

RISK FACTORS

An [REDACTED] in our Shares involves significant risks. You should carefully consider all of the information in this document, including the risks and uncertainties described below, as well as our financial statements and the related notes, and the "Financial Information" section, before deciding to [REDACTED] in our Shares. The following is a description of what we consider to be our material risks. Any of the following risks could have a material adverse effect on our business, financial condition, results of operations and growth prospects. In any such an event, the market price of our Shares could decline, and you may lose all or part of your [REDACTED]. The information given is as of the Latest Practicable Date unless otherwise stated, will not be updated after the date hereof, and is subject to the cautionary statements in the section headed "Forward-Looking Statements" in this document.

We believe there are certain risks and uncertainties involved in our operations, some of which are beyond our control. We have categorized these risks and uncertainties into: (i) risks relating to our business and industry; (ii) risks relating to doing business in China; (iii) risks relating to our corporate structure; and (iv) risks relating to the [REDACTED]. You should consider our business and prospects in light of the challenges we face, including the ones discussed in this section.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Risks Relating To Our Services and Products

Any negative public perception of our brand or reputation will materially and adversely affect our business.

Our brand and reputation are critical to our success. We believe that our success and continued growth depends on the public perception of our brand name and our ability to protect and promote our brand name. Many factors are important to maintain and enhance our brand, including:

- our ability to effectively control the quality of the services performed by our physicians, therapists and other service personnel, and to monitor the performance of such personnel as we continue to expand;
- our ability to maintain a convenient, standardized and reliable customer experience as customer preferences evolve and as we expand our service offerings; and
- our ability to increase brand awareness among existing and potential customers through various means of marketing and promotional activities.

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In addition, allegations against us have appeared in online forums and news articles. These allegations included claims of dissatisfaction with service outcomes and inappropriate sales tactics, among others. Any negative review, comment or allegation regarding our company, stores, employees, services or products by the media, our customers, our former employees or the public in the media or on online social networks may harm our brand, public image and reputation, which in turn may result in a loss of customers, franchisees and business partners.

Our services may fail to meet our customers' expectations or deliver satisfactory results.

Our customers may have high expectations regarding the service outcomes. However, we cannot guarantee the results of our services since results vary depending on various factors, such as the medical history of our customers, their adherence to our pre-procedure and post-procedure instructions, their respective responses to procedures, unknown or undisclosed allergies and other subjective factors beyond our control. It is also an inherent risk that the results of our services may lead to undesirable or unexpected outcomes, such as complications and injuries, or otherwise fail to meet our customers' expectations. Such undesirable or unexpected outcomes may result in customer dissatisfaction, requests for refunds, or complaints, claims or legal actions against us, which may lead to negative publicity. Any negative publicity may adversely harm our brand image and reputation and cause a deterioration in the level of market recognition of and trust in our services.

The beauty and health management services provided by us are discretionary in nature and the customer demand of such services and the Group's business and financial performance is vulnerable to economic turmoil and downturn, changes in macroeconomic environment and COVID-19 pandemic.

Since the COVID-19 pandemic in 2020, many cities in China have taken various social distancing measures in reaction to region-wide COVID-19 outbreak or resurgence, such as travel restrictions, quarantines, remote working, cease of public events, and recommendations against travel for leisure, among others. People spend more time at home, and have fewer social activities due to occasional COVID-19 contamination measures. Such restrictions on social and networking activities also limit opportunities to consume our services. Traditional beauty services, aesthetic medical services and subhealth assessment and intervention services that we provide are discretionary services in nature and the customer demand of such services and the Group's business and financial performance is vulnerable to economic downturn and precautionary measures in reaction to COVID-19 pandemic in China. For instance, in the first six months of 2022, our net profit decreased to RMB19.8 million from RMB105.1 million in the same period of 2021, and net profit margin dropped from 12.6% to 2.7%, primarily as a result of the Recurrence of COVID-19, mobility restriction, and in particular the strict lockdown in Shanghai where we operated 41 direct stores. If the COVID-19 pandemic continues to impact people's work and life, our business operation and financial results may be negatively affected.

Our operations and business plans may be adversely affected by the COVID-19 pandemics.

COVID-19 is a contagious disease caused by a novel strain of coronavirus. Since early 2020 the disease has spread worldwide, leading to an ongoing pandemic. As part of the intensified efforts to contain the spread of COVID-19, governments across the world took a number of actions, including imposing lockdown policies, quarantining and asking residents to remain at home and to avoid public gatherings. As a result, China's beauty and health management service market had been negatively impacted, which in turn materially and adversely affected our business, results of operations and financial condition. For example, some of our stores experienced temporary closures during the COVID-19 pandemic and many of our customers avoided going to our stores in order to avoid social gathering and prevent from themselves being infected. As a result, many of our services were cancelled and the overall demand for our services and products has decreased. In particular, customers are hesitant to have our services such as meridian massage and neck massage since such services need to be provided through physically touching. The revenue from our traditional beauty services decreased from RMB875.8 million in 2019 to RMB848.1 million in 2020 primarily due to the outbreak of COVID-19 pandemic.

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In 2021, new COVID-19 variants such as Beta, Delta and Omicron have been identified in many countries, including China, among which, Omicron and Delta are found to be aggressive, highly transmissible. In 2022, there is a recurrence of the COVID-19 pandemic in several provinces in China. Particularly, from March 2022 to late November 2022, a total of 167 direct stores and 147 franchised stores in various cities, including but not limited to Shenzhen, Shanghai and Beijing, have experienced temporary closures, in order to actively comply with the relevant government policies in relation to the prevention and control of the COVID-19 recurrence. In addition, our revenue decreased by 12.3% from RMB836.8 million for the six months ended June 30, 2021 to RMB734.3 million for the six months ended June 30, 2022. In response to the recurrence of COVID-19, we have implemented measures, including but not limited to, conducting routine sanitization and providing preventive gears such as masks, gloves, and medicines in our stores. The continuance and recurrence of COVID-19 has already caused and may continue to cause adverse and prolonged impact on the economic, geopolitical and social conditions. Meanwhile, our newly-established stores may not be fully utilized due to the decrease in customer volume. As a result, it might take longer time for us to achieve a utilization rate as expected. Furthermore, some of our suppliers are based overseas, we may experience shortage or delay in our supplies due to COVID-19.

Our efforts in developing, launching and promoting new products or brands may not be successful.

We have consistently devoted our efforts to developing new services, products and brands, and exploring new technology in order to not only adapt to evolving consumer preferences, but also influence market trends with innovation. In light of the highly competitive and volatile environment, our future growth depends on our ability to continue to expand and diversify our service and product portfolio as well as our brand portfolio. The launch of new service or product series or brands and entry into new service or product categories involve inherent risks, such as those relating to evolving consumer preferences, market demand and new brand images and pricing. For example, we created a brand called "XURFACE" with three direct stores in 2018, as our attempt to target young clients for our traditional beauty services, however, we ceased such operations in early 2020. For more details, see "Business — Our Store Operation Model — Direct Store Model" in this document.

Failure to successfully diversify our services, products and brands to adapt to the 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, may jeopardize our competitive advantage and market share, and result in continued reliance on our existing services, products and brands. Any of these events could materially and adversely affect our business, financial condition, results of operations and prospects.

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We are exposed to inherent risks of medical incidents, malpractice, medical negligence, misconduct claims arising from our operations.

The safety and quality of our services are vital to the success of our business which depends significantly on the performance of our physicians, therapists and other service personnel. As a beauty and health management service provider, we strictly adhere to relevant medical standards and the safety of our customers is of utmost importance to our operations. However, we may still face the risk of exposure to malpractice, medical negligence or misconduct and claims on account of alleged deficiencies in our service. We may not be able to avoid malpractice, medical negligence or misconduct exposure, including on account of error by our personnel, machine or equipment error, or the lack of pre-operative advice or post-operative care by our customers. For instance, in June and August 2021, Shinan Aimei Medical Cosmetology Clinic of Qingdao Aimei Medical Cosmetology Co., Ltd and Shanghai Xiuke'er Outpatient Department Co., Ltd was each fined RMB1,000 by Qingdao Health Commission and Shanghai Huangpu District Health Commission, respectively. The fines were imposed as we engaged medical technician (i.e. a registered nurse) to implement treatment activity beyond their specialty, which included the provision of mesotherapy and laser treatments without the presence of a registered physician in the two instances. As confirmed by our Directors, during the Track Record Period and up to the Latest Practicable Date, the Group was not subject to any material fines resulted from its service personnel's implementation beyond their specialty.

Our key medical devices are mainly used for our aesthetic medical services and subhealth assessment and intervention services. Our medical devices have been thoroughly evaluated and assessed by physicians, based on their clinical knowledge and experience, to ensure that they are safe and capable of producing the desired results for our clients. During the treatment procedure, the operation by a physician can also affect safety and effectiveness of such medical device, which according to Frost & Sullivan, is backed by sufficient clinical knowledge and experiences of the physician. To protect our clients and maintain our reputation, we have internal procedures in place to ensure our physicians' compliance in using our medical devices. However, despite our efforts to ensure physicians' compliance in using the medical devices, we may still be held jointly liable if our physicians misuse our medical devices causing injuries to our clients. These claims may be brought against us or any of our service personnel by way of legal proceedings or lodging of formal complaints with the relevant licensing regulatory bodies. In any of these cases, we may be required to pay monetary compensation or damages, or in the worst case, the qualifications or licenses of our service personnel may be suspended or revoked. In addition, we or our service personnel may be subject to other disciplinary actions. Negative publicity associated with these claims or actions may also affect our reputation and business operation.

In addition, we rely on our physicians, therapists and other service personnel in our stores to make informed decisions regarding the appropriate treatment and evaluation of our customers, particularly due to their position as the front-line staff which have high degree of interactions with our customers. However, any miscommunications or misconducts between our physicians, therapists and other service personnel on one hand, and the customers on the other hand, and/or incorrect decisions on the part of our physicians, therapists and other service personnel may result in undesirable or unexpected outcomes, including complications, unexpected side effects and injuries. Any medical incidents, malpractice, medical negligence, or misconducts occurring at our stores may result in claims or legal proceedings against us, which, regardless of merit or settlement status, could adversely affect our industry reputation, divert management resources and cause us to incur significant costs.

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The beauty and health management service market may not grow as anticipated, which would materially and adversely affect our business, results of operations and financial conditions.

The future demand for our services is difficult to anticipate since it depends on various factors, many of which are beyond our control, such as technological advancement in devices and skin care products, introduction of substitute products or treatments, evolving perception by customers of beauty and health management, and the customers' willingness to pay for such services.

In addition, demand for our services and our customers' spending power are particularly sensitive to changes in general economic conditions and our customers' disposable incomes. We cannot assure you that the local economy in the places where we operate can sustain stable growth in customer spending. In addition, any economic downturn in the PRC may also cause customers to become less willing to pay for our services, which are not considered as fundamental demand.

Changes in international and regional political conditions could also adversely affect the macroeconomics, which in turn may adversely affect our business and financial performance. For instance, the China-U.S. relation has undergone a series of economic and political tensions since 2018. While China and the United States reached a phase one trade deal in January 2020, the agreed terms have not been fully implemented and more trade talks are in discussion. The future development of the China-U.S. relation remains uncertain and any adverse development may adversely impact the macroeconomics in the PRC and in turn adversely impact our business, results of operations and prospects.

We may fail to stay attuned of the market trends or latest technological advancement in the beauty and health management service industry.

We operate in an industry with rapidly changing consumer needs and preferences which challenge us to continuously keep up with the latest developments and trends in the beauty and health management service industry and respond to the changing requests and preferences of our customers. Our customers are constantly looking for innovative and high-performance services and products at reasonable prices. In order to keep up with the latest developments and trends in the beauty and health management service industry, we need to upgrade our existing medical and beauty equipment, services and products from time to time, diversify the services and products we provided and source new services and products. If we fail to anticipate and adjust ourselves based on the market trends or fail to introduce latest technologies, we may not be able to provide high-quality services and products in satisfying customers' needs, and consequently lose our existing customers or be unable to attract new customers.

In addition, even if we are able to successfully introduce new or improved services and products, they may not achieve the desired financial return, and they may be rendered obsolete or less competitive by changing customer preferences or the introduction by our competitors of services and products with newer technologies or features.

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We face certain risks associated with the use of franchise business model.

We introduced the franchised store model only for traditional beauty services as our first attempt to combine the benefits of franchise store model with our traditional strengths developed through direct store model. We cooperate with franchisees who are committed to our philosophy and motivated to grow the brand and store network with us. As of June 30, 2022, 175 stores were operated by our franchisees under franchise arrangements. For details of our franchise arrangements, see "Business — Our Network" in this document. However, our franchise business models subject us to a number of risks, each of which may impact our ability to collect franchise fees from our franchisees, may harm the goodwill associated with our brands, and may adversely impact our business and results of operations.

