investors may not be able to sell or otherwise deal in the [**REDACTED**] during that period. Accordingly, holders of our H Shares are subject to the risk that the price of the H Shares when trading begins could be lower than the [**REDACTED**] as a result of adverse market conditions or other adverse developments that may occur between the time of sale and the time trading begins.

Certain facts, forecasts and statistics in this document obtained from official government sources relating to the PRC and global economy and the industry in which we operate may not be fully reliable.

Certain facts, forecasts and statistics in this document relating to the PRC and global economy and the industry in which we operate are obtained from official government publications that we believe are reliable. However, we cannot guarantee the quality or reliability of these sources. Neither we, the [**REDACTED**] nor our or their respective affiliates or advisors have verified the facts, forecasts and statistics nor ascertained the underlying economic assumptions obtained from these sources. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics in this document relating to the PRC and the global economy and the industry in which we operate may be inaccurate or may not be comparable to statistics produced for other economies and should not be unduly relied upon. As such, no representation as to the accuracy of such facts, forecasts and statistics obtained from official government sources is made. Moreover, these facts, forecasts and statistics involve risk and uncertainties and are subject to change based on various factors and should not be unduly relied upon. Further, there can be no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case in other countries.

Dividends declared prior to the [REDACTED] will not be distributed to investors in the [REDACTED] and other new shareholders after the [REDACTED].

At our shareholder's general meeting held on April 2, 2022, we declared dividend of RMB200 million cash dividends to all existing shareholders. As of November 30, 2022, we had paid all of the cash dividends. Other than the dividend, our accrued consolidated retained earnings before the [**REDACTED**] will be shared among our existing shareholders and new shareholders. See "Financial Information – Dividends". However, no assurance can be given that dividends declared, dividends of similar amounts or at similar rates will be paid in the future or that dividends will be paid at all. Therefore, the dividends declared to pay referred to above should not be used as reference for our dividend policy, nor as a basis to forecast the amount of dividends payable in the future.

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

You are strongly advised to read the entire document carefully and are cautioned against placing any reliance on the information in any press article or any other media coverage which contains information not disclosed or not consistent with the information included in this document.

Prior to the completion of the [**REDACTED**], there may be press and media coverage regarding our Group and the [**REDACTED**]. Our Directors would like to emphasize to prospective investors that we do not accept any responsibility for the accuracy or completeness of such information, and such information is not sourced from or authorized by our Directors or our management team. Our Directors make no representation as to the appropriateness, accuracy, completeness and reliability of any information or the fairness or appropriateness of any forecast, view or opinion expressed by the press or other media regarding our Group or our H Shares. In making decisions as to whether to invest in our H Shares, prospective investors should rely only on the financial, operational and other information included in this document.