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, before making an* [**REDACTED**] *in our Shares. Particularly, we are a biopharmaceutical company seeking to* [**REDACTED**] *on the Main Board of the Stock Exchange under Chapter 18A of the Listing Rules. Our operations and the broader dermatology treatment and care industry involve certain risks and uncertainties, some of which are beyond our control and may cause you to lose all your* [**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 and results of operations. In any such case, the* [**REDACTED**] *of our Shares could decline, and you may lose all or part of your* [**REDACTED**]. *These factors are contingencies that may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring. The information given is as of the Latest Practicable Date unless otherwise stated, will not be updated after the date hereof, and is subject to the cautionary statements in "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 product candidates; (ii) risks relating to our reliance on third parties; (iii) risks relating to manufacturing and commercialization of our product candidates; (iv) risks relating to extensive government regulation; (v) risks relating to our intellectual property rights; (vi) risks relating to our operations; (vii) risks relating to our financial position and need for additional capital; (viii) risks relating to doing business in China; and (ix) risks relating to the [**REDACTED**].

Additional risks and uncertainties that are presently not known to us or not expressed or implied below or that we currently deem immaterial could also have a material adverse effect on our business, financial condition and operating results. 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 PRODUCT CANDIDATES

Our business and financial prospects depend substantially on the success of our clinical stage and pre-clinical stage drug candidates. If we are unable to successfully complete clinical development, obtain relevant regulatory approvals or achieve commercialization of our product candidates, or if we experience significant delays in any of the foregoing, our business, results of operations and financial condition may be adversely affected.

Our business will depend on the successful completion of the development of our product candidates, obtaining necessary regulatory approvals, and manufacturing and commercializing our product candidates. We have invested a significant portion of our efforts and financial resources in the development of our existing product candidates, and we expect to continue to incur substantial and increasing expenditures for the development and commercialization of our product candidates.

The success of our product candidates will depend on several factors, including but not limited to:

- successful enrollment of patients in, and completion of, clinical trials, as well as completion of pre-clinical studies;
- favorable safety and efficacy data from our clinical trials and other studies;
- obtaining sufficient supplies of any qualified products that are used in combination with competitor products or comparison products that may be necessary for use in clinical trials for evaluation of our product candidates;
- receipt of regulatory approvals;
- establishing sufficient commercial manufacturing capabilities, either by building facilities ourselves or making arrangements with third-party manufacturers;
- the performance by CROs or other third parties we may retain to conduct clinical trials, of their duties to us in a manner that complies with our protocols and applicable laws and that protects the integrity of the resulting data;
- obtaining, maintaining and enforcing patent, trademark, trade secret and other intellectual property protection and regulatory exclusivity for our product candidates;
- avoiding infringement, misappropriation or violation of the patents, trademarks, trade secrets or other intellectual property rights of third parties, and successfully defending against any claims by third parties that we have infringed, misappropriated or otherwise violated any intellectual property of any such third party;
- successfully launching commercial sales of our product candidates, if and when approved;
- obtaining and maintaining favorable reimbursement from third-party payers for products, if and when approved;
- competition with other product candidates; and
- continued acceptable safety profile of our product candidates following regulatory approval.

If we do not achieve one or more of these factors in a timely manner or at all, we could experience significant delays in obtaining approval for and/or successfully commercializing our product candidates, which would materially and adversely affect our business and we may not be able to generate sufficient revenues and cash flows to continue our operations.

Clinical development involves a lengthy and expensive process with an uncertain outcome, and results of earlier studies and trials may not be predictive for future trial results.

Research programs to discover new product candidates and new formulations or pursue the development of our product candidates for additional indications require substantial technical, financial and human resources. Clinical testing is expensive and can take many years to complete, and its outcome is inherently uncertain. Failure can occur at any time during the clinical trial process. The results of pre-clinical studies and early clinical trials of our product candidates may not be predictive for the results of later-stage clinical trials, and initial or interim results of a trial may not be predictive for the final results. Product candidates in later stages of clinical trials may fail to show the desired safety and efficacy traits despite having progressed through pre-clinical studies and initial clinical trials. In some instances, there can be significant variability in safety and/or efficacy results between different trials of the same product candidate due to numerous factors, including changes in trial procedures set forth in protocols, differences in the size and type of the patient populations, including genetic differences, patient adherence to the dosing regimen, other trial protocol elements and the rate of dropout among clinical trial participants. Moreover, a number of factors could affect the relevant clinical results and could render cross-trial comparison results less meaningful, including the different patient enrollment standards adopted in different trials (e.g., disease severity and status, prior treatment history, age group), dose regimen, and the other aspects of clinical trial design. In the case of any trials we conduct, results may differ from earlier trials due to larger number of clinical trial sites and additional countries and languages involved in such trials. A number of companies in the dermatology industries have suffered significant setbacks in advanced clinical trials due to lack of efficacy or adverse safety profiles, notwithstanding positive results in earlier trials. Our future clinical trial results may thus not be favorable, which may materially and adversely affect our business, results of operations and prospects.

If clinical trials of our product candidates fail to demonstrate safety and efficacy to the satisfaction of regulatory authorities or do not otherwise produce positive results, we may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of our product candidates.

Before obtaining regulatory approval for the commercialization of our product candidates, we must conduct extensive clinical trials to demonstrate the safety and efficacy of our product candidates in humans. We may experience numerous unexpected adverse events during, or as a result of, clinical trials that could delay or prevent our ability to obtain regulatory approvals or commercialize our product candidates, including but not limited to:

- regulators, institutional review boards or ethics committees not authorizing us or our investigators to commence a clinical trial or conduct a clinical trial at a prospective trial site;

- manufacturing issues relating to our third-party CDMOs or after we establish our own facilities, including problems with manufacturing, supply quality, compliance with good manufacturing practice, or GMP, or obtaining from third parties sufficient quantities of a product candidate for use in a clinical trial;

- clinical trials of our product candidates producing negative or inconclusive results, and additional clinical trials or abandoning product development programs being required;

- the number of patients required for clinical trials of our product candidates being larger than we anticipate, enrollment being insufficient or slower than we anticipate, or patients dropping out at a higher rate than we anticipate;

- our third-party contractors failing to comply with regulatory requirements or meet their contractual obligations to us in a timely manner, or at all;

- suspension or termination of clinical trials of our product candidates for various reasons, including a finding of a lack of clinical response or other unexpected characteristics or a finding that participants are being exposed to unacceptable health risks; and

- the cost of clinical trials of our product candidates being greater than we anticipate; and the supply or quality of our product candidates, companion diagnostics or other materials necessary to conduct clinical trials of our product candidates being insufficient or inadequate.

If we are required to conduct additional clinical trials or other testing of our product candidates beyond those that we currently contemplate, if we are unable to successfully complete clinical trials of our product candidates or other testing, or if the results of these trials or tests are not positive or are only modestly positive or if they raise safety concerns, we may (i) be delayed in obtaining regulatory approval for our product candidates; (ii) not obtain regulatory approval at all; (iii) obtain approval for indications that are not as broad as intended; (iv) have the products removed from the market after obtaining regulatory approval; (v) be subject to additional post-marketing testing requirements; (vi) be subject to restrictions on how the product is distributed or used; or (vii) be unable to obtain reimbursement for the use of the products.

Significant clinical trial delays may also increase our development costs and could shorten any periods during which we have the exclusive right to commercialize our product candidates or allow our competitors to bring products to market before we do. This could impair our ability to commercialize our product candidates and may materially and adversely affect our business and results of operations.

We are largely dependent on the sales of our commercialized products. If we fail to achieve or further promote the widespread market acceptance of our products, or if we fail to grow or retain our customers or consumer base, our business, results of operations and financial condition may be materially and adversely affected.

As of the Latest Practicable Date, we had two commercialized products, CUP-MNDE and CUP-SFJH. Our two clinical-stage products CU-40102 and CU-10201 also had commenced pilot commercialization in Lecheng, Hainan. Our business success depends significantly on the level of acceptance and satisfaction of our products in China's broader dermatology treatment and care market. A number of factors could affect the market acceptance of our products, including but not limited to the following:

- our ability to penetrate China's broader dermatology treatment and care market;
- our ability to address the evolving needs and preferences of our customers and consumers in China's broader dermatology treatment and care market;
- timing of market introduction, brand recognition, sales channel and research and development progress of our products and competing products;
- safety and efficacy of our products and product candidates and the prevalence and severity of side effects, if any;
- pricing and cost effectiveness of our products;
- the number and quality of competing products that are specialized in certain areas and are highly similar or unable to be differentiated from our products;
- recognition and acceptance of our products from consumers;
- perceived advantages and publicity of our products over competing products or treatments and the availability and success of competing products or treatments; and
- effectiveness of our sales and marketing efforts and distribution network, as well as the general availability of our products to meet demand from consumers.

If our products fail to achieve or maintain widespread market acceptance, particularly among medical institutions, practitioners, consumers and distributors, or if we fail to maintain good relationships with them, our future prospects may be affected. In addition, if new products introduced by our competitors are perceived more favorably by our customers and consumers, or are more cost-effective, or otherwise render our products obsolete, the market demand for our products may decline, and our business, results of operations and financial condition may be materially and adversely affected.

Interim and/or preliminary data derived from our pre-clinical and/or clinical trials that we announce or publish from time to time may change as more valid data becomes available and are subject to verification procedures that could result in material changes in the final results.

From time to time, we may publish interim and/or preliminary data from our clinical trials. Interim data from clinical trials that we may complete are subject to the risk that one or more of the clinical outcomes may materially change as patient enrollment continues and more patient data become available. Preliminary data also remain subject to verification procedures that may result in the final data being materially different from the preliminary data we previously published. As a result, interim and preliminary data should be viewed with caution until the final data are available. Differences between preliminary or interim data and final data could significantly harm our business prospects and may cause the trading price of Shares to fluctuate significantly after the [**REDACTED**].

Adverse events or undesirable side effects caused by our product candidates could interrupt, delay or halt clinical trials, delay or prevent regulatory approval, limit the commercial profile of an approved label, result in significant negative consequences following any regulatory approval or cause product liability claims, which could expose us to costs and liabilities and adversely affect our operations and reputation.

Undesirable adverse events caused by our product candidates could potentially cause significant negative consequences, including but not limited to:

- regulatory authorities could interrupt, delay or halt pending clinical trials;
- we may suspend, delay or alter development or marketing of our product candidates;
- regulatory authorities may order us to cease further development of, or deny approval of, our product candidates for any or all targeted indications if results of our trials reveal a high and unacceptable severity or prevalence of certain adverse events;
- regulatory authorities may delay or deny approval of our product candidates;
- regulatory authorities may withdraw approvals or revoke licenses of an approved product candidate, or we may determine to do so even if not required;
- regulatory authorities may require additional warnings on the label of an approved product candidate or impose other limitations on an approved product candidate;
- we may be required to develop a risk evaluation mitigation strategy for the product candidate, or, if one is already in place, to incorporate additional requirements under the risk evaluation mitigation strategy, or to develop a similar strategy as required by a comparable regulatory authority;
- we may be required to conduct post-market studies;

- we could be subject to litigation proceedings or product liability claims for harms or adverse events that caused to patients due to exposure or administration of our product candidates;

- the patient enrollment may be insufficient or slower than we anticipate or patients may drop out or fail to return for post-treatment follow-up at a higher rate than anticipated; and

- the costs of clinical trials of our product candidates may be substantially higher than anticipated.

The NMPA could order us to suspend or terminate our studies or to cease further development of or deny approval of our product candidates. Any side effects could affect patient recruitment or the ability of enrolled patients to complete trials or may result in potential product liability claims, which could prevent us from obtaining regulatory approvals or achieving or maintaining market acceptance of a particular product candidate, and could materially and adversely affect our business, results of operations and prospects.

If we encounter difficulties enrolling patients in our clinical trials, our clinical development activities could be delayed or otherwise adversely affected.

The timely completion of clinical trials depends, among other things, on our ability to enroll a sufficient number of patients who remain in the trial until its conclusion. We may experience difficulties in patient enrollment in our clinical trials for a variety of reasons. For example, patient eligibility criteria defined in the protocols could be strict and it might increase the chances that we are not able to recruit and retain suitable patients for our clinical trials. Our clinical trials may compete with other clinical trials for product candidates that are in the same therapeutic areas as our product candidates, and this competition will reduce the number and types of patients available to us, because some patients who might have opted to enroll in our trials may instead opt to enroll in a trial being conducted by one of our competitors. Even if we are able to enroll a sufficient number of patients in our clinical trials, delays in patient enrollment may result in increased costs or may affect the timing or outcome of the planned clinical trials, which could prevent completion of these trials and adversely affect our ability to advance the development of our product candidates.