- *Control over franchisees.* Our franchisees manage their businesses independently and are responsible for the day-to-day operation of their stores. As a result, we cannot fully control their action and our contractual rights and remedies are limited. If our franchisees do not perform their obligations pursuant to their franchise agreements with us, including but not limited to obtaining the relevant operating permits or complying with the applicable laws and regulations, such as fire safety related procedures and approvals, or if our franchisees do not successfully operate stores in a manner consistent with our required standards, or project an image inconsistent with our brands and values, our brands' image and reputation could be harmed, which in turn could hurt our business and operating results. The success of our franchised stores will also depend on the willingness and ability of our franchisees to implement major initiatives, which may include financial investment, and to remain aligned with us on operating, promotional and reinvestment plans, which may be capital-intensive and may only be beneficial in the long term. There is no guarantee that our franchisees will share our vision, and they may refuse to take actions that are only beneficial in the long term.
- *Revenues realized from franchised stores.* The revenues we realize from franchised stores are partly dependent on the ability of our franchisees to grow their sales. If our franchisees do not experience sales growth, our revenue and margins could be negatively affected. Also, if sales trends worsen for our franchisees, their financial results may deteriorate, which could result in, among other things, store closures or delayed or reduced payments to us.
- *Bankruptcy.* A franchisee's bankruptcy could have a substantial negative impact on our ability to collect payments due under the franchise arrangements, and may have a negative impact on our brand image.

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- *Litigation.* Our franchisees are subject to a variety of litigation risks, including, but not limited to, customer claims, personal-injury claims, environmental claims, employee allegations of improper termination. As stipulated in our franchise agreement, we will not be held liable for the claims against our franchisees, for instance, in a dispute brought by a customer in our franchised store, unless the dispute was caused by the quality issues of the products provided by us. Although we are not directly liable for the costs involved in these types of litigations, each of these claims may increase the costs of our franchisees and adversely affect their profitability, and may therefore limit the funds available for them to pay franchise fees, to renovate and develop the stores they operate, or limit their ability to renew their arrangements with us. On the contrary, our franchisees or former franchisees may have disputes with us for various issues, such as breach of franchise agreement, unauthorized use of trademark. Such direct or indirect litigation risks could in turn adversely affect our business and operating results and may have negative impact on our brand image.

Newly opened and acquired stores may not achieve operating results as anticipated.

It typically takes newly opened and acquired stores a period of time to achieve a utilization rate comparable to our existing stores, due to factors such as time needed to build customer awareness and to integrate such stores' operations into our existing infrastructure. Furthermore, we may not be able to immediately utilize a new store as anticipated, due to factors such as our inability to obtain or material delay in obtaining the required approvals, permits or licenses, and any substantial increase in costs to ramp up operations and utilization. In addition, the operating results generated at the newly opened and acquired stores may not be comparable to the operating results generated at any of our existing stores. The new stores may even operate at a loss, which could materially and adversely affect our results of operations.

We may fail to maintain effective quality assurance systems for our services.

Service quality is critical to our success. Maintaining consistent service quality depends significantly on the effectiveness of our and our franchisees' quality assurance systems, which in turn depends on a number of factors, including the design of our quality control systems and employee implementation and compliance with those quality control policies and guidelines. Due to the scale of our and our franchisees' operations, we also face the risk that certain of our and our franchisees' employees may not adhere to our mandated quality procedures and requirements. There can be no assurance that our and our franchisees' quality assurance systems will prove to be effective. Any significant failure of or deviation from these quality assurance systems could have a material adverse effect on our business, reputation, results of operations and financial condition.

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Any substantial increase in rent, non-renewal of lease agreements, or unexpected early termination of lease agreements may affect our business.

Since all of our stores are currently situated at leased properties, we are particularly susceptible to fluctuations in the property rental market. As of the Latest Practicable Date, we leased 304 properties in the PRC with an aggregate GFA of approximately 88,305.38 sq.m., and as of June 30, 2022, our lease liabilities amounted to RMB513.8 million. We believe that, generally, rental costs for premises that are suitable for our business will continue to increase. Our substantial operating lease obligations expose us to potential risks, including increasing our vulnerability to adverse economic conditions, limiting our ability to obtain additional financing and reducing our cash available for other purposes.

Our lease agreements for our stores typically have a term over five years with an extension period ranging from one to three years. If a lease agreement is renewed at a rate substantially higher than the existing rate or if any other existing favorable terms granted by the lessor are not extended, we must evaluate whether renewal on such modified terms is in our business interest. If we are unable to renew our lease agreements upon their expirations, we will have to close or relocate the relevant stores. We cannot assure you that we will be able to secure comparable locations with leases based on comparable terms to relocate our business in time, or at all, which could subject us to interruption to our business, construction, renovation and other costs and risks.

Generally, lessors may not terminate our lease agreements in the absence of our breach of the lease agreements. The PRC government, however, has the statutory power to acquire any land in the PRC. In addition, during the Track Record Period, certain of our leased properties were mortgaged to independent third parties even before the execution of the lease agreements. A mortgagee can exercise the power of sale by way of judicial auction over the mortgaged property when the right is due and exercisable. As a result, we may be subject to compulsory acquisition, closure or demolition of any of the properties on which our stores are situated. Although we may receive liquidated damages or compensation if our leases are terminated unexpectedly, we may be forced to suspend operations of the relevant stores and divert management attention, time and costs to find a new site and relocate our stores.

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If we are unable to fully comply with PRC laws and regulations on medical advertisement, our results of operations could suffer significantly.

We use advertisements to promote our service, and we are obligated under PRC laws and regulations to monitor our advertising content to comply with applicable laws. According to the Administrative Measures on Medical Advertisement (醫療廣告管理辦法) and Notice of the Ministry of Health on Further Strengthening the Administration of Medical Advertisements (衛生部關於進一步加強醫療廣告管理的通知), our operations must apply for and obtain a medical advertisement examination certificate before publishing a medical advertisement. Violation of these regulations may result in penalties against stores in our network, including rectification, orders, warnings, suspension of operations, revocation of relevant permits to engage in the provision of specific medical services, and the revocation of the Medical Institution Practicing License. In addition, if the content of the published advertisement is different from what is approved and documented in the medical advertisement examination certificate, the competent authority may revoke the medical advertisement examination certificate and refuse to accept any applications for advertisement examination for a period of one year, which will consequently restrict our promotion and marketing efforts. For advertising content related to certain types of products and services, such as pharmaceuticals and medical equipment, we are required to confirm that the advertisers have completed filings with local authorities and obtained all requisite government approvals, including review of operating qualifications, proof of quality inspection of the advertised products and government pre-approval of the contents of the advertisement. For more details of the laws and regulations on medical advertising in the PRC, see "Regulatory Overview — Regulations Relating To Medical Services — Regulations on Medical Advertising in the PRC" in this document.

Whilst we endeavor to comply with PRC advertising laws and regulations, we cannot guarantee that we would not inadvertently become non-compliant with relevant advertising laws and regulations. In addition, any changes in the existing laws and regulations, such as the newly released Enforcement Guidance for the Medical Cosmetology Advertising (醫療美容廣告執法指南) on November 2, 2021, or any changes of interpretation thereof, or any promulgation of new laws and regulations in the PRC in relation to medical advertising could require us to obtain additional approvals or permits for our promotions and advertisements, or incur additional compliance costs, or result in us being regarded as not in compliance with the relevant laws and regulations thereby subjecting us to penalties and/or other legal consequences. If we fail to adjust promotions, advertising and marketing strategies and policies in a timely manner in response to changes in the existing laws, regulations or rules; or if we are found to be non-compliant with any of these laws, regulations or rules, we may face penalties, which could adversely affect our business, financial condition, reputation, results of operations and prospects.

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Risks Relating To Our Customers

We may not be able to maintain and increase the sales and profitability of our existing stores.

Our ability to increase sales of existing stores depends in part on our ability to successfully implement our initiatives to increase customer traffic and spending per member. For example, for our traditional beauty services by direct stores, the client visits increased from 771,078 in 2019 to 993,235 in 2021, and average spending per active member increased from RMB10,596 in 2019 to RMB11,843 in 2021. During the six months ended June 30, 2022, our direct stores served 60,956 active members, who on average made 5.9 visits and spent approximately RMB10,736. However, there can be no assurance that we will be able to continue to achieve our targeted sales growth and profitability for our existing stores. In addition, we may continue to experience negative same-store growth rate across our developing and matured stores, CellCare stores and Neology healthcare centers. Our stores may even operate at a loss if they could not grow sufficiently at the rate we expect and incur larger amount of costs and expenses at the same time. In addition, if we open new stores in our existing geographic markets, the sales performance and customer traffic of our existing stores near such new stores may decline as a result of increased competition.

We may fail to attract new customers cost-effectively.

We constantly endeavor to grow our customer base. In order to attract new customers, we may rely on referrals by existing customers and need to incur additional expenditures or make additional investment in our marketing and advertising efforts, which may be more costly and/or less effective or successful as we anticipate. There is no assurance that we will be able to attract sufficient number of new customers to substantiate our continuous business development.

Failure to enhance our sales and marketing efficiency could harm our ability to increase the sales of our services and products and achieve broader market reception.

We rely on our brand image and reputation in marketing and selling our services. As there are an increasing number of potential customers who may seek services based on our reputation and brand in the beauty and health management service industry, we will need to constantly manage our reputation and brand image and further enhance customer education through promotions, advertisements and online marketing activities. Our ability to increase customer base and achieve broader market reception of our services and products will depend to a significant extent on our ability to enhance our sales and marketing efficiency. We expect to enhance our sales and marketing efficiency to cover broader geographical areas in the future. However, there is no guarantee that we will be successful in attracting and maintaining our customers, and our ability to control selling and marketing expenses may significantly affect our profitability. Even if we are successful in expanding our customer base, if these efforts paid to analyze their needs and market our services and products to them would divert our limited resources away from existing customers, our ability to attract and maintain our current customers would be negatively impacted, which might cause a loss of our current customer base and adversely affect our business operation and financial results.

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We are subject to customer complaints, claims and legal proceedings in the regular course of our operations.

We rely on our service personnel team at our stores to make appropriate decisions regarding the services provided to our customers. However, we cannot assure you that every team member at our stores will always act in accordance with the appropriate standard of care. Any deviation from the appropriate standard of care by our physicians, therapists and other service personnel, may result in unsatisfactory treatment outcomes, injuries or, in extreme cases, deaths. We are subject to complaints, claims or legal proceedings initiated by our customers as a result of any negative physical reaction to our services. In addition, given the nature of the beauty and health management service industry and subjectiveness of the level of satisfaction with services provided, we have been and will continue to be susceptible to other types of complaints associated with our services from time to time. These primarily include (i) dissatisfaction with our customer service; (ii) disputes over pricing; (iii) over-promising of treatment outcome; (iv) dissatisfying aesthetic effects of our services; (v) dissatisfaction with post-treatment recovery periods; and (vi) general dissatisfaction with the results of our services.

In addition, due to the fact that the volume of service and number of customers have all rapidly increased over the years as part of our growth, the absolute number of such complaints, allegations and other claims, regardless of merits, has increased and may continue to increase. Such complains, allegations and claims, if not managed properly, could have a material adverse effect on our reputation, business, results of operations, financial condition and prospects.

Risk Relating To Our Suppliers and Employees

We do not have full control over the quality of medical and beauty equipment, medical supplies, injection materials, skincare products and other consumables we use in providing our services.

We have established a comprehensive service protocol, internal control and strict quality control system. Even though we are selective in choosing our suppliers, we cannot assure you that the medical device, injectables, daily facial and body care products and other consumables we procure (including our private label offerings) from our suppliers are safe, free of defects and meeting the relevant quality standards. In the event of any quality issues, we could be subject to complaints and product liability claims by our customers. We may not be able to seek indemnification from our suppliers and if we engage in legal proceedings against our suppliers, such proceedings may be time consuming and costly regardless of the outcomes.

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We have engaged a limited number of suppliers, which may render us vulnerable to supply shortages and price fluctuations.

We engaged a limited number of suppliers for certain medical and beauty equipment, medical supplies, injection materials, and skincare products during the Track Record Period. Any interruptions or changes in the supply, or our inability to obtain substitute suppliers meeting our quality standards at acceptable prices in a timely manner may impair our ability to meet the demands of our customers. Moreover, we expect our demand for medical and beauty equipment, medical supplies, injection materials, and skincare products increase as we continuously expand our business scale, and we cannot guarantee that our current suppliers have the capacity to meet our increasing demand going forward. On the other hand, we enter into minimum purchase commitments with certain suppliers, which may affect our ability to timely adjust the amount of our purchases based on our actual business demands, and may cause us to incur unnecessary costs merely to fulfill such minimum purchase commitments.

In the event that our major suppliers terminate their business relationships with us, or fail to provide us with adequate supply to meet our needs, we may not be able to find suitable alternative suppliers within a short period of time. Moreover, prices of certain principal medical and beauty equipment, medical supplies, injection materials, and skincare products may increase significantly, in which case we may not be able to increase the prices of our services to offset the impacts. Therefore, if our suppliers increase prices of or reduce discounts and we fail to secure replacement for such products at a better price, we may experience a decline of our profits.

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

We are exposed to the risk that our employees, customers, suppliers, or other business partners we have contracted may engage in illegal, fraudulent, improper or unethical conduct. Misconduct by these individuals and institutions could include intentional, reckless and/or negligent conduct that violates the relevant laws and regulations, including those requiring the reporting of true, complete and accurate information and data to regulatory authorities, data privacy and security, product quality, efficacy claims and manufacturing standards, and other relevant laws and regulations in China. Such misconduct could also involve fraud, corruption, bribery (such as offering or accepting kickbacks and rebates that may constitute bribery), tax evasion and other illegal practices. In addition, our business partners such as medical institutions may be subject to greater regulatory scrutiny in their operations, in particular, their compliance with applicable anti-bribery and tax laws and regulations.

In particular, sales, marketing and other business arrangements in our industry are subject to extensive laws and regulations intended to prevent fraud, bribery, misconduct, kickbacks, self-dealing and other abusive practices. In recent years, regulatory scrutiny and enforcement in sales, marketing and other business arrangements involving medical institutions, such as aesthetic medical service providers, have increased, and regulations

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in our industry or those of our business partners may further tighten in the future. We could be potentially liable for actions taken by our employees, customers, suppliers or other business partners that violate anti-bribery, anti-corruption and other related laws and regulations in China or other countries, as well as suffer from negative publicity associated with these actions, over which we may not have full control. Our employees or other third parties may fail to comply with such laws and regulations, and the relevant government authorities with discretion may interpret the laws and regulations in the way inconsistent with our understanding, both of which may expose us to potential risks and penalties. Although we had not been subject to fines or penalties for any breach of such laws and regulations in the past, we cannot assure you that there will not be any such fines or penalties imposed on us in the future.

The risk of breaches by our employees, customers, suppliers or other business partners, whether intentionally or inadvertently, could also potentially be higher in light of the recent regulatory scrutiny. We may not be able to identify and deter any misconduct by such foregoing persons, and the precautions we take to detect and prevent such misconduct may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could severely disrupt our business operations, or result in failure to continue the marketing and sales of our products and obtain regulatory approval for our product candidates. The government authorities may seize the products involved in any illegal or improper conduct by our employees and other third parties, and we may be subject to claims, fines or suspension of our operations. Our brands and reputation, business, results of operations and financial position could be adversely affected if we are associated with any potential liabilities as well as negative publicity as a result of illegal, fraudulent, improper or unethical conduct, or allegations of such, by our employees and other business partners.

Some of our important suppliers are based overseas and fluctuations in foreign currency exchange rates could result in additional costs to us.

We procure a substantial amount of skincare products and injection materials manufactured in Germany, Switzerland and other foreign countries from international suppliers and domestic trading companies. As a result, we are exposed to foreign currency exchange fluctuations arising in the normal course of our business operations. Our foreign exchange risk primarily arises when we purchase products from our suppliers in a certain currency and sell them to our customers in a different currency, and the exchange rate between those currencies may experience significant fluctuations. In the event that foreign currency exchange rates fluctuate significantly, we cannot assure you that we are able to pass on the cost to our customers by adjusting our service or product prices.

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Our staff maybe incentivized to adopt inappropriate and excessive sales practices in advising customers to purchase unnecessary or unsuitable services or products.

The remuneration package of our employees includes basic salary, allowance and bonus. In particular, our physicians, therapists and other service personnel may be remunerated with bonus that is assessed mainly based on their performance. Therefore, our staff may be incentivized to adopt inappropriate and excessive sales practices, which may involve advising customers to purchase unnecessary or unsuitable services or products, in order to boost their sales.

We were not involved in any litigation or material legal proceedings in relation to inappropriate or excessive sales practices during the Track Record Period and up to the Latest Practicable Date. However, any incidents of inappropriate and excessive sales practices which lead to unnecessary or unsuitable services or products sold to our customers may results in complaints, claims and legal actions to be brought by dissatisfied customers. Such dissatisfied customers may request refunds, complain on the Internet or media, or to his/her peers, or file legal claim against us, where such actions may materially and adversely affect our market reputation and consumer perception, thereby weakening their affinity to our brand, causing deterioration in the level of trust among our customers and potential customers in our services and resulting in reduced sales and potential loss of customers. In addition, unscrupulous sales practices are regulated and restricted by PRC laws and regulations, the violations of which would subject us to penalties and/or other legal consequences. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any administrative penalty involving material non-compliance in relation to unscrupulous sales practices. Any changes in the existing laws and regulations, or any changes of interpretation thereof, or any promulgation of new laws and regulations in the PRC in relation to unscrupulous sales practices could require us to incur additional compliance costs, or result in us being regarded as not in compliance with the relevant laws and regulations thereby subjecting us to penalties and/or other legal consequences.

Our success depends on our ability to retain our senior management, key personnel and to attract, retain and motivate qualified personnel.

We have been, and will continue to be, heavily dependent on the continued services of our senior management team and other key employees, some of whom have been with us since our inception. In particular, we rely on the expertise, experience and leadership of our founder and chairman of the Board, Mr. LI, who has extensive business leadership experience and industry insight. We also rely on a number of key members of our senior management team, such as our chief executive officer and vice chairman of the Board, Mr. LIAN, who has been working in China's beauty and health management service industry for nearly two decades. Competition for competent candidates in the industry is intense and the pool of competent candidates is limited. If we lose the services of our key personnel, we may not be able to locate suitable or qualified replacements in a timely manner or at all and may incur additional expenses to recruit and train new personnel. Consequently, our business could be disrupted, the implementation of our business strategies could be delayed, and our financial condition and results of operations could be adversely affected. In addition, if any member of our senior management team or key

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employees joins a competitor or forms a competing business, we may lose know-how, customers and key service personnel and staff. Each of our key employees including all physicians has entered into a confidentiality and non-compete agreement with us. We cannot assure you, however, the extent to which any of these agreements will be enforceable under the applicable laws.

There is no assurance that we will be able to successfully enforce the non-competition undertakings contained in the agreements we have entered into with our employee.

In the PRC, restrictive covenants are enforceable only when the contractual terms restricting a contracting party's activities during or after the termination of his/her agreement are reasonable in all circumstances to protect the legitimate business interests of the other contracting party, i.e. our Group. Despite there are non-competition undertakings contained in the employment agreements we have entered into with our physicians, there is no assurance that they will not, upon termination of their respective agreements with us, engage in business activities that compete, whether directly or indirectly, with our business for a certain period of time. In circumstances where our physicians engage in competing business activities, we cannot assure you that we will be able to successfully enforce such non-competition undertakings under the laws of the PRC. If our physicians engage in competing business activities and we are unable to enforce the relevant non-competition undertakings, our business, results of operations and financial condition may be materially and adversely affected.

Risks Relating To Extensive Government Regulations

We may not be able to obtain, maintain or renew all the permits, licenses, certificates and other regulatory filings.

We are subject to extensive government regulations for all material aspects of our operations in China, and are required to obtain and maintain various approvals, licenses and permits, and to complete various registrations or filings, to operate our business, including but not limited to business license, medical institution practicing license, environmental impact assessment filing, fire safety inspection, and permits and filings in relation to relevant constructions. For details, see "Business — Compliance, Licenses and Permits" in this document. These approvals, licenses and permits are obtained upon satisfactory compliance with, among other things, the applicable laws and regulations. Complying with government regulations may require substantial expenses, and any non-compliance may expose us to liability. In case of any non-compliance, we may have to incur significant expenses and divert substantial management time and resources to rectify the issues.

If we fail to obtain the required licenses, permits and approvals, or if the scope of our operations exceed the scope permitted under the applicable licenses, permits and approvals, we may be subject to fines, confiscation of the income derived from the related stores, the suspension of operations of the related stores, and adverse publicity arising from such non-compliance with government regulations. Further, the establishment of our stores at new locations may involve regulatory approvals and reviews by various PRC governmental authorities, and we may need to obtain permits, licenses, certificates

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and/or complete other regulatory filings, including but not limited to, relevant environmental assessment, construction permits and fire safety related filings of the new premises by relevant PRC governmental authorities. If we fail to obtain the necessary approvals, licenses and permits for new stores in time, our network expansion plan may be delayed. In addition, many of these licenses are subject to examinations or verifications by relevant authorities and are valid only for a fixed period of time subject to renewal and accreditation, and there can be no assurance that we will be able to obtain, renew and/or convert all of the approvals, licenses and permits required for our existing business operations upon their expiration in a timely manner or at all, which may materially impact our operations.

During the Track Record Period, we were fined by relevant government authorities for certain isolated non-compliance incidents relating to our failure to complete certain fire safety procedures in time, which were fully settled and were not material in nature. During the Track Record Period and up to the Latest Practicable Date, we experienced certain non-compliance incidents, including failure to obtain the required Fire Safety Inspection Approvals for certain of our direct stores. For details, see "Business — Compliance, Licenses and Permits — Fire Safety" in this document. As of the Latest Practicable Date, we had fully rectified the non-compliance incidents in relation to failure in obtaining the required Fire Safety Inspection Approvals for all our direct stores and franchised stores in operation as of the Latest Practicable Date. In addition, we have adopted a series of enhanced internal control measures aiming to prevent similar non-compliances from recurring. We expect to incur additional costs as a result of the measures we take to rectify our historical non-compliances and to prevent similar non-compliances from recurring, however, we cannot assure you that we will be able to fully rectify all non-compliance incidents in a timely manner, or that we will not be subject to any future regulatory reviews and inspections where other non-compliance incidents might be identified, which might materially and adversely affect our business, financial condition, results of operations and prospects.

We may be subject to any litigation, legal or contractual disputes, government investigations or administrative proceedings.

We may from time to time become subject to various litigation, legal or contractual disputes, investigations or administrative proceedings arising in the ordinary course of our business, including but not limited to various disputes with or claims from our suppliers, customers, franchisees, business partners and other third parties that we engage for our business operations. On-going or threatened litigation, legal or contractual disputes, investigations or administrative proceedings may divert our management's attention and consume their time and our other resources. Furthermore, any litigation, legal or contractual disputes, investigations or administrative proceedings which are initially not of material importance may escalate and become important to us, due to a variety of factors, such as the subject matter of the disputes, the likelihood of loss, the monetary amount at stake and the parties involved. For example, we were in trademark and franchise agreement disputes with a former franchisee and its founder in Inner Mongolia, in which cases the former franchisee and its founder alleged that we infringed on their exclusive right to use our Company's trademark of "美麗田園", with a dispute amount of approximately RMB3.1 million; while we alleged that the former franchisee and

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its founder breached the franchise agreement, with a dispute amount of approximately RMB1.2 million. The court rejected the former franchisee and its founder's claims in whole with respect to the trademark use right dispute, and rejected a portion of our monetary compensation claims in the franchise agreement dispute. Both we and the former franchisee appealed to the High People's Court of Huhehaote, Inner Mongolia Autonomous Region. As of the Latest Practicable Date, the trademark dispute was still in the process of reviewing the case, and the franchise agreement dispute was concluded with the court partially upholding our appeal. In 2019, a customer who suffered vision impairment due to central retinal artery occlusion around two months after receiving an eyelid alteration surgery in one of our direct stores sued us for damages. Although there was no evidence showing that any misconduct during the surgery directly resulted in the vision impairment of the customer, the court ordered our direct store to pay damages of RMB109,133.6 for not informing the customer of this specific risk prior to the surgery representing approximately 30% of the total damages suffered by the customer. For more information about the legal proceedings, please refer to "Business — Legal Proceedings" in this document. If any verdict or award is rendered against us or if we settle with any third parties, we could be required to pay significant monetary damages, assume other liabilities and even to suspend or terminate the related business projects. In addition, negative publicity arising from litigation, legal or contractual disputes, investigations or administrative proceedings may damage our reputation and adversely affect the image of our brands and products, which further materially and adversely affect our business.

Ongoing regulatory reforms in the beauty and health management service industry are unpredictable in the PRC, and we and our products may be subject to new or more stringent regulations, which may result in significant additional expenses and we may be subject to penalties.

We conduct our business in a heavily regulated industry and therefore incur on-going compliance costs and face potential penalties for non-compliance. The laws and regulations relate mainly to the requirements for medical institutions and equipment, and the licenses, qualifications and number of service personnel. For details, see "Regulatory Overview" in this document. Accordingly, our stores are subject to periodic license renewal requirements and inspections by various government agencies and departments. If we fail to obtain or renew any necessary licenses, permits, approvals and certificates, or if our service personnel become unlicensed at any time during their practices at our stores, or if our physician fail to obtain or maintain a valid license, or if we are found to be non-compliant with any of these laws, regulations or rules, we may face penalties, suspension of operations or even revocation of operating licenses, permits, approvals or certificates, depending on the nature of the findings.

The PRC's regulatory regime governing the beauty and health management service industry may undergo reform. It is uncertain what impact the new regulations and policies would have on our competitiveness, operations and corporate structure. Our business operations and future expansion are largely driven by the PRC's policies, which may change significantly and are beyond our control. There can be no assurance that the PRC government will not impose additional or stricter laws or regulations on beauty and health management services, or strengthen and tighten supervision and management of private medical institutions, or implement stricter or more comprehensive regulations on

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the distribution of skincare and pharmaceutical products, medical devices and medical consumables. Any changes in laws and regulations, or any change of interpretation thereof, could require us to obtain additional licenses, permits, approvals or certificates, or result in the invalidation of our currently owned licenses, permits, approvals or certificates, or result in us being regarded as not in compliance with the relevant laws and regulations thereby subjecting us to penalties and/or other legal consequences. There is no assurance that we will be able to adapt to such changes in a timely manner. Even if we are able to be compliant with such new laws, rules, regulations or industry standards and the regular audit of the same, it may significantly increase our operating costs, which may in turn lower our profit margins.