Our pre-clinical studies may experience delays or may never advance to clinical trials, which would adversely affect our ability to obtain regulatory approvals or commercialize these product candidates on a timely basis or at all, which in turn would have an adverse effect on our business.

Some of our product candidates are still in the pre-clinical development stage, and the risk of failure of pre-clinical studies is high. Before we can commence clinical trials for a product candidate, we must complete extensive pre-clinical testing and studies to obtain regulatory clearance to initiate human clinical trials, including IND applications in China. We cannot be certain of the timely completion or outcome of our pre-clinical testing and studies and cannot

predict (i) if the NMPA will accept our proposed clinical programs or (ii) if the outcome of our pre-clinical testing and studies will ultimately support the further development of our products. As a result, we cannot be sure that we will be able to submit IND applications or similar applications for our pre-clinical programs on the timelines that we expect, if at all, and we cannot be sure that the submission of IND applications will be approved by the NMPA, leading to the initiation of clinical trials.

We may not be successful in developing, enhancing or adapting to new technologies and methodologies.

We must keep pace with new technologies and methodologies to maintain our competitive position. In 2020, 2021 and the six months ended June 30, 2022, we recorded research and development costs of RMB161.9 million, RMB110.6 million and RMB83.5 million, respectively. We must continue to invest significant amounts of human and capital resources to develop or acquire technologies that will allow us to enhance the scope and quality of our clinical trials. We intend to continue to enhance our technical capabilities in drug discovery, development and manufacturing, which are capital-and-time-intensive. We cannot assure you that we will be able to develop, enhance or adapt to new technologies and methodologies, successfully identify new technological opportunities, develop and bring new or enhanced products to market, obtain sufficient or any patent or other intellectual property protection for such new or enhanced products, or obtain the necessary regulatory approvals in a timely and cost-effective manner, or, if such products are introduced, and that those products will achieve market acceptance. Any failure to do so may make our techniques obsolete, which could materially and adversely affect our business and prospects.

In conducting drug discovery and development, we face potential liabilities, in particular, product liability claims or lawsuits that could cause us to incur substantial liabilities.

We face an inherent risk of product liability as a result of the clinical trials and any existed or future commercialization of our product candidates inside and outside China. Liability claims may result in: decreased demand for our product candidates, injury to our reputation, withdrawal of clinical trial participants and inability to continue clinical trials, initiation of investigations by regulators, costs to defend the related litigation, a diversion of management's time and our resources, substantial monetary awards to trial participants or patients, product recalls, withdrawals, or labeling, marketing or promotional restrictions, loss of revenue, exhaustion of any available insurance and our capital resources, the inability to commercialize any approved product candidate, and a decline in the [**REDACTED**] of our Shares.

We face substantial competition and our competitors may discover, develop or commercialize competing products earlier or more successfully than we do.

China's broader dermatology treatment and care market is highly competitive. There are a number of large companies that currently market and sell, or are pursuing the development of the same or similar products as we do, namely, products for scalp diseases and care, skin

diseases and care, localized adipose accumulation management medication and topical anesthesia. Some of these competitors may have better resources and expertise than us. Potential competitors also include academic institutions, government agencies, and other public and private research organizations that conduct research, seek patent protection and establish collaborative arrangements for research, development, manufacturing and commercialization. Their success depends on their sharp market insights to find needs from consumers, ability to develop new products that address consumers' demands, and produce and commercialize such products. We anticipate that we will face intense and increasing competition as new products enter the market and advanced technologies become available.

Our commercial opportunity could be reduced or eliminated if our competitors develop and commercialize products that are highly similar or unable to be differentiated from our products or even more effective, have fewer severe side effects, are more convenient, or are less expensive than any products that we may develop or commercialize. Our competitors also may obtain approval from the NMPA or other comparable regulatory authorities for their products more rapidly than we may obtain approval for ours, which could result in our competitors establishing a stronger market position before we enter the market. As a result, consumers or patients may prefer purchasing or using products from our competitors. Our competitors may render our product candidates obsolete or non-competitive before we can recover expenses of developing and commercializing any of our product candidates.

The broader dermatology treatment and care market may not grow as rapidly as anticipated, which would materially and adversely affect our business, results of operations and financial condition.

China's broader dermatology treatment and care market have been developing rapidly. However, the future demand is difficult to anticipate since it depends on a number of factors, many of which are beyond our controls. A general slowdown in China's economy or an uncertain economic outlook would adversely affect consumer spending habits which may, among other things, result in an overall decrease in the consumers' willingness to spend on broader dermatology treatment and care products, or a reduction in spending on higher-priced broader dermatology treatment and care products, each of which would have a material adverse effect on our results of operations.

The prospects of China's broader dermatology treatment and care market are also uncertain, and the market may develop at a slower pace than we expect. If the demand for broader dermatology treatment and care products fails to increase as rapidly as we anticipate, our business and future prospects could be adversely affected. The market prospect depends on a number of factors, including, among others, the degree of acceptance, recognition and penetration of broader dermatology treatment and care among the population, the development and relative advantages of alternative solutions, and changes in the industry landscape, such as the advancement of new technologies and competing or substitute products. Moreover, if any market participants in the industry are involved in disputes or negative publicity that have an adverse impact on the industry, our business, results of operations and reputation could also be negatively affected.

Failure to execute effective pricing strategy due to the government guidance or fiercer market competition could harm our ability to increase sales and erode our financial profits.

Our pricing strategies may not be effective and competitive at all times to reflect the supply and demand of our products, which may affect our ability to capture market demand and generate revenue. Additionally, if the PRC government issues pricing guidance for our products, it may negatively affect the price at which we can sell our products and have a material adverse effect on our business and results of operations. We may also face downward pricing pressure if our products are included in the National Reimbursement Drug List ("**NRDL**") (《國家醫保藥品目錄》) or other similar catalogues, even if the inclusion of such or other similar catalogues is expected to increase the sales volume of our products. While none of our marketed products was subject to such pricing guidance or reimbursement list as of the Latest Practicable Date, we cannot assure you that we will not be subject to such or other pricing restrictions as a result of any potential tightening regulations. Our customers may gain more bargaining power depending on the availability of alternative products, demands of consumers and the preferences of medical practitioners, and they may demand a lower price from us, which reduces our profitability. In addition, if the profitability of our distributors is reduced due to competition, our distributors may have less incentive to purchase and promote our products, and we may need to lower the order price we set for our distributors.

Furthermore, with the introduction of our new products or competing products, or with voluntary price lowering by our competitors, we may be forced to lower the prices for our products. If the prices of our products decline due to government pricing regulation, emergence of competing and substitute products or other factors, and if we are unable to mitigate the adverse effects of such price reduction without incurring substantial expenses to improve our products, our products, business, financial condition, results of operations and market acceptance of our products could be materially and adversely affected.

We have limited control over the end-users that use our products, and depend in part on whether they will utilize and promote our products in a compliant, safe and effective manner.

We sell our products to individual consumers through direct sales and distributors. Our products may be adopted or administered to consumers by third parties beyond our control. We cannot assure you that the broader dermatology treatment and care procedures using our products conducted by third parties would always be compliant with our operational standards and regulatory requirements. For instance, if our products are administered to the incorrect or inappropriate sites or depths by third-party medical practitioners, consumers might experience adverse results, side effects or bodily injury. As a result, even if our products are successfully commercialized, any improper adoption or administration of our products could potentially harm our reputation, expose us to disputes and litigations, and adversely affect our business and results of operations.

RISKS RELATING TO OUR RELIANCE ON THIRD PARTIES

We have entered into collaborations or licensing arrangements or may seek collaborations or enter into licensing arrangements in the future, we may not realize the benefits of such collaborations or licensing arrangements, and disputes may arise between us and our collaboration partners which could harm our business.

We have collaborated or entered into licensing arrangements or may seek strategic alliances, joint ventures or other collaborations, including entering into licensing arrangements with third parties that we believe will complement or augment our development and commercialization efforts with respect to our product candidates and any future product candidates that we may develop. Any of these relationships may require us to incur non-recurring and other charges, increase our near and long-term expenditures, issue securities that dilute our existing shareholders or disrupt our management and business.

Our strategic collaboration with partners involves numerous risks. We may not achieve the revenue and cost synergies expected from the transaction. These synergies are inherently uncertain, and are subject to significant business, economic and competitive uncertainties and contingencies, many of which are difficult to predict and are beyond our control. If we achieve the expected benefits, they may not be achieved within the anticipated timeframe. Also, the synergies from our collaboration with partners may be offset by other costs incurred in the collaboration, increases in other expenses, operating losses or problems in the business unrelated to our collaboration. As a result, there can be no assurance that these synergies will be achieved.

We face significant competition in seeking appropriate strategic partners and the negotiation process is time-consuming and complex. Moreover, we may not be successful in our efforts to maintain or establish a strategic partnership or other alternative arrangements for our product candidates because they may be deemed to be at too early of a stage of development for collaborative effort and third parties may not view our product candidates as having the requisite potential to demonstrate safety and efficacy or commercial viability. If and when we collaborate with a third party for development and commercialization of a product candidate, we may be required to relinquish some or all of the control over the future success of that product candidate to the third party. For any product candidates that we may seek to in-license from third parties, we may face significant competition from other companies with greater resources or capabilities than us, and any agreement that we do enter into may not result in the anticipated benefits.

Disputes may arise between us and our collaboration partners. Such disputes may cause delay or termination of the research, development or commercialization of our product candidates, or may result in costly litigation or arbitration that diverts management attention and resources. Global markets are an important component of our growth strategy. If we fail to obtain licenses or enter into collaboration arrangements with third parties in other markets, or if our third-party collaborator is not successful, our revenue-generating growth potential will be adversely affected. Moreover, international business relationships subject us to additional risks that may materially and adversely affect our ability to attain or sustain profitable operations, including:

- efforts to enter into collaboration or licensing arrangements with third parties in connection with our international sales, marketing efforts may increase our expenses or divert our management's attention from the acquisition or development of product candidates;

- decisions of our collaborators to delay any clinical trials, provide insufficient funding for a clinical trial, stop a clinical trial, abandon a product candidate, repeat or conduct new clinical trials, or require a new formulation of a product candidate for clinical testing, not to pursue development and commercialization of our product candidates, or not to continue or renew development or commercialization programs based on clinical trial results or other external factors;

- difficulty of effective enforcement of contractual provisions in local jurisdictions;

- third parties obtaining and maintaining patent, trade secret and other intellectual property protection and regulatory exclusivity for our product candidates;

- difficulty of ensuring that third-party partners do not infringe, misappropriate, or otherwise violate the patent, trade secret, or other intellectual property rights of others;

- unexpected changes in or imposition of trade restrictions, such as tariffs, sanctions or other trade controls, and similar regulatory requirements;

- economic weakness, including inflation;

- compliance with tax, employment, immigration and labor laws for employees traveling abroad;

- the effects of applicable foreign tax structures and potentially adverse tax consequences;

- currency fluctuations, which could result in increased operating expenses and reduced revenue; workforce uncertainty and labor unrest;

- failure of our employees and contracted third parties to comply with United States Department of the Treasury's Office of Foreign Assets Control rules and regulations and the United States Foreign Corrupt Practices Act of 1977, as amended ("**FCPA**"); and

- business interruptions resulting from geopolitical actions, including war and acts of terrorism, or natural disasters, including earthquakes, volcanoes, typhoons, floods, hurricanes and fires.

Our rights to develop and commercialize some of our product candidates are subject to the terms and conditions of licenses granted to us by others. If we fail to comply with our obligations in the agreements or otherwise experience disruptions to our business relationships with our licensors, we could be required to pay monetary damages or could lose license rights that are important to our business.

We rely on licenses to certain patent rights and other intellectual property from third parties that are important or necessary to the development, manufacture or commercialization of our product candidates. Part of these licenses may not provide exclusive rights to use such intellectual property in all relevant fields of use. As a result, we may not be able to develop, export or sell our product candidates outside of the fields as stipulated by the license agreements or prevent competitors from developing and commercializing competitive product products in territories included in all of our licenses.

In addition, we may not have the right to control the preparation, filing, prosecution, maintenance, enforcement or defense of patents and patent applications covering the product candidates that we license from third parties. Therefore, we cannot be certain that these patents and patent applications will be prepared, filed, prosecuted, maintained, enforced and defended in a manner consistent with the best interests of our business. If our licensing partners fail to prosecute, maintain, enforce or defend such patents or patent applications, or lose rights to those patents or patent applications, the rights we have licensed may be reduced or eliminated, and our right to develop and commercialize any of our product candidates that are subject of such licensed rights could be adversely affected.

Our licensing partners may have relied on third-party consultants or collaborators or on funds from third parties, or on upstream licenses from third parties, such that our licensing partners are not the sole and exclusive owners of the intellectual property rights we in-license. This could have a material adverse effect on our competitive position, business, financial conditions, results of operations and prospects.

Despite our best efforts, our licensing partners might conclude that we have materially breached our license agreements or otherwise experienced disruptions to our business relationships and might therefore terminate the license agreements, thereby terminating our ability to develop and commercialize product candidates covered by these license agreements. If any of our licensing partners go bankrupt, some or all of our rights under the licensing agreements may be terminated during the bankruptcy proceeding. In such scenario, or if these licenses are terminated, or if the underlying patents fail to provide the intended exclusivity, competitors would have the freedom to seek regulatory approval of, and to market, products identical to ours. In addition, we may seek to obtain additional licenses from our licensing partners in a manner that may be more favorable to the licensing partners, including by agreeing to terms that could enable third parties (potentially including our competitors) to receive licenses to a portion of the intellectual property that is subject to our existing licenses.

Any of these events could have a material adverse effect on our competitive position, business, financial conditions, results of operations and prospects. For more details, see "Business – Collaboration and Licensing Arrangements."

Our success depends on our ability to maintain and expand our third-party e-commerce platforms and sales network. Future changes in the e-commerce industry and consumer behavioral pattern may adversely affect our sales through online channels.

We directly sell products, including CUP-MNDE and CUP-SFJH, to individual customers through Tmall e-commerce platform. We also sell another portion of CUP-MDNE through a distributor in Hong Kong, which sells our products to JD Health (京東健康) e-commerce platform. Because we have relied on third-party e-commerce platforms for online sales of our products, the future growth of our operations depends on our ability to continue attracting online customers and generating new purchases from various online channels, as well as our ability to retain visitors to our websites and e-commerce platforms. We believe that maintaining a strong online presence helps improve our brand visibility and awareness, especially in regions where we have yet to establish a physical presence. However, if such platforms fail to provide satisfactory customer experience or fail to retain existing users and attract new users, or if our cooperation with such third-party e-commerce and social media platforms terminates, deteriorates or becomes more costly, our business and results of operations may be materially and adversely affected.

We anticipate that our online marketing expenses will increase in the foreseeable future as we continue to grow our online sales channels and, as a result, our net profit margin may continue to decrease. Furthermore, we may fail to incentivize such platforms to drive traffic to our stores or promote our products, which may also materially and adversely affect our business and results of operations. We cannot guarantee that we will be able to find alternative channels on terms and conditions commercially acceptable to us in a timely manner, or at all, especially given their leading position and significant influence in China's e-commerce and social media industry. In addition, any negative publicities about such third-party platforms, and any public perception or claims that non-authentic, counterfeit or defective goods are sold on such platforms, proven or otherwise, may deter visits to the platforms and result in reduced customer traffics to our stores or a decline in sales of our products, which may negatively impact our business and results of operations.

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

- consumer traffic on e-commerce platforms and our ability to increase consumer traffic on our online stores and the e-commerce platforms we engage;
- our ability to respond to the changes in the online marketing and e-commerce industry in China;
- influence of online influencers on consumer preferences and our cooperation with such influencers;
- the reliability of the e-commerce and social media platforms; and
- the availability of the relevant network infrastructure, such as online or mobile payment platforms.

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

We depend on our distributors and sub-distributor to sell products and product candidates. Our limited control over the distributors and sub-distributor and our relationship may expose us to significant risks.

Our sales of our product candidates depend on successful distribution arrangement with the distributors and sub-distributor. The performance of our distributors and sub-distributor, which includes, but is not limited to, their ability to sell our products, uphold our brand, expand their sales network, is crucial to the future growth of our business and may directly affect our sales volume and profitability. We cannot assure you that we will be able to build, maintain or strengthen our relationships with our key distribution partners and relationship between the distributor and sub-distributor in the future. Should any of the distributors reduce substantially their demands for our products or terminate the business relationship with us, we may not be able to secure replacements for the lost customers or purchase orders in a timely fashion or at all and may experience a decline in our sales performance. Any unexpected cessation of, or substantial reduction in, the volume of orders from any of our major customers may have a material and adverse impact on our business, financial condition and results of operations.

In addition, it is difficult to monitor their compliance with regulatory requirements and business practices. Non-compliance by any of our distributors or sub-distributor under applicable regulations may adversely affect the sales and distribution of our products. Further, as we rely on our distributors and sub-distributor to manage their sales practices, we have limited control over the ultimate sales by these distributors and sub-distributor. We cannot assure you that they will at all times comply with our sales policies or that they will not compete with each other for market share in respect of our products. If any of our distributors or sub-distributor fails to distribute our products to their customers in a timely manner, overstock, or carries out actions which are inconsistent with our business strategy, it may adversely affect our future sales. There may be instances when these distributors or sub-distributor take actions which are not consistent with our business strategies, such as failure to follow our pricing and marketing policies and participate in our marketing and promotional activities. Any occurrence of aforementioned non-compliance may in turn materially and adversely affect our business, financial condition, and results of operations and prospects.

We prevent the occurrence of channel stuffing, cannibalization and competition within our distribution network through various measures. For more details, see "Business – Our Sales, Distribution and Marketing – Our Distribution Network – Prevention of Cannibalization." However, we cannot assure you that the measures would be effective in preventing channel stuffing, cannibalization and competition within our distribution network. The failure in avoiding such occurrences may adversely affect our business, financial condition and results of operations.

We are subject to credit risks of our customers. If we experience delays in collecting or if we are unable to collect payments from customers, our cash flows and operations could be adversely affected.

We from time to time grant credit term to certain customers and may be exposed to credit risk. Although we have adopted a series of strict management measures, we may not be able to collect all trade and bills receivables due to a variety of factors that are outside of our control. If we experience delays in collecting or if we are unable to collect payments from customers, if the relationship between us and any of our customers or distributors is terminated or deteriorated, or if our customers and distributors experience financial difficulties, we may not have enough cash flows and it may adversely affect our operations.

We rely on third parties to conduct a certain number of our pre-clinical studies and clinical trials. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, we may not be able to obtain regulatory approval for or commercialize our product candidates, or experience delay in doing any of the foregoing, and our business could be substantially harmed.

We have relied upon and plan to continue to rely upon third-party CROs and SMOs to generate, monitor or manage data for our ongoing pre-clinical and clinical programs. We rely on these parties for execution of our pre-clinical studies and clinical trials, and control only certain aspects of their activities. Nevertheless, we are responsible for ensuring that each of our studies is conducted in accordance with the applicable protocol, legal and regulatory requirements and scientific standards, and our reliance on the CROs and SMOs does not relieve us of our regulatory responsibilities. We, our CROs and SMOs for our clinical programs and our clinical investigators are required to comply with GCPs, which are regulations and guidelines enforced by the NMPA and other comparable regulatory authorities in Mainland China for all of our products in clinical development. If we or any of our CROs and SMOs or clinical investigators fail to comply with applicable GCPs, the clinical data generated in our clinical trials may be deemed unreliable and the NMPA or comparable regulatory authorities may require us to perform additional clinical trials before approving our marketing applications. In addition, our registrational clinical trials must be conducted with product produced under GMP regulations. Our failure to comply with these regulations may require us to repeat clinical trials, which would delay the regulatory approval process.

If any of our relationships with these third-party CROs and SMOs terminate, we may not be able to enter into arrangements with alternative CROs and SMOs on commercially reasonable terms, or at all. In addition, our CROs and SMOs are not our employees. Except for remedies available to us under our agreements with such CROs and SMOs, we cannot control whether or not they devote sufficient time and resources to our ongoing clinical and non-clinical programs. If CROs and SMOs do not successfully carry out their contractual duties or obligations or meet expected deadlines, if they need to be replaced or if the quality or accuracy of the clinical data they or our clinical investigators obtain is compromised due to failure to adhere to our clinical protocols, regulatory requirements or for other reasons, our clinical trials may be extended, delayed or terminated and we may not be able to obtain

regulatory approval for or successfully commercialize our product candidates. As a result, our results of operations and the commercial prospects for our product candidates would be harmed, our costs could increase and our ability to generate revenues could be delayed.

Switching or adding CROs and SMOs involves additional cost and delays, which can materially influence our ability to meet our desired clinical development timelines. There can be no assurance that we will not encounter similar challenges or delays in the future or that these delays or challenges will not have a material adverse effect on our business, financial condition and prospects.

Our future revenues are dependent on our ability to work effectively with collaborators to develop our product candidates, including obtaining regulatory approval. Our arrangements with collaborators will be critical to successfully bringing products to market and commercializing them. We rely on collaborators in various respects, including to undertake research and development programs and conduct clinical trials. We do not control our collaborators. Therefore, we cannot ensure that these third parties will adequately and timely perform all of their obligations to us. If third parties fail to complete the remaining studies successfully, or at all, it could delay, adversely affect or prevent regulatory approval. In addition, the use of third-party service providers requires us to disclose our proprietary information to these parties, which could increase the risk that this information will be misappropriated. We cannot guarantee the satisfactory performance of any of our collaborators and if any of our collaborators breach or terminate their agreements with us, we may not be able to successfully commercialize the licensed product which could materially and adversely affect our business, financial condition, cash flows and results of operations.

Our employees, collaborators, service providers, independent contractors, principal investigators, consultants, vendors, distributors, CROs, SMOs, CMOs and CDMOs may engage in misconduct or other improper activities, and we may be unable to detect, deter and prevent all instances of misconduct.

We are exposed to the risk that our employees, collaborators, independent contractors, principal investigators, consultants, vendors, distributors, CROs, SMOs, CMOs and CDMOs may engage in fraudulent or other illegal activity with respect to our business. Misconduct by these employees could include intentional, reckless and/or negligent conduct or unauthorized activity that violates:

- regulations of the NMPA or other regulatory authorities, including those laws requiring the reporting of true, complete and accurate information;
- manufacturing standards; or
- laws that require the true, complete and accurate reporting of financial information or data.

In particular, sales, distributions, marketing and business arrangements in the broader dermatology treatment and care industry are subject to extensive laws and regulations intended to prevent fraud, kickbacks, self-dealing and other abusive practices. These laws and regulations may restrict or prohibit a wide range of pricing, discounting, marketing and

promotion, sales commission, customer incentive programs and other business arrangements. Misconduct by these parties could also involve individually identifiable information, including, without limitation, the improper use of information obtained in the course of clinical trials, or illegal misappropriation of product candidates, which could result in regulatory sanctions and serious harm to our reputation. We may not be able to identify and deter employee misconduct, and the precautions we take to detect and prevent this activity 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 have a significant impact on our business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, possible exclusion from the NRDL, contractual damages, reputational harm, diminished profits and future earnings and curtailment of our operations.

RISKS RELATING TO MANUFACTURING AND COMMERCIALIZATION OF OUR PRODUCT CANDIDATES

Manufacturing dermatology products is a highly exacting and complex process, and our business could be materially and adversely affected if we encounter problems in manufacturing our future product candidates.

Manufacturing of dermatology products is highly complex. Problems may arise during manufacturing for a variety of reasons, including but not limited to:

- equipment malfunction;
- failure to follow specific protocols and procedures;
- changes in product specification;
- low quality or insufficient supply of active pharmaceutical ingredients ("**APIs**");
- delays in the construction of new facilities as a result of changes in manufacturing production sites and limits to manufacturing capacity due to regulatory requirements;
- changes in the types of products produced;
- advances in manufacturing techniques;
- physical limitations that could inhibit continuous supply; and
- man-made or natural disasters and other environmental factors.