In addition, our products that are approved by the regulators are, and will be subject to, ongoing regulatory requirements with respect to manufacturing, labeling, packaging, storage, advertising, promotion, sampling, record-keeping, post-market studies, submission of safety, efficacy, and other post-market information as well as other requirements of regulatory authorities in China. If we and our suppliers are unable to comply with the aforesaid regulatory requirements, we and our suppliers may be subject to regulatory investigation, administrative proceedings and potential penalties. In particular, the aesthetic medical industry in China has recently been subject to increased regulatory scrutiny, including laws and regulations related to false advertising, false efficacy claims and bribery (including any form of kickbacks and rebates that may constitute bribery), as well as off-label uses. The continued or heightened regulatory scrutiny on such skincare products may impact our future sales, increase the costs of our business and expose us to potential liabilities as well as negative publicity.

We could be exposed to risks related to our management of customers' data.

During our ordinary course of business, we collect certain data of our customers, primarily including name, gender, contact information, basic health information, consultation and treatment records, and other service-related records. We collect such information primarily for communications, treatment planning and delivery of our services and products properly. We are required by applicable laws to properly keep and maintain customer records, and to protect the customers' information from being leaked. We are also subject to, among others, regulations on personal information protection in the PRC which limits the use of personal information of our customers collected by us for such purposes for which they were collected. We have adopted various measures to ensure legal compliance. For details, see "Business — Data Privacy and Protection" in this document. However, these measures may not always be effective in protecting our customers' data and there is no guarantee that we can completely prevent the information from leakage and constantly maintain compliance under evolving and complex regulatory environment, for example, we may need to enhance and prioritize our internal control measures, security management and information technology systems, such as multi-layer protection scheme. Our information technology systems could be breached through hacking activities. Personal information we maintain could be leaked due to any theft or misuse of personal information caused by misconduct or negligence. In addition, although we do not make the customers' data available to the public, we use such data on an aggregated basis after redacting personally identifiable information for better understanding of the personalized client's needs and preferences.

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In addition, the laws and regulations regarding cybersecurity, data privacy and protection in China are generally complex and evolving, with uncertainty as to the interpretation and application thereof. For example, on December 28, 2021, the Cyberspace Administration of China, or the CAC, and other twelve PRC regulatory authorities jointly revised and promulgated the Cybersecurity Review Measures (《網絡安全審查辦法》), which stipulates the applicable scope of the cybersecurity review and came into effect on February 15, 2022. Pursuant to the Cybersecurity Review Measures, critical information infrastructure operators that intend to purchase internet products and services and anticipate that its procurement of internet products and services affect or may affect national security after the network products and services being put into use and network platform operators engaging in data processing activities that affect or may affect national security must be subject to the cybersecurity review. The Cybersecurity Review Measures further stipulates that network platform operators with personal information data of more than one million users that seek for listing in a foreign country are obliged to apply for a cybersecurity review by the Cybersecurity Review Office. In addition, if regulatory authorities determine that the internet products and services as well as data processing activities affect or may affect national security as stipulated in the Measures for Cybersecurity Review, the Cybersecurity Review Office can initiate cybersecurity reviews.

On November 14, 2021, the CAC publicly solicited opinions on the Regulations on the Administration of Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》) (“**Draft Data Security Regulations**”), which, among others, stipulate that if a data processor has processed personal information of over one million persons and intends to be listed abroad, if the public listing of a data processor in Hong Kong affects or may affect national security, or a data processor participates in data processing activities that affect or may affect national security, it must be subject to the cybersecurity review. Although the number of individuals of which we process personal information are far below one million and we believe that our collection and handling of the personal information do not constitute “data processing activities” or any other activities that may affect national security under the Draft Data Security Regulations, the application scope of the Draft Data Security Regulations remains unclear, and the PRC government authorities may have discretion in the interpretation and enforcement of the laws and regulations. If a final version of the Draft Data Security Regulations is adopted, we may be subject to review when conducting data processing activities, and may face challenges in addressing its requirements and make necessary changes to our internal policies and practices in data processing. Any actual or alleged failure to comply with the evolving data privacy and protection laws and regulations could damage our reputation and negatively affect our business operation and financial position.

On 7 July 2022, the CAC promulgated the Measures on Security Assessment of Cross-border Data Transfer (《數據出境安全評估辦法》) (the “**Measures on Security Assessment of Cross-border Data Transfer**”), which became effective on 1 September 2022. These measures provide that a data processor providing data out of the territory of mainland China in certain circumstances shall report a security assessment for its outbound data transfer to the CAC. Further details on the Measures on Security Assessment of Cross-border Data Transfer are set out in “Regulatory Overview — Laws and Regulations Related to Cybersecurity and Personal Information or Data Protection”.

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As of the Latest Practicable Date, we have not been required by any government authorities to report such security assessment. Since the interpretation and implementation of these measures are still subject to elaboration by relevant government authorities, there remains uncertainty as to how the new regulation will be applied and implemented.

Our leased property interests may be defective and our right to lease or use the properties may be challenged.

We lease 304 pieces of properties for our office and other uses. As of the Latest Practicable Date, the relevant lessors of 46 of our leased properties had not provided relevant title ownership certificates or other similar proofs of such leased properties to us. Therefore, we cannot assure you that such lessors are entitled to lease the relevant properties to us. If the lessors are not entitled to lease the properties to us and the owners of such properties decline to ratify the lease agreements between us and the respective lessors, we may not be able to enforce our rights to lease such properties under the respective lease agreements against the owners.

In addition, the actual usage of six leased properties was inconsistent with the usage set out in their title evidence or relevant authorization documents. Such six leased properties are used for the operation of our stores. We face uncertainties of our leases if third party claims or challenges the lease. If the lessors are found out to not have the requisite rights to lease these properties, our relevant lease agreements with them may be deemed invalid, and as a result we may be required to vacate these leased properties.

As of the Latest Practicable Date, we are not aware of any claim or challenge brought by any third parties concerning the use of our leased properties without obtaining proper ownership proof. If our lease agreements are claimed as null and void by third parties who are the real owners of such leased properties, we could be required to vacate the properties, in which event we could only initiate the claim against the lessors under relevant lease agreements for indemnities for their breach of the relevant leasing agreements. We cannot assure you that suitable alternative locations are readily available on commercially reasonable terms, or at all, and if we are unable to relocate our operations in a timely manner, our operations may be interrupted. For more details, see "Business — Properties — Leased Properties" in this document.

Some of the lease agreements of our leased properties have not been registered with the relevant PRC government authorities as required by PRC law.

Pursuant to applicable PRC laws and regulations, property lease agreements must be filed with the local branch of the Ministry of Housing and Urban-Rural Development of the PRC. As of the Latest Practicable Date, with respect to 258 leased properties, the relevant lease agreements we entered into have not been registered with the relevant PRC governmental authorities as required by the PRC law due to the difficulties of procuring the relevant lessor's cooperation to register such leases.

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Although the failure to do so does not in itself invalidate the leases, we may be ordered by the PRC government authorities to rectify such noncompliance and, if such noncompliance were not rectified within a given period of time, we may be subject to fines imposed by PRC government authorities ranging from RMB1,000 and RMB10,000 for each of our lease agreements that have not been registered with the relevant PRC governmental authorities. As of the Latest Practicable Date, we are not aware of any regulatory or governmental actions, claims or investigations being contemplated or any challenges by third parties to our use of our leased properties, the lease agreements of which have not been registered with the government authorities. However, we cannot assure you that the government authorities will not impose fines on us due to our failure to register any of our lease agreements. For more details, see "Business — Properties — Leased Properties" in this document.

We may fail to comply with environmental, health and safety laws and regulations.

We are subject to numerous environmental, health and safety laws and regulations. Our operations produce hazardous waste, including medical waste, waste water and pollutants. We generally contract with third parties for the disposal of these materials and wastes. However, we cannot eliminate the risk of contamination or injury from these materials. In the event of contamination or injury resulting from our use of hazardous materials, we could be held liable for any resulting damages, and any liability could exceed our resources and incur significant costs associated with civil or criminal fines and penalties.

Risks Relating To Our Intellectual Property Rights

We may be unable to adequately protect our intellectual property rights.

We believe that intellectual property rights are critical to our continued success. We have registered or applied for registration of certain trademarks, patents, and domain names in the PRC and Hong Kong relating to the names and logos of our stores. For details, see "Business — Intellectual Property" and "B. Further Information About the Business of the Company — 2. Our Material Intellectual Property Rights" in Appendix V to this document. We endeavor to protect our intellectual property rights but there is no assurance that the measures we have taken to protect our intellectual property rights, including registration of our trademarks, can adequately prevent unauthorized use by third parties or that we will not face any infringement of our intellectual property rights in the future. To counter infringement or unauthorized use, litigation may be necessary in the future to enforce or defend our intellectual property rights, to protect our trade secrets or to determine the validity and scope of our own intellectual property rights or the proprietary rights of others. This can be expensive and time consuming. Any claims that we assert against perceived infringers could also provoke these parties to assert counterclaims against us alleging that we infringe their intellectual property rights. Many of our current and potential competitors have the ability to dedicate substantially greater resources to enforce and/or defend their intellectual property rights than we can. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property.

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We may be sued for infringing intellectual property rights of third parties.

We may be exposed to intellectual property rights infringement or misappropriation claims by third parties during our operations and have from time to time been involved in disputes with third parties over the use of their works or portraits. We may also be subject to litigation involving claims of trademark infringement or violation of other intellectual property rights of third parties. Defense against any potential claims would be both costly and time-consuming, and could divert the efforts and resources of our management and other personnel. An adverse determination in any such litigation or proceedings to which we may become a party could subject us to liabilities to third parties, require us to seek licenses from third parties, pay ongoing royalties, or subject us to injunctions prohibiting the provision and marketing of the relevant brand or services. To the extent that licenses are not available to us on commercially reasonable terms or at all, we may be required to expend considerable time and resources sourcing alternative technologies or rebranding our services, if any, or we may be forced to delay or suspend the relevant services or the promotion of the relevant brand. We may incur expenses and require the attention of management in defending against these third-party infringement claims, regardless of their merit. Protracted litigation could also result in our customers or potential customers deferring, reducing or canceling their purchases of our services due to deteriorated market perception. In addition, we could face disruptions to our business operations as well as damage to our reputation as a result of such claims, and our business, financial condition and results of operations could be adversely affected.

Risks Relating To Our General Operations

Our insurance coverage may be insufficient to cover all risks involved in our business operations.

We have obtained insurance to cover certain potential risks and liabilities. However, we may not be able to acquire any insurance for certain types of risks such as business liability or service disruption insurance for all of our operations in the PRC, and our coverage may not be adequate to compensate for all losses that may occur, particularly with respect to loss of business or operations. For example, we do not maintain key-man life insurance; we do not maintain any insurance for our Contractual Arrangement, either. Any business disruption, litigation, regulatory action, outbreak of epidemic disease or natural disaster, or disputes or liabilities arising from our Contractual Arrangement could also expose us to substantial costs and diversion of resources. There can be no assurance that our insurance coverage is sufficient to prevent us from any loss or that we will be able to successfully claim our losses under our current insurance policy on a timely basis, or at all. If we incur any loss that is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our business, financial condition and results of operations could be materially and adversely affected.

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In addition, we do not maintain a medical liability insurance, and according to our PRC Legal Advisers, there is no statutory requirement for our stores to maintain such insurance coverage. We are subject to legal proceedings and claims that arise in the ordinary course of business, which primarily include medical disputes brought by our customers against us. Although we believe our comprehensive quality control system can effectively control the safety and quality of the services provided by our service personnel, there is no assurance that we are able to maintain the occurrence of medical disputes at a manageable level. If we are found to be liable to any material medical incidents and there is no insurance to cover our losses arising therefrom, our business, financial condition and results of operations could be materially and adversely affected.

Any disruption, malfunction or breakdown of our business management system and network security may interrupt our business operations.

Our business operations depend on the satisfactory performance, stability and reliability of our business management system and related software programs, which are critical to our storage of customer records and appointments, management of supplies as well as computation of operational and sales data. However, our business management system may experience disruption, malfunction, breakdown or other performance problems due to reasons such as (i) the licensor terminates the license of the business management system to us; (ii) any unauthorized use of software and allegations regarding infringements of intellectual property rights during our business operation; (iii) increasing pressure on our servers and network capacities as a result of growing customer base and expanding operations; (iv) undetected programming errors, bugs, flaws, corrupted data or other defects; (v) hacking or other attacks on our network infrastructure and system programs; and (vi) floods, fires, extreme temperatures, power loss, telecommunications failures, technical error, computer viruses or similar events. Any disruption, malfunction, breakdown or other performance problems of our business management system may significantly disrupt our business operations and reduce our work efficiency, which may have a negative impact on the quality of our services.

There is no assurance that our business management system will not experience disruption, malfunction, breakdown or other performance problems in the future. There is also no assurance that we will be able to, through the help of our licensor, effectively upgrade our existing systems or develop new systems to support our expanding business operations in a timely manner. Any failure to do so may materially and adversely affect our business, results of operations, financial condition and prospects.

We may be unable to identify or execute acquisition opportunities as planned.