Products with quality issues may have to be discarded, resulting in product shortages or additional expenses. This could lead to, among other things, increased costs, lost revenue, damage to customer relationships, time and expense spent investigating the cause and, depending on the cause, similar losses with respect to other batches or products. If problems are not discovered before the product is released to the market, recall and product liability costs may also be incurred. We face additional manufacturing risks in relation to the CDMOs that we may engage from time to time.

Manufacturing methods and formulations are sometimes altered through the development of product candidates from clinical trials to approval, and further to commercialization, in an effort to optimize manufacturing processes and results. Such changes carry the risk that they will not achieve these intended objectives. Any of these changes could cause the product candidates to perform differently and affect the results of planned clinical trials or other future clinical trials conducted with the altered materials. This could delay the commercialization of product candidates and require bridging studies or the repetition of one or more clinical trials, which may result in increases in clinical trial costs, delays in product approvals and jeopardize our ability to commence product sales and generate revenue.

We may also encounter problems with achieving adequate or clinical-grade products that meet the NMPA or other comparable regulatory agency standards or specifications, maintaining consistent and acceptable production costs. We may also experience shortages of qualified personnel, raw materials or key contractors, and experience unexpected damage to our facilities or equipment. In these cases, we may be required to delay or suspend our manufacturing activities. We may be unable to secure temporary, alternative manufacturers for our products with the terms, quality and costs acceptable to us, or at all. Such an event could delay our clinical trials and/or the availability of our products for commercial sale. Moreover, we may spend significant time and costs to remedy these deficiencies before we can continue production at our manufacturing facilities.

In addition, the quality of our products, including product candidates manufactured by us for research and development purposes and, in the future, products manufactured by us for commercial use, depends significantly on the effectiveness of our quality control and quality assurance, which in turn depends on factors such as the production processes used in our manufacturing facilities, the quality and reliability of equipment used, the quality of our staff and related training programs and our ability to ensure that our employees adhere to our quality control and quality assurance protocol. However, we cannot assure you that our quality control and quality assurance procedures will be effective in consistently preventing and resolving deviations from our quality standards. We are, however, working on improving our documentation procedures for quality control and quality assurance activities. Any significant failure or deterioration of our quality control and quality assurance protocol could render our products unsuitable for use, or not in compliance with the relevant requirements of the GMP and/or harm our market reputation and relationship with business partners. Any such developments may have a material adverse effect on our business, financial condition and results of operations.

Delays in commencing and completing construction of, and receiving regulatory approvals for our manufacturing facilities, or damage to, destruction of or interruption of production at such facilities, could delay our development plans or commercialization efforts.

We are building manufacturing facilities in Jiangsu, China. These facilities may encounter unanticipated delays and expenses due to a number of factors, including regulatory requirements. If construction, regulatory evaluation and/or approval of our new facility is delayed, we may not be able to manufacture sufficient quantities of our product candidates, if approved, which would limit our development and commercialization activities and our opportunities for growth. Cost overruns associated with constructing or maintaining our facilities could require us to raise additional funds from other sources.

In addition to the similar manufacturing risks described in "– Risks Relating to Our Reliance on Third Parties," our manufacturing facilities may be subject to ongoing, periodic inspection by the NMPA or other comparable regulatory agencies to ensure compliance with cGMP. Our failure to follow and document our adherence to such cGMP regulations or other regulatory requirements may lead to significant delays in the availability of products for clinical or, in the future, commercial use, may result in the termination of or a hold on a clinical trial, or may delay or prevent filing or approval of marketing applications for our product candidates or the commercialization of our products, if approved. We also may encounter problems with the following:

- achieving adequate or clinical-grade materials that meet NMPA or other comparable regulatory agency standards or specifications with consistent and acceptable production yield and costs;

- shortages of qualified personnel, raw materials or key contractors; and

- ongoing compliance with cGMP regulations and other requirements of the NMPA or other comparable regulatory agencies.

Failure to comply with applicable regulations could also result in sanctions being imposed on us, including fines, injunctions, civil penalties, a requirement to suspend or put on hold one or more of our clinical trials, failure of regulatory authorities to grant marketing approval of our product candidates, delays, suspension or withdrawal of approvals, supply disruptions, license revocation, seizures or recalls of product candidates, operating restrictions and criminal prosecutions, any of which could materially and adversely our business.

To produce our candidates in the quantities that we believe will be required to meet anticipated market demand of our product candidates if approved, we will need to increase, or "scale up," the production process by a significant factor over the initial level of production. If we are unable to do so, are delayed, or if the cost of this scale up is not economically feasible for us or we cannot find a third-party supplier, we may not be able to produce our candidates in a sufficient quantity to meet future demand.

In addition to the similar manufacturing risks described in "– Risks Relating to Our Reliance on Third Parties," if our manufacturing facilities or the equipment in them is damaged or destroyed, we may not be able to quickly or inexpensively replace our manufacturing capacity or replace it at all. In the event of a temporary or protracted loss of the facilities or equipment, we might not be able to transfer manufacturing to a third party. Even if we could transfer manufacturing to a third party, the shift would likely be expensive and time-consuming, particularly since the new facility would need to comply with the necessary regulatory requirements and we would need regulatory agency approval before selling any product candidates manufactured at that facility. Such an event could delay our clinical trials or reduce our product sales if and when we are able to successfully commercialize one or more of our product candidates. Any interruption in manufacturing operations at our manufacturing facilities could result in our inability to satisfy the demands of our clinical trials or commercialization. Any disruption that impedes our ability to manufacture our product candidates in a timely manner could materially and adversely our business, financial condition and operating results.

We rely on third parties to manufacture our clinical product candidate supplies and expect to rely on third parties to supply raw materials for manufacturing and/or manufacture our product candidates when approved, and our business could be harmed if those third parties fail to provide us with sufficient quantities of the raw materials or the product or fail to do so at acceptable quality levels or prices.

We currently use third parties for our manufacturing process and for the clinical supply of our product candidates. We expect to continue to rely on third-parties to supply raw materials for us to manufacture or manufacture the approved products in the future. Reliance on third-party manufacturers would expose us to the following risks:

- we may be unable to identify manufacturers on acceptable terms or at all because the number of potential manufacturers is limited and the NMPA or other comparable regulatory authorities must evaluate and/or approve any manufacturers as part of their regulatory oversight of our product candidates. This evaluation would require new testing and cGMP-compliance inspections by the NMPA or other comparable regulatory authorities;

- our third-party manufacturers might be unable to timely manufacture our product candidates or produce the quantity and quality required to meet our clinical and commercial needs, if any;

- manufacturers are subject to ongoing periodic unannounced inspection by the regulatory authorities to ensure strict compliance with cGMP and other government regulations. We do not have control over third-party manufacturers' compliance with these regulations and requirements;

- we may not own, or may have to share, the intellectual property rights to any improvements made by our third-party manufacturers in the manufacturing process for our product candidates;

- manufacturers may not properly obtain, protect, maintain, defend or enforce our intellectual property rights or may use our intellectual property or proprietary information in a way that gives rise to actual or threatened litigation that could jeopardize or invalidate our intellectual property or proprietary information or expose us to potential liability;

- manufacturers may infringe, misappropriate or otherwise violate the patent, trade secret or other intellectual property rights of third parties;

- raw materials and components used in the manufacturing process, particularly those for which we have no other source or supplier, may not be available or may not be suitable or acceptable for use due to material or component defects; and

- our contract manufacturers and critical reagent suppliers may be subject to inclement weather, as well as natural or human-made disasters.

Each of these risks could delay or prevent R&D activities, result in higher costs, or adversely impact commercialization of our future approved product candidates. In addition, we will rely on third parties to perform certain specification tests on our product candidates prior to delivery to patients. If these tests are not appropriately done and test data are not reliable, patients could be put at risk of serious harm, and regulatory authorities could place significant restrictions on our Company until deficiencies are remedied.

Manufacturers of product candidates often encounter difficulties in production, particularly in scaling up or out, validating the production process, and assuring high reliability of the manufacturing process (including the absence of contamination). These problems include logistics and shipping, difficulties with production costs and yields, quality control, including stability of the product, product testing, operator error, availability of qualified personnel, as well as compliance with strictly enforced regulations. Furthermore, if contaminants are discovered in our supply of our product candidates or in the manufacturing facilities, such manufacturing facilities may need to be closed for an extended period of time to investigate and remedy the contamination. We cannot assure you that any stability failures or other issues relating to the manufacture of our product candidates will not occur in the future, either relating to our third-party CDMOs or on our manufacturing facilities we plan to build in the future. Additionally, our manufacturers may experience manufacturing difficulties due to resource constraints or as a result of labor disputes or unstable political environments. If our manufacturers were to encounter any of these difficulties, or otherwise fail to comply with their contractual obligations, our ability to provide any future approved product candidates for commercial sale and our product candidates to patients in clinical trials would be jeopardized. Any delay or interruption in the provision of clinical trial supplies could delay the completion of clinical trials, increase the costs associated with maintaining clinical trial programs, and, depending upon the period of delay, require us to begin new clinical trials at additional expense or terminate clinical trials completely.

We rely on sales and marketing team and third parties to promote our products. Failure to execute an effective sales and marketing strategy may make us unable to maintain sufficient marketing and sales capabilities, or to effectively build and manage our sales network, and we may not be able to generate product sales revenue as planned.

We rely on sales and marketing team and third parties to increase the sales of our products, achieve broader market acceptance, and maintain sustainable relationships with existing and potential distributors and customers, which will depend to a significant extent on the successful execution of effective sales and marketing strategy. However, we cannot assure you that we will be able to attract, motivate and retain qualified and professional employees with requisite expertise and communicate with them effectively. If we are unable to hire, develop and retain qualified sales and marketing personnel, or if our new sales and marketing personnel are unable to achieve desired performance levels, we may not be able to execute our sales and marketing strategy or achieve our goals.

In addition, our relationships with medical institutions, practitioners and distributors play an important role in our sales and marketing activities. We cannot assure you that we will be able to maintain or strengthen our relationships with these industry players, or that our efforts to maintain or strengthen such relationships will yield the successful promotion of our products. These industry players may leave the market, change their business or practice focus, cease to collaborate with us, or collaborate with our competitors for any reason. As a result, our marketing strategy may no longer be able to yield greater market penetration, broader customer coverage, or increased product sales commensurate with our efforts spent. In addition, these industry players may not continue to have a significant demand for our products. If we are unable to develop new products or generate returns from our relationships with these industry players as anticipated, or at all, our business, financial condition and results of operations may be materially and adversely affected.

Guidelines, recommendations and studies published by various organizations could disfavor our product candidates.

Government agencies, professional societies, practice management groups, private health and science foundations and organizations focused on various diseases may publish guidelines, recommendations or studies that affect our or our competitors' product candidates. Any such guidelines, recommendations or studies that reflect negatively on our product candidates, either directly or relative to our competitive product candidates, could result in current or potential decreased use, sales of, and revenues from one or more of our product candidates. Furthermore, our success depends in part on our and our partners' ability to educate healthcare providers and patients about our product candidates, and these education efforts could be rendered ineffective by, among other things, third-parties' guidelines, recommendations or studies.

RISKS RELATING TO EXTENSIVE GOVERNMENT REGULATION

Any failure to comply with existing or future regulations and industry standards or any adverse actions by the approval authorities against us could negatively impact our reputation and our business, financial condition, results of operations and prospects.

The process of obtaining regulatory approvals and maintaining compliance with appropriate laws and regulations requires the expenditure of substantial time and financial resources. Any recently enacted and future legislation may increase the difficulty and cost of us to obtain regulatory approval of, and commercialize, our product candidates, and affect the prices we may obtain. Changes in government regulations or in practices relating to the broader dermatology treatment and care industry such as a relaxation in regulatory requirements or the introduction of simplified approval procedures which would lower the entry barriers for potential competitors, or an increase in regulatory requirements which may increase the difficulty for us to satisfy such requirements, may have a material adverse impact on our business, financial condition, results of operations and prospects. Failure to comply with the applicable requirements at any time during the product candidate development process or approval process, or after approval, may subject us to administrative or judicial sanctions. These sanctions could include but are not limited to a regulator's refusal to approve pending applications, withdrawal of an approval, license revocation, a clinical hold, voluntary or mandatory product recalls, product seizures, total or partial suspension of production or sales, injunctions, fines, refusals of government contracts, restitution, disgorgement or civil or criminal penalties. Any occurrence of the foregoing could therefore materially and adversely affect our business, financial condition, results of operations and prospects. The regulatory approval processes of the NMPA and other comparable regulatory authorities are lengthy, time-consuming and inherently unpredictable. If we are ultimately unable to obtain regulatory approval for our product candidates in our targeted markets, our business will be substantially harmed.

The time required to obtain approval by the NMPA and other comparable regulatory authorities is unpredictable, but it typically takes 10 to 15 years following the commencement of pre-clinical studies and clinical trials and depends on numerous factors, including the substantial discretion of the regulatory authorities.

Our product candidates could fail to receive regulatory approval for many reasons, including:

- failure to begin or complete clinical trials due to disagreements with regulatory authorities;
- failure to demonstrate that a product candidate is safe and effective;
- failure of clinical trial results to meet the level of statistical significance required for approval;

- data integrity issues related to our clinical trials;
- disagreement with our interpretation of data from pre-clinical studies or clinical trials;
- our failure to conduct a clinical trial in accordance with regulatory requirements or our clinical trial protocols;
- failure to obtain an approval for expedited review process for our product candidates or for the use of data from registrational trials through accelerated development pathways, and
- clinical sites, investigators or other participants in our clinical trials deviating from a trial protocol, failing to conduct the trial in accordance with regulatory requirements, or dropping out of a trial.

The NMPA or a comparable regulatory authority may require more information, including additional pre-clinical or clinical data, to support approval, which may delay or prevent approval and our commercialization plans, or we may decide to abandon the development program. Additionally, clinical trials conducted in one country may not be accepted by regulatory authorities in other countries, and regulatory approval in one country does not mean that regulatory approval will be obtained in any other country. Approval procedures vary among countries and can involve additional product testing and validation and additional administrative review periods. Seeking regulatory approvals in various jurisdictions could result in significant delays, difficulties and costs for us and may require additional pre-clinical studies or clinical trials which would be costly and time consuming. Regulatory requirements can vary widely from country to country and could delay or prevent the introduction of our products in those countries. Satisfying these and other regulatory requirements is costly, time consuming, uncertain and subject to unanticipated delays. In addition, our failure to obtain regulatory approval in any country may delay or have negative effects on the process for regulatory approval in other countries. We cannot assure you that we can also satisfy all regulatory requirements. If we experience delays in the completion of, or the termination of, a clinical trial of any of our product candidates, the commercial prospects of that product candidate will be harmed, and our ability to generate product sales revenues from any of those product candidates will be delayed. In addition, any delays in completing our clinical trials will increase our costs, slow down our product candidate development and approval process, and jeopardize our ability to commence product sales and generate related revenues for that product candidate. In addition, many of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of regulatory approval of our product candidates. Any of these occurrences may materially and adversely impact our business, financial condition and prospects.

We are subject to stringent privacy laws, information security policies and contractual obligations related to data privacy and security, and we may be exposed to risks related to our management of the medical data of subjects enrolled in our clinical trials and other personal or sensitive information.

We routinely receive, collect, generate, store, process, transmit and maintain medical data treatment records and other personal details of subjects enrolled in our clinical trials, along with other personal or sensitive information. As such, we are subject to the relevant local, state, national and international data protection and privacy laws, directives, regulations and standards that apply to the collection, use, retention, protection, disclosure, transfer and other processing of personal data in the various jurisdictions in which we operate and conduct our clinical trials, as well as contractual obligations. These data protection and privacy law regimes continue to evolve and may result in ever-increasing public scrutiny and escalating levels of enforcement and sanctions and increased costs of compliance. Failure to comply with any of these laws could result in enforcement action against us, including fines, imprisonment of company officials and public censure, claims for damages by customers and other affected individuals, damage to our reputation and loss of goodwill, any of which could have a material adverse effect on our business, financial condition, results of operations or prospects.

Such data protection and privacy laws and regulations generally require clinical trial sponsors and operators and their personnel to protect the privacy of their enrolled subjects and prohibit unauthorized disclosure of personal information. If such institutions or personnel divulge the subjects' private or medical records without their consent, they will be held liable for damage caused thereby. We have taken measures to maintain the confidentiality of the medical records and personal data of subjects enrolled in our clinical trials we collected, including encrypting such information in our information technology systems so that it cannot be viewed without proper authorization, and setting internal rules requiring our employees to maintain the confidentiality of our subjects' medical records. However, these measures may not be always effective. For example, our information technology systems could be breached through hacking activities, and personal information could be leaked due to theft or misuse of personal information arising from misconduct or negligence. In addition, our clinical trials frequently also involve professionals from third party institutions working on-site with our staff and enrolled subjects. We cannot ensure that such persons will always comply with our data privacy measures. Furthermore, any change in such laws and regulations could affect our ability to use medical data and subject us to liability for the use of such data for previously permitted purposes. Any failure to protect the confidentiality of patients' medical records and personal data, or any restriction on or liability as a result of, our use of medical data, could have a material adverse effect on our business, financial condition and results of operations.

Our [REDACTED] may be impeded and our business operations may be adversely affected by the Measures for Cybersecurity Review or the Regulation on the Administration of Cyber Data Security (Draft for Comments).

On December 28, 2021, the Cyberspace Administration of China ("**CAC**"), jointly with the other 12 governmental authorities, promulgated the Measures for Cybersecurity Review (《網絡安全審查辦法》) (the "**MCR**"), which becomes effective from February 15, 2022. Pursuant to Article 2 of the MCR, besides the procurement of network products and services by critical information infrastructure operators, any data processing activity by network platform operators that affects or may affect national security shall be subject to the cybersecurity review. In accordance with Article 7 of the MCR, network platform operators mastering personal information of more than one million users must apply to the Cybersecurity Review Office for cybersecurity review when listing abroad (國外上市).

On November 14, 2021, CAC promulgated the Regulation 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)》) (the "**Draft Cyber Data Security Regulation**"). For more details relating to the Draft Cyber Data Security Regulations, see "Regulatory Overview – Other Significant PRC Regulations Affecting Our Business in the PRC – Regulations on Cybersecurity". Given that the Draft Cyber Data Security Regulation had not come into force as of the Latest Practicable Date, the applicability of various requirements under the Draft Cyber Data Security Regulation is still subject to further official guidance and applicable implementation rules.

Our PRC Legal Advisor and the Joint Sponsors' PRC Legal Advisor consulted the China Cybersecurity Review Technology and Certification Center (the "**Center**"), which is authorized by the Cybersecurity Review Office of the CAC to accept public consultation and cybersecurity review submissions and is the competent authority to provide views and interpretation relating to the MCR. According to the Center, (i) the [**REDACTED**] in Hong Kong does not fall within the scope of "listing abroad"; (ii) critical information infrastructure operators are identified by the governmental authorities of corresponding industry; (iii) Draft Cyber Data Security Regulation had not come into force as of the Latest Practicable Date, the applicability of various requirements under the Draft Cyber Data Security Regulation is still subject to applicable implementation rules.

As of the Latest Practicable Date, (i) we have not been notified of the results of any determination that we have been identified as a critical information infrastructure operator or that any of our systems have been identified as critical information infrastructure by the relevant governmental authorities; (ii) the MCR provides no further explanation or interpretation for "online platform operator" and "list abroad", and does not stipulate that an online platform operator which intends to [**REDACTED**] in Hong Kong will be subject to cybersecurity review; given that the expression used in the MCR is "list abroad" and Hong Kong is not a foreign country or region of the PRC, as long as there is no specific official guidance or implementation rules to include Hong Kong in the scope of "abroad" in the future, our PRC Legal Advisor is of the view that our proposed [**REDACTED**] in Hong Kong is unlikely to be considered as [**REDACTED**] "abroad" and thus we have no current obligation to proactively apply for cybersecurity review for our application for the [**REDACTED**] under the MCR; (iii) the data processed by us has not been included in the effective core data and important data catalogs by any authentic authority; (iv) the MCR provides no further

explanation or interpretation for "affect or may affect national security", which remains to be clarified and elaborated by the CAC, and as of the Latest Practicable Date, we have not received any notification of cybersecurity review from relevant governmental authorities due to our impact or potential impact on national security; (v) we have taken reasonable and adequate technical and management measures to ensure data security, we are of the view that the likelihood that our business operation or [**REDACTED**] might give rise to national security risks is relatively low; and (vi) 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 Cyber Data Security Regulation.

Therefore, as advised by our PRC Legal Advisor, our Directors believe that as long as there is no material change to our current business and if no further rules are introduced and no significant changes to the enforcement of the MCR by governmental authorities, cybersecurity review under the article 2 and article 7 of the MCR shall not be applicable to us. Based on the above, with the support of our PRC Legal Advisor, we do not foresee any material obstacles to comply with the MCR in all material aspects and we believe the MCR would not have a material adverse impact on our business operations or our [**REDACTED**].

However, the MCR and the Draft Cyber Data Security Regulation were both released recently, certain provisions of which are still unclear and are subject to the finalization or clarifications by relevant authorities. As such, the PRC regulatory authorities may have broad discretion in the interpretation of "affect or may affect national security". Moreover, given that the Draft Cyber Data Security Regulation was still in the draft form for comments and had not come into force as of the Latest Practicable Date, the applicability of various requirements thereunder is still subject to further official guidance and applicable implementation rules. If we were deemed as a data processor that "affects or may affect national security" by the PRC regulatory authorities under their broad discretion, we may be subject to cybersecurity review. If we fail to pass such cybersecurity review, our [**REDACTED**] may be impeded, our business operations may be adversely affected, and/or we may be subject to other severe penalties and/or action by the competent government authorities.

On July 7, 2022, the CAC promulgated the Measures for the Security Assessment of Data Cross-border Transfer (《數據出境安全評估辦法》), which took effect on September 1, 2022. The Measures for the Security Assessment of Data Cross-border Transfer requires the data processor providing data overseas and falling under any of the following circumstances apply for the security assessment of cross-border data transfer by the national cybersecurity authority through its local counterpart: (i) where the data processor intends to provide important data overseas; (ii) where the critical information infrastructure operator and any data processor who has processed personal information of more than 1,000,000 people intend to provide personal information overseas; (iii) where any data processor who has provided personal information of 100,000 people or sensitive personal information of 10,000 people to overseas recipients accumulatively since January 1 of the last year intends to provide personal information overseas; and (iv) other circumstances where the security assessment of data cross-border transfer is required as prescribed by the CAC. As advised by our PRC Legal Advisor, our business does not involve the aforesaid cross-border transfer of personal information and important data, the Measures for the Security Assessment of Data Cross-border Transfer (《數據出境安全評估辦法》) is not applicable to us currently.

The approval and/or other requirements of the China Securities Regulatory Commission (CSRC) or other PRC governmental authorities may be required in connection with the [REDACTED] under PRC rules, regulations or policies.

On December 24, 2021, the CSRC released the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Enterprises (Draft for Comments) (《國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)》) (the "**Draft Overseas Listing Administration Provisions**") and the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Enterprises (Draft for Comments) (《境內企業境外發行證券和上市備案管理辦法(徵求意見稿)》) (the "**Draft Overseas Listing Filing Measures**") for public comments, which require, among others, that PRC domestic enterprises that seek to list securities in overseas markets, either directly or indirectly, to file the required documents with the CSRC within three business days after its application for overseas listing is submitted. As of the Latest Practicable Date, the Draft Overseas Listing Administration Provisions and the Draft Overseas Listing Filing Measures had been released for public comments only and the final version and effective date of such regulations are subject to change with substantial uncertainty. To the best knowledge of us, we do not expect any legal impediment in complete the filing procedures if the Draft Overseas Listing Administration Provisions and the Draft Overseas Listing Filing Measures become effective in their current form.

Even after we obtain regulatory approval for the marketing of our product candidates, our products will continue to remain subject to ongoing or additional regulatory obligations and continued regulatory review, which may result in significant additional expenses, and we may be subject to penalties if we fail to comply with regulatory requirements or experience unanticipated problems with our future approved products.

Our commercialized products will be subject to ongoing or additional regulatory requirements for manufacturing, labeling, packaging, storage, advertising, promotion, sampling, record-keeping, conduct of post-marketing studies, and submission of safety, efficacy, and other post-market information, including requirements of regulatory authorities in China and other jurisdictions.