We may not be able to identify suitable acquisition targets, negotiate commercially acceptable terms for acquisitions, or successfully integrate any acquired assets or businesses in the future. Even if we are able to identify suitable targets, such acquisitions can be difficult, time consuming and costly to execute and integrate, and we may not be able to secure necessary financing for the acquisitions. Unsuccessful acquisition may have an adverse effect on our business and financial condition. Businesses that we acquire may have unknown or contingent liabilities, including liabilities for failure to comply with the relevant laws, regulations and rules. We may also suffer reputational and financial harm

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for actual or alleged inferior service or harm that occurred at the acquired stores prior to our acquisition, and need to respond to claims initially as unsatisfied customers will likely pursue their claims against us. In addition, future acquisitions and subsequent integration of newly acquired assets and businesses into our own would require attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our business operations. Acquired assets or businesses may not generate the financial results we expect. Going forward, from time to time, we may evaluate various acquisition opportunities, and any future acquisition through equity, acquisition through asset or business, or investment in an associate may entail numerous risks. These risks include increased cash requirements, additional indebtedness, contingent or unforeseen liabilities.

We may fail to expand into new geographic areas in a timely and cost-effective manner.

We have significantly expanded our business over the past few years. Our organization may become larger and more complex with our intended plans to expand into new geographic areas, through a combination of acquisitions and organic growth. The execution of our expansion plans is expected to require management attention and efforts and incur additional expenditures. Our ability to successfully expand into new markets depends on many factors including, among others, our ability to:

- identify suitable geographic markets for the type of services we offer;
- identify ideal locations of the stores premise and negotiate acceptable terms for leasing or acquiring the properties, including desirable tenant allowances;
- identify local consumer preferences;
- address local market competition;
- avoid potential cannibalization;
- hire, train and retain a growing workforce;
- successfully integrate new stores into our existing control structure and operations, including our information technology systems;
- avoid competition of our new direct stores with our franchised stores in the same areas as we expand into new geographic areas; and
- secure financing or maintain sufficient capital to invest in new stores or making acquisitions of well-established beauty and health management service institution

In addition, to manage our growth and expansion, and to attain and maintain profitability, we will continue to place demands on our management, physicians and our administrative, operational and financial personnel and infrastructure. We cannot assure you that we will be able to implement our expansion plans or manage any future growth effectively and efficiently, and any failure to do so may adversely affect our ability to capitalize on new business opportunities, which in turn may have an adverse effect on our business and financial results.

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Our business performance may be negatively affected by unfavorable public perception of the overall beauty and health management service industry.

Some of our existing and potential customers are cautious about the risks inherent in beauty and health management services, and are particularly sensitive to any negative comments, reports or allegations against any beauty and health management service providers. From time to time, there are negative news and media reports on the health risks relating to beauty and health management services as well as accidents relating to beauty and health management services.

Any allegations, complaints, or negative news or media reports on any accidents, instances of medical malpractice or professional negligence, unfair selling practices, ineffectiveness of services, or health risks or poor service standard relating to beauty and health management service industry or beauty and health management services may, regardless of merit, lead to a deterioration in market confidence in beauty and health management services and a reduction in the overall demand for such services. While such allegations, complaints or negative news or media reports may be unrelated to us, the demand for our beauty and health management services may decline and the entire beauty and health management service industry and its participants, including us, could consequently be exposed to reputational harm, which may materially and adversely affect our business, results of operations, financial condition and prospects.

Our business may be affected by natural disasters, epidemics and other acts of God.

Our business may be affected by natural disasters, epidemics and other acts of God which are beyond our control. The occurrence of earthquakes, sandstorms, snowstorms, fire or drought, or the outbreak of epidemics such as Middle East Respiratory Syndrome (MERS), Severe Acute Respiratory Syndrome (SARS), H5N1 avian flu, human swine flu (also known as Influenza A (H1N1)), H7N9, Zika Virus Disease or COVID-19 and its variants may have a material adverse impact on the economic and social conditions in the affected regions. For details of risks relating to COVID-19, see "— Risks Relating To Our Services and Products — Our operations and business plans may be adversely affected by the COVID-19 pandemics" in this section. In addition, any natural disasters, epidemics and other outbreaks that are beyond our control may be expected to directly impact our operations, including straining our facilities and employees, exposing employees to personal risks, disrupting regular business operations, imposing additional health or safety measures upon our stores, exposing our stores to potential liability for any actions taken or not taken.

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Risks Relating To Our Financial Position

The preferential tax treatment and financial subsidies that we enjoyed may be changed or terminated.

During the Track Record Period, we received government grants of RMB10.3 million, RMB9.8 million, RMB12.6 million and RMB13.7 million, in 2019, 2020, 2021, and the six months ended June 30, 2022, respectively. In addition, during the Track Record Period, certain subsidiary was qualified high and new technology enterprise and was entitled to a reduced corporate income tax rate of 15%. For more details of the preferential tax treatments, see Note 12 to Appendix I to this document. In addition, we may enjoy other preferential tax treatments from time to time in relation to the beauty and health management service industry. Our eligibility to receive the preferential tax treatment requires that we continue to qualify for them. The incentives are provided to us at the discretion of the central government or relevant local government authorities, which could determine at any time to eliminate or reduce the preferential tax treatment, generally with prospective effect. Since our receipt of the preferential tax treatment is subject to periodic time lags and changing government practice, as long as we continue to receive these preferential tax treatment, our net income in a particular period may be higher or lower relative to other periods depending on the potential changes in these preferential tax treatment in addition to any business or operational factors that we may otherwise experience. The discontinuation of preferential tax treatment currently available to us could have an adverse effect on our financial condition, results of operations, cash flows and prospects.

Our revenue has historically been dependent on, and will remain dependent on, our operations in certain important cities.

During the Track Record Period, we derived most of our revenue from stores in Shanghai, Beijing, Wuhan and Chongqing. Going forward, we expect that a large part of our revenue will remain dependent on our operations in these cities in the PRC. We are therefore highly sensitive to the social, regulatory, economic, environmental and competitive conditions as well as the beauty and health management service industry landscape in these cities. In the event that the average spending power of the population in these regions decreases or the economic growth in these regions slow down, demand for our services and products may substantially decrease and our results of operation and profitability may be adversely affected.

We had net current liability position.

We recorded net current liabilities of RMB670.6 million, RMB601.6 million, RMB544.3 million and RMB638.2 million as of December 31, 2019, 2020, 2021, and June 30, 2022, respectively. Our net current liability position during the Track Record Period were primarily due to the substantial amounts in contract liabilities. For details of analysis of our net current liability position, see "Financial Information — Liquidity and Capital Resources — Net Current Assets/Liabilities" in this document.

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The substantial amount of contract liabilities represents the payments made in advance by our customers, and such payments do not require our incremental spending to fulfill our service obligations to the customers, other than maintaining our facilities and service crew. This business model, which is reasonable and commonly seen in the industry, inevitably creates net current liability position. However, there can be no assurance that we will not experience liquidity problems in the future. Our future liquidity, the payment of trade and other payables, our capital expenditure plans and the repayment of our outstanding debt obligations as and when they become due will primarily depend on our ability to maintain adequate cash generated from operations and adequate external financing. We cannot assure you that our net current liability will not continue or recur in the future, which may limit our working capital for the purpose of operations or capital for our expansion plans and adversely affect our business, financial condition and results of operations.

We may face risk regarding the obsolescence for our inventories.

Our inventories primarily consist of medical and beauty consumables, beauty equipment, other supplies used in the provision of our services, as well as our stock of skincare and beauty products, which amounted to RMB117.4 million as of June 30, 2022. During the Track Record Period, we have not identified material inventory items requiring impairment provisioning, as we had maintained an effective inventory management system. We believe that maintaining appropriate levels of inventories helps us meet market demands in a timely manner. We generally purchase supplies based on our estimated demand, and we monitor the expiration dates closely through our logbook and physical inspection to ensure that no expired items will be used or sold. However, as our business expands, our inventory level may increase and our inventory obsolescence risk may also increase accordingly. Furthermore, any unexpected material fluctuations in the supplies or changes in customers' preferences may lead to decreased demand and overstocking of supplies and increase the risk of obsolescence.

We face risk of impairment loss relating to the goodwill recognized in connection with acquisitions.

As of December 31, 2019, 2020, 2021, and June 30, 2022, we had goodwill of RMB152.3 million, RMB176.1 million, RMB194.3 million and RMB191.5 million, respectively. Our goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. In addition, we make certain assumptions when assessing the value of our goodwill, including assumptions on impairment testing. There are inherent uncertainties relating to these assumptions. We cannot assure you that our assumptions will prove to be correct. Any such change in our assumptions may require us to re-value our goodwill, which may in turn result in impairment losses. Significant impairment losses on goodwill 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. For details of impairment assessment methods for our goodwill, please see Note 2.10 and Note 21 to the Accountant's Report in Appendix I to this document.

RISK FACTORS

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

As of December 31, 2019, 2020, 2021, and June 30, 2022, our contract liabilities amounted to RMB914.7 million, RMB1,155.1 million, RMB1,347.7 million and RMB1,387.5 million, respectively. Our recognition of contract liabilities as revenue is subject to future performance obligations and may not be representative of revenues for future periods. Our contract liabilities primarily represented the advance payment made by customers for services and products to be provided during a period of time in the future. The service packages generally involve multiple sessions spanning over three months to two years. After we provide relevant services or products, contract liabilities will be recognized as revenue. For more details of our contract liabilities, see "Financial Information — Discussion of Certain Selected Items From the Consolidated Statements of Financial Position — Contract Liabilities" in this document.

Due to the absence of expected timeframe for subsequent utilization of the service plans and the potential future changes in session schedules, contract liabilities at any particular date may not be representative of actual revenue for any current or future period. In addition, we cannot guarantee that all the sessions purchased by customers can be delivered in a timely manner. Any failure to fulfil the obligations in respect of contract liabilities may have an adverse impact on our results of operations, liquidity and financial position.

We recorded a decreasing trend on overall gross profit margin in 2020 and 2022.

During the Track Record Period, we primarily generated operating profit from providing traditional beauty services, aesthetic medical services and subhealth assessment and intervention services. Our total overall gross profit margin is largely affected by the COVID-19 related impact, and to some extent, is also affected by our revenue mix due to the differences among the gross profit margins of our service offerings. During the Track Record Period, we experienced variation in our overall gross profit margin at 50.4%, 46.6%, 46.8% and 42.8% in 2019, 2020, 2021, and the six months ended June 30, 2022, respectively. The gross profit and gross profit margin of our services may vary based on their cost structure, business scale, and development stage. In general, aesthetic medical services enjoy a better gross profit margin than traditional beauty services by direct stores, which in turn have an impact on our overall gross profit margin over year or period. Aesthetic medical services are in general a more lucrative service category than traditional beauty services, which can be reflected in the significantly higher price charged per each service session. One potential reason behind the relatively higher margin is the trust from our members and their willingness to purchase service packages with high value in pursuit of high quality services. Additionally, the different cost structure also contributes to the difference in gross profit margin. The cost of sales of traditional beauty services is largely composed of fixed staff costs and depreciation and amortization charges, and the service nature of traditional beauty services, which involves a relatively longer service period with the reliance on manual labor, also requires higher staff costs. By contrast, one of the largest cost of sales components of aesthetic medical services was product and consumable costs, which are only incurred when delivered to customers thus the costs are proportionate to client visit volume instead of fixed.

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In particular, we recorded an decreasing trend on overall gross profit margin in 2020 primarily due to the outbreak of COVID-19 pandemic. For example, two of our major business offerings, traditional beauty services and aesthetic medical services, experienced decreased gross profit margin in 2020 as fewer customers obtained our services during the relevant period due to restrictions on social distancing and personal interaction brought by COVID-19 outbreak. In 2021, we gradually recovered from the negative impact of COVID-19 pandemic and achieved better operational efficiency resulting from economies of scale in relevant costs as well as depreciation and amortization charges in relation to rents. As a result, our overall gross profit margin slightly increased in 2021. For the six months ended June 30, 2022, our overall gross profit margin decreased primarily due to the Recurrence in early 2022.

In addition, our overall gross profit margin was also affected by the development stage of a particular service. For subhealth assessment and intervention service, our gross profit and gross profit margin fluctuated over year or period. The gross profit margin of subhealth assessment and intervention services decreased from 2019 to 2020 because we opened two additional Neology (研源) healthcare centers in the second half of 2019. Since it generally took time for newly-opened stores to ramp-up its performance, we incurred more costs as compared to revenue at their initial stage of operations, which negatively affected the gross profit margin of our subhealth assessment and intervention business. Our gross profit from subhealth assessment and intervention services decreased from 2020 to 2021, primarily due to the decrease in revenue resulted from less clients served. Since 2021, we also started to recognize cooperation fee in relation to subhealth assessment and intervention services, and that lead to the increase in our gross profit margin in the corresponding period. Our gross profit and gross profit margin from subhealth assessment and intervention services increased from the six months ended June 30, 2021 to the six months ended June 30, 2022. These increases were primarily due to the continued business growth of subhealth assessment and intervention services, partially offset by the negative impact of temporary closure of our Neology (研源) healthcare center in Shanghai due to the Recurrence. As such, our overall gross profit margin was affected by a variety of factors. Any unfavorable changes on our overall gross profit margin could have an adverse effect on our net profit, financial condition and results of operations. We cannot assure you that a decreasing trend on overall gross profit margin will not continue or recur in the future, which may limit our working capital for the purpose of operations.

We may need additional capital, and we may be unable to obtain such capital in a timely manner or on acceptable terms, or at all.