Any approvals that we receive for our product candidates may be subject to limitations on the approved indicated uses for which the products may be marketed or to the conditions of approval, which could adversely affect the product's commercial potential or contain requirements for potentially costly post-marketing testing and surveillance to monitor the safety and efficacy of the product candidates. The NMPA or a comparable regulatory authority may also require a risk evaluation mitigation strategy program as a condition of approval of our product candidates or following approval. In addition, if the NMPA or a comparable regulatory authority approves our product candidates, we will have to comply with requirements, including, for example, submissions of safety and other post-marketing information and reports, registration, as well as continued compliance with cGMP and GCP, for any clinical trials that we conduct subsequent to the approval.

The NMPA and other regulatory authorities strictly regulate the marketing, labeling, advertising and promotion of products that are placed on the market. Products may be promoted only for their approved indications and for use in accordance with the provisions of the approved label. The NMPA and other regulatory authorities actively enforce the laws and regulations prohibiting the promotion of off-label uses, and a company that is found to have improperly promoted off-label uses may be subject to significant liability.

Even if we are able to commercialize any approved product candidates, the products may become subject to national and provincial or other third-party reimbursement practices or unfavorable pricing regulations, which could materially and adversely our business.

The regulations that govern regulatory approvals, pricing and reimbursement for new therapeutic products vary widely in different jurisdictions. In China and some markets outside China, prescription pharmaceutical pricing remains subject to continuing governmental control even after initial approval is granted. As a result, we might obtain regulatory approval for a product in a particular country, but then be subject to price regulations that delay our commercial launch of the product or negatively impact our revenues.

Our ability to commercialize any approved product candidates successfully will also depend in part on the extent to which reimbursement for these products and related treatments will be available from government health administration authorities, private health insurers and other organizations. A primary trend in the global healthcare industry is cost containment. Government authorities and these third-party payors have attempted to control costs by limiting coverage and the amount of reimbursement for particular medications.

Increasingly, third-party payors are requiring that companies provide them with predetermined discounts from list prices and are challenging the prices charged for medical products. We cannot be sure that reimbursement will be available for any approved product candidate that we commercialize and, if reimbursement is available, what the level of reimbursement will be. Reimbursement may impact the demand for, or the price of, any approved product candidate that we commercialize. Obtaining or maintaining reimbursement for approved product candidates may be particularly difficult because of the higher prices often associated with products administered under the supervision of a physician. If reimbursement is not available or is available only to limited levels, we may not be able to successfully commercialize any product candidate that we in-license or successfully develop.

Our and/or others' failure to make filings or obtain or renew certain approvals, licenses, permits and certificates required for our business may materially and adversely affect our business, financial condition and results of operations.

Pursuant to the relevant laws, regulations and relevant regulatory practice by governmental, we and/or other parties related to our operations, such as landlords or managers of premises on or local science parks in which we operate, are required to make various filings with, or obtain and maintain various approvals, licenses, permits and certificates from, relevant authorities to operate our business. Some of these approvals, permits, licenses and certificates are subject to periodic renewal and/or reassessment by the relevant authorities, and the

standards of such renewal and/or reassessment may change from time to time. Any failure to make filings or obtain or renew any approvals, licenses, permits and certificates necessary for our operations may result in enforcement actions thereunder, including fines or orders issued by the relevant regulatory authorities causing operations to cease, and may include corrective measures requiring capital expenditure or remedial actions, which in the future could materially and adversely affect our business, financial condition and results of operations. There is also no assurance that the relevant authorities would not take any enforcement action against us. In the event that such enforcement action is taken, our business operations could be materially and adversely disrupted.

Furthermore, if the interpretation or implementation of existing laws and regulations changes, or new regulations come into effect requiring us and/or other such related parties to make any additional filings or obtain any additional approvals, permits, licenses or certificates that were previously not required to operate our existing businesses, we cannot assure you that we and/or other such related parties will successfully make such filings on time or obtain such approvals, permits, licenses or certificates. Our or these parties' failure to make the additional filings or obtain the additional approvals, permits, licenses or certificates may restrict the conduct of our business, decrease our revenues and/or increase our costs, which could materially reduce our profitability and prospects.

Changes in U.S. and international trade policies, particularly with regard to China, may adversely impact our business and operating results.

International market conditions and the international regulatory environment have historically been affected by competition among countries and geopolitical frictions. Changes to trade policies, treaties and tariffs, or the perception that these changes could occur, could adversely affect the financial and economic conditions in the jurisdictions in which we operate, as well as our overseas expansion, our financial condition and results of operations. The U.S. administration has advocated greater restrictions on international trade generally and significant increases on tariffs on certain goods imported into the U.S., particularly from China, and has taken steps toward restricting trade in certain goods. These concerns and threats to impose new tariffs or sanction on China, have resulted in increased tensions in China's international relations. Moreover, the bilateral relationship is an ongoing matter, evolving sometimes from day to day, and we cannot predict how the relationship will further evolve or what impact any subsequent developments in the relationship may have on our business.

Furthermore, during the Track Record Period, we formed licensing agreements with entities in foreign countries and regions. There can be no assurance that such licensing partners in the future will not alter their perception of us or their preferences as a result of adverse changes to the state of political relationships between China and the relevant foreign countries or regions. Any 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.

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

We and our CROs, SMOs, CMOs or CDMOs are subject to numerous environmental, health and safety laws and regulations, including but not limited to the treatment and discharge of pollutants into the environment and the use of toxic and hazardous chemicals in the process of our business operations. In addition, our construction projects can only be put into operation after the relevant administrative authorities in charge of environmental protection and health and safety have examined and approved the relevant facilities in certain jurisdictions. We cannot assure you that we will be able to obtain all the regulatory approvals for our construction projects in a timely manner, or at all. Delays or failures in obtaining all the requisite regulatory approvals for our construction projects may affect our abilities to develop, manufacture and commercialize our pipeline products as we plan. As requirements imposed by such laws and regulations may change and more stringent laws or regulations may be adopted, we may not be able to comply with, or accurately predict any potential substantial cost of complying with, these laws and regulations. If we or our CROs, SMOs, CMOs or CDMOs fail to comply with environmental protection, and health and safety laws and regulations, we may be subject to rectification orders, substantial fines, potentially significant monetary damages, or production suspensions in our business operations. As a result, any failure by us or our CROs, SMOs, CMOs or CDMOs to control the use or discharge of hazardous substances could have a material and adverse impact on our business, financial condition, results of operations and prospects.

In addition, we and our CROs, SMOs, CMOs or CDMOs cannot fully eliminate the risk of accidental contamination, chemical hazards or personal injury at facilities during the process of research, testing, development and manufacturing of product candidates. In the event of such accident, we could be held liable for damages and clean-up costs which, to the extent not covered by existing insurance or indemnification, could materially and adversely affect our business. Other adverse effects could result from such liability, including reputational damage. We may also be forced to close or suspend operations at certain of our affected facilities temporarily, or permanently. As a result, any accidental contamination or chemical hazards or personal injury could have a material and adverse impact on our business, financial condition, results of operations and prospects. We do not maintain insurance for environmental liability or toxic tort claims that may be asserted against us. In addition, we may be required to incur substantial costs to comply with current or future environmental, health and safety laws and regulations. These current or future laws and regulations may impair our research, development or production efforts. Failure to comply with these laws and regulations also may result in substantial fines, penalties or other sanctions. Any of the foregoing could materially adversely affect our business, financial condition, results of operations and prospects.

RISKS RELATING TO OUR INTELLECTUAL PROPERTY RIGHTS

If we and our licensing partners are unable to obtain and maintain adequate patent and other intellectual property protection for our product candidates throughout the world, or if the scope of such intellectual property rights obtained is not sufficiently broad, third parties could develop and commercialize products and technologies similar or identical to ours and compete directly against us, and our ability to successfully develop and commercialize any of our product candidates or technologies would be materially and adversely affected.

We seek to protect the product candidates and technology that we consider commercially important by filing patent applications in China and other jurisdictions, relying on trade secrets or dermatological or pharmaceutical regulatory protection or employing a combination of these methods. For more details on our patent portfolio, see "Business – Intellectual Property." If we or our licensors are unable to obtain and maintain patent and other intellectual property protection with respect to our product candidates and technologies, our business, financial condition, results of operations and prospects could be materially harmed.

The patent prosecution process is expensive, time-consuming and complex, and we may not be able to file, prosecute, maintain, defend, enforce or license all necessary or desirable patents and patent applications at a reasonable cost or in a timely manner in all desirable jurisdictions. As a result, we may not be able to prevent competitors or other third parties from developing and commercializing competitive products in all such fields and jurisdictions. Furthermore, the patent position is highly uncertain, involves complex legal and factual questions, and has been the subject of much litigation in recent years. As a result, the issuance, scope, validity, enforceability and commercial value of our patent rights are highly uncertain. Our pending and future patent applications may not result in patents being issued which protect our technology or product candidates or which effectively prevent others from commercializing competitive technologies and product candidates.

It is also possible that we will fail to identify patentable aspects of our research and development output in time to obtain patent protection. Although we enter into non-disclosure and confidentiality agreements with parties who have access to confidential or patentable aspects of our research and development output, such as our employees, corporate collaborators, outside scientific collaborators and contract manufacturers, any of these parties may breach such agreements and disclose such output before a patent application is filed, thereby jeopardizing our ability to obtain patent protection. In addition, publications of discoveries in the scientific literature often lag behind the actual discoveries, and patent applications in China and other jurisdictions are typically not published until 18 months after filing, or in some cases, not at all. Therefore, we cannot be certain that we were the first to make the inventions claimed in our patents or pending patent applications, or that we were the first to file for patent protection of such inventions. Furthermore, China has adopted the "first-to-file" system under which the first inventor to file a patent application will be awarded the patent if all other patentability requirements are met. Under the first-to-file system, third parties may be granted a patent relating to a technology which we invented.

In addition, under the PRC patent law, any organization or individual that applies for a patent in a foreign country for an invention or utility model accomplished in China is required to file in advance to China National Intellectual Property Administration (CNIPA), for confidentiality examination. Otherwise, if an application is later filed in China, the patent right will not be granted.

The coverage claimed in a patent application can be significantly reduced before the patent is issued, and its scope can be reinterpreted after issuance. Even if patent applications we own currently or in the future issue as patents, they may not issue in a form that will provide us with any meaningful protection, prevent competitors or other third parties from competing with us, or otherwise provide us with any competitive advantage. Any patents that we hold or in-license may be challenged, narrowed, circumvented, or invalidated by third parties. In addition, the patent position of dermatological and pharmaceutical companies generally is highly uncertain, involves complex legal and factual questions, and has been the subject of much litigation in recent years. As a result, the issuance, scope, validity, enforceability and commercial value of our patent rights are highly uncertain. Consequently, we do not know whether any of our platform advances and product candidates will be protectable or remain protected by valid and enforceable patents. Our competitors or other third parties may be able to circumvent our patents by developing similar or alternative technologies or products in a non-infringing manner.

Furthermore, although various extensions may be available, the life of a patent and the protection it affords are limited. Even if we successfully obtain patent protection for an approved product candidate, it may face competition from generic or biosimilar medications once the patent has expired. Manufacturers of generic or biosimilar drugs may challenge the scope, validity or enforceability of our patents in court or before a patent office, and we may not be successful in enforcing or defending those intellectual property rights and, as a result, may not be able to develop or market the relevant product exclusively, which would have a material adverse effect on any potential sales of that product. The applied and issued patents of our licensing partners for our product candidates are expected to expire on various dates as described in "Business – Intellectual Property" in this Document. Upon the expiration of these and our future applied and issued patents, we will not be able to assert such patent rights against potential competitors and our business and results of operations may be adversely affected.

Given the amount of time required for the development, testing and regulatory review of new product candidates, patents protecting such product candidates might expire before or shortly after such product candidates are commercialized. As a result, our patents and patent applications may not provide us with sufficient rights to exclude others from commercializing products similar or identical to ours, which could have a material adverse effect on our competitive position, business, financial conditions, results of operations and prospects. Additionally, patent rights we own or in-license currently or in the future may be subject to a reservation of rights by one or more third parties.

Our owned or in-licensed patents, patent applications and other intellectual property relating to our product candidates may be subject to priority disputes or similar proceedings. If we or our licensing partners are unsuccessful in any of these proceedings, or otherwise if we or our licensing partners breached licensing agreements, we may be required to obtain licenses from third parties, which may not be available on commercially reasonable terms or at all, or to cease the development, manufacture and commercialization of one or more of the product candidates we may develop, which could have a material adverse impact on our business.

We or our licensing partners may be subject to claims that former employees, collaborators or other third parties have an interest in our owned or in-licensed patents, patent applications, trade secrets or other intellectual property. If we or our licensing partners are unsuccessful in any interference proceedings or other priority or validity disputes (including any patent oppositions) to which our owned or the in-licensed intellectual properties are subject, or otherwise if we or our licensing partners breached licensing agreements, we may lose valuable intellectual property rights through the loss of one or more patents or patent applications or our patent claims may be narrowed, invalidated, or held unenforceable. In addition, if we or our licensing partners are unsuccessful in any inventorship disputes to which we or they are subject, we may lose valuable intellectual property rights, such as exclusive ownership. If we or our licensing partners are unsuccessful in any interference proceeding or other priority or inventorship dispute, we may be required to obtain and maintain licenses from third parties, including parties involved in any such interference proceedings or other priority or inventorship disputes. Such licenses may not be available on commercially reasonable terms or at all, or may be non-exclusive. If we are unable to obtain and maintain such licenses, we may need to cease the development, manufacture and commercialization of one or more of our product candidates. The loss of exclusivity or the narrowing of our or our licensing partners' patent claims could limit our ability to stop others from using or commercializing similar or identical product candidates. Any of the foregoing could result in a material adverse effect on our business, financial condition, results of operations or prospects. Even if we are successful in an interference proceeding or other priority or inventorship disputes, it could result in substantial costs and be a distraction to our management and other employees.

Our current or any future patent applications may not be successful and any patent rights we or our licensing partners have may be challenged and invalidated even after issuance, which would materially adversely affect our ability to successfully commercialize any product or technology.

Our pending and future owned and in-licensed patent applications may not result in the issuance of patents at all, and even if were granted patents, they may not be issued in a form, or with a scope of claims, that will provide us with any meaningful protection, prevent competitors or other third parties from competing with us or otherwise provide us with any competitive advantage. In addition, the coverage claimed in a patent application can be significantly reduced before the patent is issued, its scope can be reinterpreted after issuance and changes in either the patent laws or interpretation of the patent laws in China and other jurisdictions may diminish the value of our patent rights or narrow the scope of our patent protection. Any patents that we own or in-license may be challenged, narrowed, circumvented or invalidated by third parties. We cannot predict whether the patent applications we or our

licensing partners are currently pursuing and may pursue in the future will successfully result in the issuance of any patents in any particular jurisdiction or whether the claims of any issued patents will provide sufficient protection from competitors or other third parties.

The issuance of a patent is not conclusive as to its inventorship, scope, validity or enforceability, and our patent rights may be challenged in the courts or patent offices in China. Despite measures we or our licensing partners take to obtain patent protection with respect to our major product candidates and technologies, any of such issued patents could be challenged or invalidated. For example, if we or one of our licensors were to initiate legal proceedings against a third party to enforce a patent covering one of our product candidates, the defendant could counterclaim that our patent is invalid or unenforceable. Grounds for a validity challenge could be an alleged failure to meet any of several statutory requirements, including lack of novelty, obviousness, lack of written description or non-enablement. Grounds for an unenforceability assertion could be an allegation that someone connected with prosecution of the patent withheld material information from the relevant patent office, or made a misleading statement, during prosecution. Third parties may also raise similar patent invalidity claims before administrative bodies in China or in other jurisdictions, even outside the context of litigation. Such mechanisms include ex parte re-examination, inter parties review, post-grant review, interference proceedings, derivation, invalidation, revocation and equivalent proceedings in non-U.S. jurisdictions, such as opposition proceedings. The outcome following legal assertions of invalidity and unenforceability is unpredictable. Such proceedings could result in revocation of or amendment to our patents in such a way that they no longer adequately cover and protect our product candidates. Even if a third party does not prevail on a legal assertion of invalidity or unenforceability, our patent claims may be construed in a manner that would limit our ability to enforce such claims against such third party.

Obtaining and maintaining our patent protection depend on compliance with various procedural, document submission, fee payment and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements.

Periodic maintenance fees, renewal fees, annuity fees and various other governmental fees on patents and patent applications are due to be paid to the CNIPA and other governmental patent agencies in several stages over the lifetime of a patent. The CNIPA and various other governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application and maintenance process. We are also dependent on our licensors to take the necessary action to comply with these requirements with respect to our licensed intellectual property. Although an inadvertent lapse can in many cases be cured by payment of a late fee or by other means in accordance with the applicable rules, there are situations in which non-compliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. Non-compliance events that could result in abandonment or lapse of a patent or patent application include failure to respond to official actions within prescribed time limits, non-payment of fees and failure to properly legalize and submit formal documents. In any such event, our competitors might be able to enter the market, which would have a material adverse effect on our business.

Changes in patent laws of China or other jurisdictions could diminish the value of patents in general, thereby impairing our ability to protect our product candidates.

As is the case with other pharmaceutical or dermatological companies, our success is heavily dependent on obtaining, maintaining, enforcing and defending intellectual property, particularly patents. Obtaining and enforcing patents in the broader dermatology treatment and care industry involves technological and legal complexity, and obtaining and enforcing pharmaceutical patents is costly, time-consuming and inherently uncertain. Changes in either the patent laws or their interpretation in China or other jurisdictions may increase the uncertainties and costs surrounding the prosecution of our patents, diminish our ability to protect our inventions, obtain, maintain, defend, and enforce our intellectual property rights and, more generally, affect the value of our intellectual properties or narrow the scope of our patent rights.

In China, intellectual property laws are constantly evolving, with efforts being made to improve intellectual property protection in China. For example, the Standing Committee of the National People's Congress (SCNPC) promulgated the Amendment to the PRC Patent Law (effective from June 1, 2021), which introduces patent term extensions to eligible patents relating to new drugs and patent term adjustment. According to the PRC Patent Law, in order to compensate for the time used for review and approval of new drugs for commercial launch, the CNIPA shall, at the request of the patent owner, provide patent term extension for invention

patents of new drugs approved for commercialization in China. The patent term extension may not exceed five years, and the total effective term of the patent after the new drug approval for commercialization shall not exceed 14 years. Patent term adjustment is available to all invention patents, to compensate unreasonable delays caused by the CNIPA during the patent examination procedures. This may enable the patent owner to submit applications for a patent term extension or patent term adjustment. Patents owned by third parties may also be extended, which may in turn affect our ability to commercialize our products without facing infringement risks. If we are required to delay commercialization for an extended period of time, technological advances may develop and new products may be launched, which may in turn render our products non-competitive. We cannot guarantee that any other changes to PRC intellectual property laws would not have a negative impact on our intellectual property protection.

We may face intense competition from manufacturers of generic or biosimilar drugs after the expiration of patent protection periods.

Although various extensions may be available, the life of a patent and the protection it affords is limited. Even if we successfully obtain patent protection for an approved product candidate, it may face competition from generic or biosimilar drugs once the patent has expired. Manufacturers of generic or biosimilar drugs may challenge the scope, validity or enforceability of our patents in court or before a patent office, and we may not be successful in enforcing or defending those intellectual property rights and, as a result, may not be able to develop or market the relevant product exclusively, which would have a material adverse effect on any potential sales of that product. Our issued patents for our product candidates are expected to expire on various dates as described in "Business – Intellectual Property" of this Document. Upon the expiration of these patents, we will not be able to assert such patent rights against potential competitors and our business and results of operations may be adversely affected.

If we are unable to protect the confidentiality of our trade secrets and other confidential information, including unpatented know-how upon which we rely, our business and competitive position would be harmed. We may be subject to claims that our employees, consultants or advisers have wrongfully used or disclosed alleged trade secrets of their former employers, and we may be subject to claims asserting ownership of what we regard as our own intellectual property.

In addition to our issued patents and pending patent applications, we rely on trade secrets and confidential information, including unpatented know-how, technology and other proprietary information, to maintain our competitive position and to protect our product candidates. We seek to protect our trade secrets and confidential information, in part, by entering into non-disclosure and confidentiality agreements with parties that have access to trade secrets or confidential information, such as our employees, corporate collaborators, outside scientific collaborators, sponsored researchers, contract manufacturers, consultants, advisers and other third parties. However, we may not be able to prevent the unauthorized disclosure or use of our trade secrets and confidential information by the parties to these

agreements. Monitoring unauthorized uses and disclosures is difficult and we do not know whether the steps we have taken to protect our proprietary technologies will be effective. Any of the parties with whom we enter into confidentiality agreements may breach or violate the terms of any such agreements and may disclose our proprietary information, and we may not be able to obtain adequate remedies for any such breach or violation. As a result, we could lose our trade secrets and third parties could use our trade secrets to compete with our product candidates and technology. Additionally, we cannot guarantee that we have entered into such agreements with each party that may have or has had access to our trade secrets or proprietary technology and processes. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret can be difficult, expensive and time-consuming, and the outcome is unpredictable. In addition, some courts in China and other jurisdictions are less willing or unwilling to protect trade secrets. If any of our trade secrets were to be lawfully obtained or independently developed by competitors or other third parties, we would have no right to prevent them from using that technology or information to compete with us and our competitive position would be harmed.

Furthermore, many of our employees, consultants, and advisers, including our senior management, may currently be, or were previously employed at other companies, including our competitors or potential competitors. Some of these employees, consultants, and advisers, including each member of our senior management, may have executed proprietary rights, non-disclosure and non-competition agreements in connection with such previous employment. Although we try to ensure that our employees, consultants and advisors do not use the proprietary information or know-how of others in their work for us, we may be subject to claims that we or these individuals have used or disclosed intellectual property, including trade secrets or other proprietary information, of any such individual's current or former employer. We are not aware of any threatened or pending claims related to these matters or concerning the agreements with our senior management, but in the future litigation may be necessary to defend against such claims. If we fail in defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or be required to obtain licenses to such intellectual property rights, which may not be available on commercially reasonable terms or at all. An inability to incorporate such intellectual property rights would materially and adversely affect our business and may prevent us from successfully commercializing our product candidates. In addition, we may lose personnel as a result of such claims and any such litigation or the threat thereof may adversely affect our ability to hire employees or contract with independent contractors. A loss of key personnel or their work product could hamper or prevent our ability to commercialize our product candidates and technology, which would have a material adverse effect on our business, results of operations, financial condition and prospects. Even if we are successful in defending against such claims, litigation could result in substantial costs and be a distraction to our employees and management. In addition, while we typically require our employees, consultants and contractors who may be involved in the conception or development of intellectual property to execute agreements assigning such intellectual property to us, we may be unsuccessful in executing such an agreement with each party who in fact develops intellectual property that we regard as our own. Furthermore, even when we obtain agreements assigning intellectual property to us, the assignment of intellectual property rights may not be self-executing, or the

assignment agreements may be breached, each of which may result in claims by or against us related to the ownership of such intellectual property to determine the ownership of what we regard as our intellectual property. Furthermore, individuals executing agreements with us may have pre-existing or competing obligations to a third party, such as an academic institution, and thus an agreement with us may be ineffective in perfecting ownership of inventions developed by that individual. If we fail in prosecuting or defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights. Even if we are successful in prosecuting or defending any of the foregoing claims, litigation could result in substantial costs and be a distraction to our management and scientific personnel.

In addition, we may in the future be subject to claims by former employees, consultants or other third parties asserting an ownership right in our owned or licensed patents or patent applications. An adverse determination in any such submission or proceeding may result in loss of exclusivity or freedom to operate or in patent claims being narrowed, invalidated or held unenforceable, in whole or in part, which could limit our ability to stop others from using or commercializing similar product candidates or technology, without payment to us, or could limit the duration of the patent protection covering our product candidates and technology. Such challenges may also result in our inability to develop, manufacture or commercialize our product candidates without infringing third-party patent rights. In addition, if the breadth or strength of protection provided by our owned or licensed patents and patent applications is threatened, it could dissuade companies from collaborating with us to license, develop or commercialize current or future product candidates. Any of the foregoing could have a material adverse effect on our competitive position, business, financial conditions, results of operations and prospects.

If our trademarks and trade names are not adequately protected, then we may not be able to build name recognition in our markets of interest and our business may be adversely affected.