We may require additional capital beyond those generated by the [REDACTED] from time to time to grow our business, to better serve our customers, develop and enhance our products, and improve our operating infrastructure. Accordingly, we may need to sell additional equity or debt securities or obtain a credit facility. Future issuances of equity or equity-linked securities could significantly dilute our existing shareholders, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our ordinary shares. The incurrence of debt financing would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations or our ability to pay dividends to our shareholders.

RISK FACTORS

We are exposed to credit risk in relation to trade receivables and notes receivables and prepayments, deposits and other receivables.

During the Track Record Period, our trade receivables and notes receivables primarily consisted of outstanding amounts from our franchised stores resulted from inter-stores settlements between direct stores and franchised stores, and payments made by customers but not yet received from shopping malls or third-party payment platforms. As of December 31, 2019, 2020, 2021 and June 30, 2022, our trade receivables and notes receivables amounted to RMB30.3 million, RMB36.7 million, RMB31.3 million, and RMB34.4 million, respectively. During the Track Record Period, our prepayments, deposits and other receivables primarily consisted of (i) rental deposits for our leased properties; (ii) prepayments for procurement of inventories, including prepayments for medical and beauty consumables as well as other supplies in relation to our operation; and (iii) other current assets, primarily represented the deductible taxes and [REDACTED]. As of December 31, 2019, 2020, 2021 and June 30, 2022, our prepayments, deposits and other receivables amounted to RMB127.0 million, RMB129.6 million, RMB142.3 million and RMB235.4 million, respectively. In particular, we experienced significant increase in prepayments, deposits and other receivables as of June 30, 2022, primarily due to (i) an increase in amounts due from related parties resulted from reorganization, cooperation fee in relation to subhealth assessment and intervention services, and rental incomes. In particular, as of June 30, 2022, there was a significant increase in amounts due from related parties resulted from reorganization as the settlement of certain capital injection into the [REDACTED] Group took longer period of time to complete the transaction due to the Recurrence in 2022; (ii) an increase in other receivables primarily due to receivables due from certain employees for employee incentive platform and receivables for registered capital from certain shareholder; (iii) an increase in other current assets due to input VAT to be deducted and income tax withheld; (iv) an increase in deposits for property leases due to the store expansion; and (v) an increase in prepaid [REDACTED]. For details, see "Financial Information — Discussion of Certain Selected Items From the Consolidated Statements of Financial Position — Prepayments, Deposits and Other Receivables" in this document.

In the event that the creditworthiness of our franchised stores deteriorates or that a significant number of our franchised stores fail to settle their trade receivables and notes receivables in full for any reason, we may incur impairment losses and our results of operations and financial condition could be materially and adversely affected. In addition, we may not be able to collect trade receivables, deposits or other receivables due to a variety of factors that are beyond our control, such as a recurrence of a global financial crisis or other adverse macroeconomic trends that may cause operational, financial and liquidity difficulties for counterparties of such trade receivables, deposits or other receivables. If the level of our impaired accounts receivables increases in the future, our business growth prospects may be materially and adversely affected.

RISK FACTORS

Impairment losses relating to intangible assets could materially affect our profits.

As of December 31, 2019, 2020, 2021 and June 30, 2022, we had intangible assets of RMB78.3 million, RMB90.3 million, RMB90.3 million and RMB85.7 million, respectively. Our intangible assets mainly consisted of software, trademarks, and customer relationships during the Track Record Period. As of June 30, 2022, the net book value of our software, trademarks, customer relationships and others was RMB20.7 million, RMB23.0 million, RMB42.0 million and RMB27.0 thousand, respectively.

There are inherent uncertainties in the estimates, judgments and assumptions used in assessing recoverability of intangible assets. Economic, legal, regulatory, competitive, reputational, contractual, and other factors could result in future declines in the operating results of our business or market values that do not support the carrying value of intangible assets. Any reduction in or impairment of the value of intangible assets will result in a charge against our profits, which could have a material adverse impact on our results of operations and financial condition.

We are uncertain about the recoverability of our deferred tax assets, which may affect our financial condition in the future.

As of December 31, 2019, 2020, 2021 and June 30, 2022, our deferred tax assets amounted to RMB26.3 million, RMB36.0 million, RMB35.0 million and RMB47.3 million, respectively. Deferred tax assets arise from the deductible temporary differences between the carrying amounts of assets and liabilities from financial reporting purposes and their tax base, as well as unused tax losses and unused tax credits. Deferred tax assets are recognized when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. This requires significant judgment on the tax treatment of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered. In this context, we cannot guarantee that the recoverability of our deferred tax assets, and to what extent they may affect our financial condition in the future.

We face exposure to fair value change of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income and valuation uncertainty due to the use of unobservable inputs.

As of December 31, 2019, 2020, 2021, and June 30, 2022, we had financial assets at fair value through profit or loss of RMB358.9 million, RMB658.4 million, RMB926.3 million, and RMB709.7 million, and financial assets at fair value through other comprehensive income of RMB0.2 million, RMB0.2 million, RMB0.1 million and nil thousand, in each case respectively. We face exposure to fair value change of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

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We cannot assure you that we can recognize comparable fair value gains in the future and we may on the contrary recognize fair value losses, which would affect our result of operations for future periods. In addition, the valuation of fair value change of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income is subject to uncertainties in estimations. Such estimated changes in fair values involve the exercise of professional judgment and the use of certain bases, assumptions and unobservable inputs, which, by their nature, are subjective and uncertain. As such, the valuation of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income has been, and will continue to be, subject to uncertainties in estimations, which may not reflect the actual fair value of these financial assets and result in significant fluctuations in profit or loss from year to year.

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 a number of employee restricted share plans to provide long-term incentives for our employees and directors for their outstanding services provided to us to incentivize and reward the eligible persons who have contributed to our success. For the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022, we incurred share-based payment expenses of RMB1.6 million, RMB7.0 million, RMB6.3 million and RMB6.4 million, respectively. To further incentivize our directors, senior management and key employees to contribute to us, we may grant additional share-based compensation 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.

RISKS RELATING TO DOING BUSINESS IN CHINA

Economic, political and social conditions and government policies in the PRC could affect our business and prospects.

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

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business enterprises. Some of these measures benefit the overall PRC economy, but may adversely affect us. For example, our financial condition and results of operations may be adversely affected by government policies on the beauty and health management service industry in China or changes in tax regulations applicable to us. If the business environment in the PRC deteriorates, our business in the PRC may also be materially and adversely affected.

Uncertainties with respect to the PRC legal system could have a material adverse effect on our business and operations.

The overall effect of legislation over the past decades has significantly enhanced the protections afforded to various forms of foreign investments in China. However, China's legal system is still evolving, and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, the interpretation and enforcement of many laws, regulations and rules involve uncertainties. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection available to you and us.

As a result, we may not be aware of our violation of any of these policies and rules until sometime after the violation. Such uncertainties, including uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights, and any failure to respond to changes in the regulatory environment in China could materially and adversely affect our business and impede our ability to continue our operations.

The legal protections available to you under the PRC legal system may be limited.

Our subsidiaries and operations are mainly located in the PRC and are subject to PRC laws and regulations. The PRC legal system is based on written statutes. Prior court decisions may be adduced for reference but have limited precedential value. Since the late 1970s, the PRC National People's Congress and government have promulgated laws and regulations dealing with such economic matters as the issuance and trading of securities, shareholders' rights, foreign investment, corporate organization and governance, commerce, taxation, and trade, with a view towards developing a comprehensive system of commercial law. However, China's legal system is still evolving, and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China, or may be unclear or inconsistent. In particular, since the beauty and health management service industry is in its early developmental stage in the PRC, the laws and regulations relating to this industry are unspecific and may be incomprehensive. As a result, the legal protections available to you under the PRC legal system may be limited.

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We are subject to applicable governmental registrations and approvals if we use the [REDACTED] of the [REDACTED] to make loans or additional capital contributions to our PRC subsidiaries.

Any funds we transfer to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to approval by registration with relevant governmental authorities in China. According to the relevant PRC regulations on foreign-invested enterprises, capital contributions by an offshore holding company to its wholly-owned subsidiary in China shall obtain approvals from or report investment information to the Ministry of Commerce of the PRC (the "MOFCOM") or its local counterpart and register with the State Administration for Market Regulation (the "SAMR") or its local counterpart to make capital contributions to the foreign-invested enterprises.

In addition, any foreign loan procured by our PRC subsidiaries is required to be registered with the State Administration of Foreign Exchange of the PRC (the "SAFE") or its local branches, and our PRC subsidiaries may not procure loans exceeding the statutory limits and is required to be registered with the SAFE or its local branches or file with the SAFE through its online service platform. We may not obtain these government approvals or complete such registrations on a timely basis, or at all, with respect to future capital contributions or foreign loans by us to our PRC subsidiaries. If we fail to receive such approvals or complete such registration, our ability to use the [REDACTED] of the [REDACTED] to fund our operations in China may be negatively affected, which in turn could adversely affect our ability to finance and expand our business.

We may be subject to penalties if our PRC resident shareholders or beneficial owners fail to comply with relevant PRC foreign exchange rules.

The Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents through Overseas Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) ("SAFE Circular No. 37"), which was promulgated by the SAFE and became effective on July 4, 2014, requires a PRC resident (including PRC individuals and PRC corporate entities) ("PRC Resident") to register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle ("Offshore SPV") that is directly established or controlled by the PRC Resident for the purpose of conducting investment or financing. Following the initial registration, the PRC Resident is also required to register with the local SAFE branch for any major change in respect of the Offshore SPV, including, among other things, any major change of a PRC resident shareholder, name or term of operation of the Offshore SPV, or any increase or reduction of the Offshore SPV's registered capital, share transfer or swap, merger or division.

Failure to comply with the registration procedures of SAFE Circular No. 37 may result in penalties and sanctions, limit the ability of the Offshore SPV's PRC subsidiary to distribute dividends to its overseas parent, or restrict our overseas or cross-border investment activities. It is unclear how SAFE Circular No. 37 and any future regulation concerning offshore or cross-border transactions will be interpreted, amended or implemented by the relevant government authorities.

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Any failure to comply with PRC regulations regarding the registration requirements for employee stock incentive plans may subject the PRC plan participants or us to penalties.

Pursuant to SAFE Circular 37, PRC residents who participate in share incentive plans in overseas private companies as directors, senior management members or employees of the PRC subsidiaries of the overseas companies may submit applications to SAFE or its local branches for the foreign exchange registration with respect to offshore special purpose companies. Our PRC resident directors, senior management members and other employees who have been granted share-based awards may apply for the foreign exchange registration before our Company becomes an overseas listed company.

In February 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly Listed Company (國家外匯管理局關於境內個人參與境外上市公司股權激勵計畫外匯管理有關問題的通知) ("SAFE Circular No. 7"). Under SAFE Circular No. 7 and other relevant rules and regulations, PRC residents who participate in stock incentive plan in an overseas publicly listed company are required to register with SAFE or its local branches and complete certain other procedures. Our PRC employees who have been granted share-based awards after the [REDACTED] are subject to SAFE Circular No. 7 and other relevant rules and regulations. Failure of our PRC share-based award holders to complete their SAFE registrations may subject these PRC residents to fines and legal sanctions. Such failure may also limit our ability to adopt additional incentive plans, and inject additional capital into our PRC subsidiaries, and our PRC subsidiaries' ability to distribute dividends to us.

In addition, the State Administration of Taxation of the PRC (the "SAT") has issued certain circulars concerning employee share options and restricted shares. Under such circulars, our employees working in China who exercise share options or are granted restricted shares will be subject to PRC individual income tax. Our PRC subsidiaries have the obligations to make required filings for employee share options or restricted shares with relevant tax authorities, and to withhold individual income taxes for those employees who exercise their share options. If our employees fail to pay or we fail to withhold their income taxes accordingly, we may face sanctions imposed by tax authorities or other competent PRC government authorities.

Government control of currency conversion and future fluctuations in Renminbi exchange rates may limit our ability to utilize our revenue effectively and affect the value of your [REDACTED].

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and the remittance of currency out of China. We receive substantially all of our revenues in RMB and the majority of our cash inflows and outflows are denominated in RMB. Under our current corporate structure, our cash needs are dependent on dividend payments from our subsidiaries in China and payments received from Shanghai Liernuo under Contractual Arrangements. We may convert a portion of our RMB into other currencies to meet our foreign currency obligations, such as payments of dividends declared in respect of our ordinary shares, if any. Shortages in the availability of foreign

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currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy its foreign currency denominated obligations.

Under 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 as long as certain routine procedural requirements are fulfilled. Therefore, our PRC subsidiaries is allowed to pay dividends in foreign currencies to us without prior SAFE approval by following certain routine procedural requirements. However, approval from or registration with competent government authorities is required where the RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders.

The value of the Renminbi against other currencies fluctuates, and is subject to changes resulting from government policies and depends to a large extent on domestic and international economic and political developments. We cannot assure you that the Renminbi will not experience significant appreciation or depreciation against the Hong Kong dollar or other foreign currencies in the future.

PRC laws and regulations establish more complex procedures for some acquisitions of Chinese companies by foreign investors.

The Rules on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the "M&A Rules"), adopted by six PRC regulatory agencies in 2006 and amended in 2009, among other things, established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. Such regulation requires, among other things, that the foreign investor should submit a declaration to the MOFCOM in advance of any change-of-control transaction in which a foreign investor acquires control of a PRC domestic enterprise and involves any of the following circumstances: (i) any important industry is concerned, (ii) such transaction involves factors that impact or may impact national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand. We do not expect that any of our further merger and acquisition will trigger the requirement to submit such declaration to MOFCOM under each of the above-mentioned circumstances or any review by other PRC government authorities.

Moreover, the Anti-Monopoly Law (中華人民共和國反壟斷法) promulgated by the Standing Committee of the National People's Congress which became effective in 2008 requires that transactions which are deemed concentrations and involve parties with specified turnover thresholds must be notified and cleared by National Anti-monopoly Bureau before they can be completed.

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We may pursue potential strategic acquisitions that are complementary to our business and operations. Complying with the requirements of these regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval or clearance from MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

We may be required to obtain prior approval or subject to filings or other requirements from the CSRC or other PRC regulatory authorities for the [REDACTED] and [REDACTED] of our Shares on the [REDACTED].

The M&A Rules purport to require that an offshore special vehicle, or a special purpose vehicle, formed for overseas listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the China Securities Regulatory Commission (the "CSRC") prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange, in the event that the special purpose vehicle acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies. However, the interpretation and application of these regulations remain unclear and substantial uncertainty remains regarding the scope and applicability of the M&A Rules to offshore special purpose vehicles. Our PRC Legal Advisers are of the opinion that, based on its understanding of the current PRC laws and regulations, the prior CSRC approval for the [REDACTED] under the M&A Rules is not required. However, uncertainties still exist as to how the M&A Rules and other PRC laws, regulations and government policies will be interpreted and implemented or whether the relevant authorities would promulgate further requirements.

In addition, on December 24, 2021, the CSRC promulgated the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)) and the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (境內企業境外發行證券和上市備案管理辦法(徵求意見稿)) (collectively, the "Draft Regulations"), which require certain companies to fulfill a filing procedure in respect of its offering and listing on the stock markets overseas if such companies satisfy the criteria as set forth in the Draft Regulations. Since the Draft Regulations were released only for public comments at current stage, the final version is subject to change with substantial uncertainty and when it will come into force is still unclear. The Draft Regulations do not include detailed requirements relating to the form and substance of the documents to be filed, and the CSRC may subsequently formulate and polish guidelines in this regard. For more details, see "Regulatory Overview — Other Regulations Relating To Doing Business in China — Regulations Relating to Overseas Securities Offering and Listing by Domestic Companies" in this document.

If CSRC approval, filing or other procedures is required, it is uncertain whether we could obtain the approval, or how long it would take to obtain such approval, complete the filing or other procedures. Even if the approval is obtained or filing completed, we are not sure whether CSRC would rescind it. Any delay or failure to obtain CSRC approval, to complete the filing or other procedures for the [REDACTED], or rescission of CSRC approval or filing (if obtained), would subject us to sanctions imposed by the CSRC and other competent authorities. Any uncertainty or negative publicity regarding such approval, filing or other procedural requirement could materially and adversely affect our business, prospects, financial condition, reputation, and the [REDACTED] of our Shares.

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You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.

Substantially all of our assets and all of our Directors are located in the PRC. It may not be possible for investors to effect service of process upon us or those persons in the PRC. The PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of most other jurisdictions.

On July 14, 2006, Hong Kong and mainland China entered into the 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 Pursuant to Choice of Court Agreements Between Parties Concerned (最高人民法院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 "**Arrangement**"), pursuant to which a party with an enforceable final court judgment rendered by any designated PRC court or any designated Hong Kong court requiring payment of money in a civil and commercial case according to a written choice of court agreement, may apply for recognition and enforcement of the judgment in the relevant PRC court or Hong Kong court. A written choice of court agreement is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it may not be possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in the dispute did not agree to enter into a choice of court agreement in writing.

On January 18, 2019, the Supreme People's Court of the PRC and Hong Kong entered into an agreement regarding the scope of judgments which may be enforced between China and Hong Kong (關於內地與香港特別行政區法院相互認可和執行民商案件判決的安排) (the "**New Arrangement**"). The New Arrangement seeks to establish a mechanism with greater clarity and certainty for recognition and enforcement of judgments in a wider range of civil and commercial matters between mainland China and Hong Kong, based on criteria other than a written bilateral choice of court agreement. However, as of the Latest Practicable Date, the New Arrangement has not become effective and no specific date has been determined as its effective date. The Arrangement continues to apply and, as such, it may be difficult or impossible for investors to enforce a Hong Kong court judgment against our assets or our Directors or senior management in China.

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

Pursuant to the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises (關於非居民企業間接轉讓財產企業所得稅若干問題的通告) (the "**Bulletin 7**"), an "indirect transfer" of PRC taxable assets, including a transfer of equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax.

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In respect of an indirect offshore transfer of assets of a PRC establishment, the resulting gain is to be reported on with the enterprise income tax filing of the PRC establishment or place of business being transferred, and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to equity investments in a PRC resident enterprise, which is not related to a PRC establishment or place of business of a non-resident enterprise, a PRC enterprise income tax of 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements. Late payment of applicable tax will subject the transferor to default interest. Gains derived from the sale of shares by investors through a public stock exchange will not be subject to PRC enterprise income tax pursuant to Bulletin 7 where such shares were acquired in a transaction through a public stock exchange.

There are uncertainties as to the application of Bulletin 7. Bulletin 7 may be determined by the tax authorities to be applicable to sale of the shares of our offshore subsidiaries or investments where PRC taxable assets are involved. We face uncertainties as to the reporting and other implications of certain past and future transactions where PRC taxable assets are involved. Our Company may be subject to filing obligations or taxes if our Company is the transferor in such transactions, and may be subject to withholding obligations if our Company is the transferee in such transactions, under Bulletin 7. For transfers of shares in our Company by [REDACTED] that are non-PRC resident enterprises, our PRC subsidiary may be requested to assist with the filing under Bulletin 7.

We may be deemed to be a PRC tax resident under the EIT Law, and as a result, our global income could be subject to PRC enterprise income tax.

Under the Enterprise Income Tax Law and its implementing rules, an enterprise established outside of the PRC with a "de facto management body" within the PRC is considered a PRC resident enterprise. The implementing rules define the term "de facto management body" as the body that exercises full and substantial control over and overall management of the business, productions, personnel, accounts and properties of an enterprise. The SAT issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as People's Republic of China Tax Resident Enterprises on the Basis of De Facto Management Bodies on April 22, 2009 and most recently amended on December 29, 2017 ("**Circular 82**"), which provides certain specific criteria for determining whether the "de facto management body" of a PRC-controlled enterprise that is incorporated offshore is located in China. Although Circular 82 only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, the criteria set forth in the circular may reflect the SAT general position on how the "de facto management body" test should be applied in determining the tax resident status of all offshore enterprises.

The tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term "de facto management body". If the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, we will be subject to the enterprise income tax on our global income at the rate of 25% and we will be required to comply with PRC enterprise income tax reporting obligations.

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The political relationships between China and other countries may affect our business operations.

During the Track Record Period, we purchased consumables and medical and beauty equipment from certain overseas suppliers, in particular Germany. Our business is therefore subject to constantly changing international economic, regulatory, social and political conditions, and local conditions in those foreign countries and regions. Tensions and political concerns between China and the relevant foreign countries or regions may adversely affect our business, financial condition, results of operations, cash flows and prospects. In the event that China and/or the Germany impose import tariffs, trade restrictions or other trade barriers affecting the importation of consumables or medical and beauty equipment, we may not be able to obtain a steady supply at competitive prices, and our business and operations may be materially and adversely affected.

You may be subject to PRC withholding tax on dividends from us and PRC income tax on any gain realized on the transfer of our Shares.

Under the current tax law in China, any dividends paid by us to non-PRC enterprise shareholders may be subject to PRC withholding tax at a rate of 10% in the case of non-PRC enterprise shareholders or 20% in the case of non-PRC individual shareholders if such dividends are deemed to be from PRC sources. In addition, gains realized on the sale or other disposition of our Shares may be subject to PRC tax at a rate of 10% in the case of non-PRC enterprise shareholders or 20% in the case of non-PRC individual shareholders if such gains are deemed to be from PRC sources. Any PRC tax liability may be reduced under applicable tax treaties. However, it is unclear whether non-PRC shareholders would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise.

Any limitation on the ability of our PRC subsidiaries to pay dividends or other distributions on equity to us could have a material and adverse effect on our ability to conduct our business.

We are a holding company lawfully registered under the laws of Cayman Islands, and we may rely on dividends and other distributions on equity paid by our PRC subsidiaries for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and service any debt we may incur. Under current PRC regulations, our PRC subsidiaries could pay dividends to us only out of their accumulated after-tax profits upon satisfaction of relevant statutory conditions and procedures (if applicable). In addition, each of our PRC subsidiaries is required to set aside at least 10% of its accumulated profit each year, after making up previous years' accumulated losses, if any, to fund certain reserve funds until the total amount set aside reaches 50% of its registered capital. Additionally, if our PRC subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends or make other distributions to us.

Any restriction on currency exchange may limit the ability of our PRC subsidiaries to use their Renminbi revenues to pay dividends to us. The PRC government may continue to strengthen its capital controls and our PRC subsidiaries' dividends and other distributions may be subject to tightened scrutiny in the future.

Furthermore, the Enterprise Income Tax Law and its implementation rules provide that a withholding tax at a rate of 10% will be applicable to dividends payable by PRC

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companies to non-PRC-resident enterprises unless reduced based on treaties or arrangements between the PRC government and governments of other countries or regions where the non-PRC resident enterprises are tax resident.

RISKS RELATING TO OUR CORPORATE STRUCTURE

If the PRC government deems our Contractual Arrangements does not comply with PRC regulatory restrictions on foreign investment in the relevant industries, we could be subject to penalties or be forced to relinquish our interests in those operations.

Foreign ownership of medical institutions, is subject to restrictions under current PRC laws and regulations. For example, foreign investors are not allowed to own 100% of the equity interests in medical institutions in accordance with the Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Version) (外商投資准入特別管理措施(負面清單)(2021年版)) (the "**Negative List**") issued on December 27, 2021 and effective on January 1, 2022, by the National Development and Reform Commission (the "**NDRC**") and MOFCOM, and other applicable laws and regulations. For more details, see "Regulatory Overview — Other Regulations Relating To Doing Business in China — Laws and Regulations Related to Foreign Investment in the PRC" in this document.

Neither we nor Shanghai Beauty Farm is currently eligible to apply for the required licenses for providing certain medical services that foreign-owned companies are restricted from conducting in China. To comply with relevant foreign investment restrictions in the PRC, instead of holding 100% equity interest directly, we control up to 30% of the equity interests in 20 Restricted Medical Institutions through a series of contractual arrangements ("**Contractual Arrangements**") we have entered into with Shanghai Liernuo, its shareholder, and the Restricted Medical Institutions, which enable us to (i) exercise effective control over Shanghai Liernuo and Restricted Medical Institutions, (ii) receive all or substantially all of the economic benefits and bear the obligation to absorb all or substantially all of the losses of Shanghai Liernuo and Restricted Medical Institutions, and (iii) have an exclusive option to purchase all or part of the equity interests in Shanghai Liernuo and Restricted Medical Institutions, as well as all or part of assets of Shanghai Liernuo and Restricted Medical Institutions, when and to the extent permitted by PRC laws. The Contractual Arrangements gives us effective control over Shanghai Liernuo and Restricted Medical Institutions and enables us to obtain substantially all of the economic benefits arising from Shanghai Liernuo and Restricted Medical Institutions as well as to consolidate their financial results in our results of operations. For details of the description of our Contractual Arrangements, see "Contractual Arrangements" in this document.

In the opinion of our PRC Legal Advisers, (i) the ownership structure of Shanghai Beauty Farm and Shanghai Liernuo does not result in violation of the mandatory requirements of applicable PRC laws and regulations currently in effect; and (ii) the Contractual Arrangements among Shanghai Beauty Farm, Shanghai Liernuo, Mr. Li, being the registered shareholder of Shanghai Liernuo governed by PRC law, and Restricted Medical Institutions is valid and binding, does not result in violation of the mandatory requirements of PRC laws or regulations currently in effect, does not constitute a breach of relevant laws and regulations and would not be deemed invalid or ineffective under the relevant PRC laws and regulations. However, we have been advised by our PRC Legal Advisers that there are substantial uncertainties regarding the interpretation and

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application of current and future PRC laws, regulations and rules, and there can be no assurance that the PRC regulatory authorities will take a view that is consistent with the opinion of our PRC Legal Advisers. It is uncertain whether any new PRC laws or regulations relating to variable interest entity structures will be adopted or, if adopted, what they would provide, otherwise our Contractual Arrangements accordingly may subject to adjustment and amendment.

In particular, there are uncertainties as to how the current Foreign Investment Law and those PRC laws and regulations and policies would be further interpreted and implemented, if it would represent a major change to the laws and regulations and policies relating to the VIE structures. For more details, see “— Substantial uncertainties exist with respect to the interpretation and implementation of the newly adopted PRC Foreign Investment Law” and “— Risks Relating To Doing Business in China — PRC laws and regulations establish more complex procedures for some acquisitions of Chinese companies by foreign investors” in this section. If the ownership structure, Contractual Arrangements and businesses of Shanghai Beauty Farm, Shanghai Liernuo, or Restricted Medical Institutions are found to be in violation of any existing or future PRC laws or regulations, or Shanghai Beauty Farm, Shanghai Liernuo or any of the Restricted Medical Institutions fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures.

If any of the governmental actions results in our inability to direct the activities of Shanghai Liernuo that most significantly impact its economic performance, and/or our failure to receive the economic benefits from Shanghai Liernuo, we may not be able to consolidate that entity in our consolidated financial statements.

Substantial uncertainties exist with respect to the interpretation and implementation of the newly adopted PRC Foreign Investment Law.

On March 15, 2019, the National People’s Congress of the PRC approved the Foreign Investment Law (中華人民共和國外商投資法), which took effect on January 1, 2020 and replaced the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law, and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. Along with the Foreign Investment Law, the Implementing Regulation of Foreign Investment Law (中華人民共和國外商投資法實施條例) promulgated by the State Council and the Interpretation of the Supreme People’s Court on Several Issues Concerning the Application of the Foreign Investment Law (最高人民法院關於適用《中華人民共和國外商投資法》若干問題的解釋) promulgated by the Supreme People’s Court became effective on January 1, 2020.

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Since the Foreign Investment Law and its current implementation and interpretation rules are relatively new, uncertainties still exist in relation to their further interpretation and implementation. The variable interest entity structure has been adopted by many PRC-based companies, including us, to obtain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions in China. According to the Foreign Investment Law, the "foreign investment" refers to investment activities carried out directly or indirectly by foreign natural persons, enterprises or other organizations ("**Foreign Investors**"), including the following: (i) Foreign Investors establishing foreign-invested enterprises in China alone or collectively with other investors; (ii) Foreign Investors acquiring shares, equities, properties or other similar rights of Chinese domestic enterprises; (iii) Foreign Investors investing in new projects in China alone or collectively with other investors; and (iv) Foreign Investors investing through other ways prescribed by laws, regulations or guidelines of the State Council. The Foreign Investment Law and its corresponding implementation rules and judiciary interpretation do not explicitly classify whether variable interest entities that are controlled through contractual arrangement are or would be deemed as foreign-invested enterprises if they are ultimately "controlled" by foreign investors.

However, it has a catch-all provision under the definition of "foreign investment" that includes investments made by foreign investors in China through other means as provided by laws, administrative regulations or the provisions of State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions of the State Council to provide for contractual arrangement as a form of foreign investment. There can be no assurance that our control over Shanghai Liernuo through our Contractual Arrangements will not be deemed as a foreign investment in the future.

Furthermore, if future laws, administrative regulations or provisions mandate further actions to be taken by companies with respect to existing Contractual Arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure and business operations.

Shanghai Liernuo or its shareholders may fail to perform their obligations under our Contractual Arrangements.

We have relied and expect to continue to rely on Contractual Arrangements with Shanghai Liernuo, Mr. Li and Restricted Medical Institutions to conduct a portion of our operations in China. For details of the description of our Contractual Arrangements, see "Contractual Arrangements" in this document. If Shanghai Liernuo, Mr. Li or Restricted Medical Institutions breach or fail to perform their obligations under the Contractual Arrangements, we may have to incur substantial costs and expend additional resources to enforce such arrangement. Moreover, Mr. Li, as the shareholder of Shanghai Liernuo, may have potential conflicts of interest with us. He may cause Shanghai Liernuo to breach, or refuse to renew, the existing Contractual Arrangements we have with him and Shanghai Liernuo, which would have a material and adverse effect on our ability to effectively control Shanghai Liernuo and receive economic benefits from it. We cannot assure you that when conflicts of interest arise, any or all of these shareholders will act in the best interests of our Company or such conflicts will be resolved in our favor.

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Currently, all the agreements under our Contractual Arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. As a result, uncertainties in the PRC legal system could limit our ability to address such potential conflict of interests and enforce our Contractual Arrangements.

We rely on Contractual Arrangements to exercise control over Shanghai Liernuo and Restricted Medical Institutions, which may not be as effective as direct ownership in providing operational control.

Our ability to control Shanghai Liernuo and Restricted Medical Institutions depends on Contractual Arrangements, including the power of attorney, pursuant to which Mr. Li irrevocably appoints Shanghai Beauty Farm, as his attorney-in-fact to exercise his rights in Shanghai Liernuo, including, without limitation, the power to vote on his behalf on all matters of Shanghai Liernuo requiring shareholder approval. For details of the description of our Contractual Arrangements, see "Contractual Arrangements" in this document. We believe the rights granted under the power of attorney are legally enforceable but may not be as effective as direct equity ownership. If we had direct ownership of Shanghai Liernuo, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of Shanghai Liernuo, which, in turn, could implement changes, subject to any applicable fiduciary obligations, at the management and operational level. However, under the Contractual Arrangements, we would rely on legal remedies under PRC law for breach of contract in the event that Shanghai Liernuo and Mr. Li did not perform their obligations under the contracts. These legal remedies may not be as effective as direct ownership in providing us with control over our variable interest entity.

Contractual Arrangements we have entered into may be subject to scrutiny by the PRC tax authorities.

We have entered into the Contractual Arrangements amongst Shanghai Beauty Farm, Shanghai Liernuo, Mr. Li, and Restricted Medical Institutions, respectively, under which we are able to exercise effective control over Shanghai Liernuo and Restricted Medical Institutions and all economic benefits arising from their businesses are transferred to Shanghai Beauty Farm to the extent permitted under PRC laws by means of services fees payable by Shanghai Liernuo to Shanghai Beauty Farm. For details of the description of our Contractual Arrangements, see "Contractual Arrangements" in this document.

Pursuant to applicable PRC laws and regulations, arrangements and transactions among related parties, including our Contractual Arrangements, may be subject to audit or challenge by the PRC tax authorities. The PRC tax authorities may require us to adjust the taxable income upward for PRC tax purposes. Such a pricing adjustment could adversely affect us by increasing the tax liabilities without reducing the tax expenses of our PRC subsidiaries, subjecting us to late payment fees and other penalties for under-payment of taxes, and resulting in our PRC subsidiaries' loss of its preferential tax treatment. Our results of operations may be adversely affected if our tax liabilities increase or if we are subject to late payment fees or other penalties.

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Our exercise of the option to acquire the interest in Shanghai Liernuo or any Restricted Medical Institutions may be subject to certain limitations.

We may incur substantial cost on our part to exercise the option to acquire Mr. Li's interest in Shanghai Liernuo or Shanghai Liernuo's interest in Restricted Medical Institutions. Pursuant to the Exclusive Purchase Option Agreements, Shanghai Beauty Farm or its designated purchaser has the exclusive right to purchase all or part of the interest in Shanghai Liernuo and Restricted Medical Institutions at the lowest price permitted under the PRC laws and regulations at any time. For more details, see "Contractual Arrangements" in this document. In the event that Shanghai Beauty Farm or its designated purchaser acquires such aforementioned interest and the relevant PRC authorities determine that the purchase price is below market value, Shanghai Beauty Farm or its designated purchaser may be required to pay enterprise income tax with reference to the market value such that the amount of tax may be substantial, which could materially and adversely affect our business, financial condition and results of operations.

Shanghai Liernuo and Restricted Medical Institutions may go bankrupt or become subject to a dissolution or liquidation proceeding.

As part of our Contractual Arrangements, Restricted Medical Institutions of Shanghai Liernuo hold certain assets and licenses that are material to the operation of our business. If either Shanghai Liernuo or any of Restricted Medical Institutions goes bankrupt and all or part of its assets become subject to liens or rights of third-party creditors, we may be unable to continue some of our business activities, which could materially and adversely affect our business, financial condition and results of operations. Under the Contractual Arrangements, Shanghai Liernuo and Restricted Medical Institutions may not, in any manner, sell, transfer, mortgage or otherwise dispose of their assets or legal or beneficial interests in the business without our prior consent. If Shanghai Liernuo or any of Restricted Medical Institutions undergoes a voluntary or involuntary liquidation proceeding, unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business and compromising our qualification for certain licenses or permits indispensable to us, which could materially and adversely affect our business, financial condition and results of operations.

RISKS RELATING TO THE [REDACTED]

There has been no prior [REDACTED] for our Shares and the [REDACTED] and [REDACTED] of our Shares may be volatile.

Prior to the [REDACTED], there was no [REDACTED] for our Shares. We cannot assure you that a [REDACTED] for our Shares with adequate [REDACTED] will develop and be sustained following the completion of [REDACTED]. In addition, the [REDACTED] of our Shares may not be indicative of the [REDACTED] of our Shares following the completion of the [REDACTED]. If an active [REDACTED] for our Shares does not develop following the completion of the [REDACTED], the [REDACTED] and [REDACTED] of our Shares could be materially and adversely affected.

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You will incur immediate and significant dilution and raising additional capital may cause further dilution or restrict our operation.

The [REDACTED] of the [REDACTED] is higher than the net tangible asset value per Share immediately prior to the [REDACTED]. Therefore, [REDACTED] of the [REDACTED] in the [REDACTED] will experience an immediate dilution in [REDACTED] consolidated net tangible asset value. If we raise additional capital through the sale of equity or convertible debt securities, your ownership interest will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect your rights as a shareholder. Debt financing and preferred equity financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures, limitations on our ability to acquire or license intellectual property rights or declaring dividends, or other operating restrictions.

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

Our corporate affairs are governed by our Memorandum and Articles and by the Cayman Companies Act and common law of the Cayman Islands. The rights of Shareholders to take legal action against our Directors and us, actions by minority Shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes and judicial precedent in existence in the jurisdictions where minority Shareholders may be located. For details, see "Appendix III — Summary of the Constitution of the Company and Cayman Islands Company Law" in this document. As a result of all of the above, minority Shareholders may enjoy different remedies when compared to the laws of the jurisdiction such shareholders are located in.

Our Controlling Shareholders have substantial control over our Company and their interests may not align with the interests of the other Shareholders.

Prior to and immediately following the completion of the [REDACTED], our Controlling Shareholders will retain substantial control over our Company. Subject to our Articles of Association and the Company Law of the PRC (中華人民共和國公司法) (the "PRC Company Law"), the Controlling Shareholders will be able to exercise significant control and exert significant influence over our business or otherwise on matters of significance to us and other Shareholders by voting at the general meeting of the Shareholders and at Board meetings. The interests of our Controlling Shareholders may differ from the interests of other Shareholders and they are free (other than on any matters that they are required to abstain from voting on) to exercise their votes according to their interests. To the extent that the interests of the Controlling Shareholders conflict with the interests of other Shareholders, the interests of other Shareholders can be disadvantaged and harmed.

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There will be a time gap between [REDACTED] of our Shares, and the [REDACTED] of our Shares when [REDACTED] begins could be lower than the [REDACTED].

The [REDACTED] of our Shares sold in the [REDACTED] is expected to be determined on the [REDACTED]. However, the Shares will not commence [REDACTED] on the [REDACTED] until they are delivered, which is expected to be five Business Days after the [REDACTED]. As a result, [REDACTED] may not be able to [REDACTED] or otherwise [REDACTED] in the Shares before the commencement of trading. Accordingly, [REDACTED] of our Shares are subject to the risk that the [REDACTED] of the Shares when [REDACTED] begins could be lower than the [REDACTED] as a result of adverse [REDACTED] or other adverse developments that may occur between the time of [REDACTED] and the time trading begins.

We cannot assure you that we will declare and distribute any dividends in the future.

There can be no assurance that we will declare and pay dividends because the declaration, payment and amount of dividends are subject to the discretion of our Directors, depending on, among other considerations, our operations, earnings, cash flows and financial position, operating and capital expenditure requirements, our strategic plans and prospects for business development, our constitutional documents and applicable law. For more details of our dividend policy, see "Financial Information — Dividends" in this document.

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

This document contains certain statements and information that are "forward-looking" and uses forward-looking terminology such as "aim", "anticipate", "believe", "continue", "could", "expect", "estimate", "intend", "may", "plan", "potential", "predict", "project", "propose", "seek", "should", "will", "would" or similar terms. Those statements include, among other things, the discussion of our growth strategy and expectations concerning future operations, liquidity and capital resources. [REDACTED] of our Shares are cautioned that reliance on any forward-looking statements involves risks and uncertainties and that, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include, but are not limited to, those identified in this section, many of which are not within our control. In light of these and other uncertainties, the inclusion of forward-looking statements in this document should not be regarded as representations that our plans or objectives will be achieved and [REDACTED] should not place undue reliance on such forward-looking statements. Our Company does not undertake any obligation to update publicly or release any revisions of any forward-looking statements, whether as a result of new information, future events or otherwise. For details, see "Forward-Looking Statements" in this document.

RISK FACTORS

Certain information in this document relating to the PRC economy and the beauty and health management service industry may not be fully reliable.

Certain information and statistics set out in this document were extracted from the report prepared by Frost & Sullivan, which was commissioned by us, and from various official government publications and other publicly available publications. We engaged Frost & Sullivan to prepare the Frost & Sullivan Report, an independent industry report, in connection with the [REDACTED]. However, the information from official government sources has not been independently verified by us, the Joint Sponsors, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED], any of their respective directors and advisers, or any other persons or parties involved in the [REDACTED], and no representation is given as to its accuracy.

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

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