The registered or unregistered trademarks or trade names that we own or license may be challenged, infringed, circumvented, declared generic, lapsed or determined to be infringing on or dilutive of other marks. If third parties succeed in registering or developing common law rights in trademarks similar or identical to our trademarks, and if we are not successful in challenging such rights, we may not be able to use these trademarks to develop brand recognition of our products. In addition, there could be potential trade name or trademark infringement claims brought by owners of other registered trademarks or trademarks that incorporate variations of our registered or unregistered trademarks or trade names. As our products mature, our reliance on our trademarks to differentiate us from our competitors will increase, and as a result, if we are unable to prevent third parties from adopting, registering or using trademarks and trade dress that infringe, dilute or otherwise violate our trademark rights, or engaging in conduct that constitutes unfair competition, defamation or other violation of our rights, our business could be materially adversely affected.

Claims that our product candidates or the sale, distribution or use of our future products infringes, misappropriates or otherwise violates the patent or other intellectual rights of third parties could result in costly litigation, the outcome of which would be uncertain, or could require substantial time and money to resolve, even if litigation is avoided.

Our commercial success depends upon our ability to develop, manufacture, market and sell our product candidates without infringing, misappropriating or otherwise violating the intellectual property rights of others. The broader dermatology treatment and care industry is characterized by extensive litigation regarding patents and other intellectual property rights. We cannot guarantee that our product candidates or any sales, distributions or uses of our product candidates do not and will not in the future infringe or otherwise violate third-party patents or other intellectual property rights. It is also possible that we failed to identify, or may in the future fail to identify, relevant patents or patent applications held by third parties that cover our product candidates. Additionally, pending patent applications which have been published can, subject to certain limitations, be later amended in a manner that could cover our products or their use.

Third parties might allege that we are infringing their patent rights or that we have misappropriated their trade secrets, or that we are otherwise violating their intellectual property rights, whether with respect to the manner in which we have conducted our research, use or manufacture of the product candidates we have developed or are developing. Such third parties might resort to litigation against us or other parties we have agreed to indemnify, which litigation could be based on either existing intellectual property or intellectual property that arises in the future.

Parties making infringement, misappropriation, or other intellectual property claims against us may obtain injunctive or other equitable relief, which could block our ability to further develop and commercialize one or more of our product candidates. Defense of these claims, regardless of their merit, would involve substantial litigation expense and would be a substantial diversion of management and employee resources from our business. In addition, even if we believe any third-party intellectual property claims are without merit, there is no assurance that a court would find in our favor on questions of validity, enforceability, priority, or non-infringement. A court of competent jurisdiction could hold that such third party patents are valid, enforceable, and infringed, which could materially and adversely affect our ability to commercialize any of our products or technologies covered by the asserted third-party patents.

In order to avoid or settle potential claims with respect to any patent or other intellectual property rights of third parties, we may choose or be required to seek a license from a third party and be required to pay license fees or royalties or both, which could be substantial. These licenses may not be available on acceptable terms, or at all. Even if we were able to obtain a license, the rights may be non-exclusive, which could result in our competitors gaining access to the same intellectual property, and it could require us to make substantial licensing and royalty payments. Ultimately, we could be prevented from commercializing future approved products, or be forced, by court order or otherwise, to cease some or all aspects of our business operations, if, as a result of actual or threatened patent or other intellectual property claims, we

are unable to enter into licenses on acceptable terms. Further, we could be found liable for significant monetary damages as a result of claims of intellectual property infringement, including treble damages and attorneys' fees if we are found to willfully infringe a third party's patent.

Defending against claims of patent infringement, misappropriation of trade secrets or other violations of intellectual property rights could be costly and time consuming, regardless of the outcome. Thus, even if we were to ultimately prevail, or to settle at an early stage, such litigation could burden us with substantial unanticipated adverse impacts on our business.

Intellectual property rights do not necessarily address all potential threats.

As is the case with other pharmaceutical companies, our success is heavily dependent on intellectual property, particularly patents and trademarks of our trade name. The degree of future protection afforded by our intellectual property rights is uncertain because intellectual property rights have limitations, and may not adequately protect our business or permit us to maintain our competitive advantage. For example:

- others may be able to make products that are similar to any product candidates we may develop or utilize similar technology that are not covered by the claims of the patents that we own or in-license now or in the future;

- we or any future collaborators might not have been the first to make the inventions covered by the issued patent or pending patent application that we own or may in-license in the future;

- we or any future collaborators might not have been the first to file patent applications covering certain of our or their inventions;

- others may independently develop similar or alternative technologies or duplicate any of our technologies without infringing, misappropriating or otherwise violating our intellectual property rights;

- it is possible that the pending patent applications we own or have in-licensed or those that we may own in the future will not lead to issued patents;

- patents that may be issued from the pending patent applications we own or have in-licensed may be held invalid or unenforceable, including as a result of legal challenges by our competitors;

- our competitors might conduct research and development activities in countries where we do not have patent rights and then use the information learned from such activities to develop competitive products for sale or distribution in our major commercial markets;

- we may not develop additional proprietary technologies that are patentable;

- the patents of others may materially and adversely affect our business; and

- we may choose not to apply for a patent for certain trade secrets or know-how, and a third party may subsequently apply for a patent covering such intellectual property.

Should any of these events occur, they could have a material adverse effect on our business, financial condition, results of operations and prospects.

RISKS RELATING TO OUR OPERATIONS

Our business operations may in the future to be affected by COVID-19 pandemic, and may be affected by other health epidemics or outbreaks of contagious diseases.

In March 2020, the World Health Organization characterized COVID-19 as a global pandemic. Significant rises in COVID-19 cases have been reported since then, causing governments around the world to implement unprecedented measures such as city lockdowns, travel restrictions, quarantines and business shutdowns. The COVID-19 outbreak is expected to have an unprecedented impact on the global economy as it has significantly reduced market liquidity and depressed economic activities.

The COVID-19 pandemic has caused and may continue to cause a long-term adverse impact on the economy and social conditions in China and other affected countries, which may have an adverse impact on our industry and cause temporary suspension of projects and shortage of labor and raw materials, which would severely disrupt our operations and have a material adverse effect on our business, financial condition and results of operations. Our operations could also be disrupted if any of our employees, distributors, customers, suppliers and other business partners were suspected of contracting or contracted COVID-19, since this could require us and our suppliers, distributors, customers and other business partners to quarantine some or all of these employees and disinfect facilities used for operations. In addition, the commencement of new clinical trials for other product candidates in our development pipeline could also be delayed or prevented by any delay or failure in subject recruitment or enrollment. Our commercialization plan for our approved products could also be disrupted.

Since the start of 2022, there have been re-occurrence of COVID-19 cases in certain cities of China, in response to which, the government has taken further measures and actions in such areas. The extent to which COVID-19 will impact our operations will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19, the scope and duration of restricted measures to contain COVID-19 or treat its impact, evolvement of variants of the virus and effectiveness of the vaccines, among others. If the COVID-19 situation deteriorates, it may affect our clinical development, the sales and distributions of our future approved products and the supply of raw materials and production equipment. We cannot assure you that the outbreak will not persist, or that there will not be similar events in the future. If the COVID-19 pandemic continues, our business, results of operations and financial condition will continue to be adversely affected.

In addition, any future occurrence of force majeure events, natural disasters or outbreaks of other epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, swine influenza caused by the H1N1 virus, or H1N1 influenza or the Ebola virus, may materially and adversely affect our business, financial condition and results of operations. Moreover, the PRC has experienced natural disasters such as earthquakes, floods and droughts in the past few years. Any future occurrence of severe natural disasters or outbreaks of epidemics and contagious diseases in China or globally, or the measures taken by the Chinese government or other countries in response to such contagious diseases, may cause failure to develop and commercialize our product candidates or sell and distribute our products as planned, and thus may materially and adversely affect their economy and our business.

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

We will become a [**REDACTED**] upon completion of the [**REDACTED**], and our internal controls will be essential to the integrity of our business and financial results. Our public reporting obligations are expected to place a strain on our management, operational and financial resources and systems in the foreseeable future. In order to address our internal controls issues and to generally enhance our internal controls and compliance environment, we have taken various measures to improve our internal controls and procedures including establishing a compliance program, adopting new policies, and providing extensive and ongoing training on our controls, procedures and policies to our employees. In addition, in preparation for the [**REDACTED**], we have implemented other measures to further enhance our internal controls, and plan to take steps to further improve our internal controls. If we encounter difficulties in improving our internal controls and management information systems, we may incur additional costs and management time in meeting our improvement goals. We cannot assure you that the measures taken to improve our internal controls will be effective. If we fail to maintain effective internal controls in the future, our business, financial condition, results of operation and reputation may be materially and adversely affected.

Our future success depends on our ability to retain key senior management members and to attract, train, retain and motivate qualified and highly skilled personnel, especially R&D and clinical related staff.

We depend on principal members of our management and scientific teams. Our employment agreements with our executive officers do not prevent our executives from terminating their employment with us at any time. We do not maintain key-person insurance for any of our executives or other employees. The loss of the services of any of these persons could impede the achievement of our research, development and commercialization objectives.

To incentivize valuable employees, especially R&D and clinical related staff that are key to our R&D efforts, to remain at our Group, in addition to salary and cash incentives, we have provided share incentives that vest over time. The value to employees of these equity grants that vest over time may be significantly affected by movements in the [**REDACTED**] of our Shares that are beyond our control, and may at any time be insufficient to counteract more lucrative offers from other companies. Although we have employment agreements with our key employees, any of our employees could leave our employment at any time, with or without notice.

Recruiting and retaining qualified scientific, technical, clinical, manufacturing, sales, distribution and marketing personnel in the future will also be critical to our success. The loss of the services of our executive officers or other key employees and consultants could impede the achievement of our research, development and commercialization objectives and seriously harm our ability to successfully implement our business strategy.

Furthermore, replacing executive officers, key employees, experienced R&D staff or consultants may be difficult and may take an extended period of time because of the limited number of individuals in our industry with the breadth of skills and experience required to successfully develop, obtain regulatory approval of and commercialize products like those we develop. Competition to hire from this limited pool is intense, and we may be unable to hire, train, retain or motivate these key personnel or consultants on acceptable terms given the competition among numerous pharmaceutical companies for similar personnel. To compete effectively, we may need to offer higher compensation and other benefits, which could materially and adversely affect our financial condition and results of operations. In addition, we may not be successful in training our professionals to keep pace with technological and regulatory standards. Any inability to attract, motivate, train or retain qualified scientists, physicians or other technical personnel may have a material adverse effect on our business, financial condition, results of operations, cash flows and prospects.

We have significantly increased the size and capabilities of our organization, and we may experience difficulties in managing our growth.

As our development and commercialization plans and strategies evolve, we must add a significant number of additional managerial, operational, manufacturing, sales, distribution, marketing, financial and other personnel. Our recent growth and any future growth will impose significant added responsibilities on members of management, including:

- identifying, recruiting, integrating, maintaining and motivating additional employees;

- managing our internal development efforts effectively, including the clinical and regulatory authority review process for our product candidates, while complying with our contractual obligations to contractors and other third parties; and

- improving our operational, financial and management controls, reporting systems, and procedures.

Our future financial performance and our ability to commercialize our product candidates will depend, in part, on our ability to effectively manage our recent growth and any future growth, and our management may also have to divert a disproportionate amount of its attention away from day-to-day activities in order to devote a substantial amount of time to managing these growth activities.

If we are not able to effectively manage our growth and further expand our organization by hiring new employees and expanding our groups of consultants and contractors as needed, we may not be able to successfully implement the tasks necessary to further develop and commercialize our product candidates and, accordingly, may not achieve our research, development and commercialization goals.

Increased labor costs could result in exceeding expenses, slow our growth and adversely affect our results of operations.

Since our operations are labor-intensive and our operations, to a certain extent, require the use of technical skills and know-how of our employees, our success depends in part on our ability to attract, retain and motivate a sufficient number of qualified employees. We have implemented a number of initiatives in an effort to attract, retain and motivate our qualified and competent staff. There is no assurance that these measures will be effective or that supply of skilled labor in local markets will be sufficient to fulfill our needs. Competition for competent and skilled labor is intensive in the industry. Our failure to hire and retain enough skilled employees could delay the anticipated pre-clinical studies or clinical trials timeframe or receipt of regulatory approvals to commercialize our product candidates, or result in our expenses exceeding our initial budget. Any of the foregoing changes could have a material adverse effect on our business, profitability and prospects.

Further, most of our workforce is employed in China where the average labor cost has been steadily increasing over the past years as a result of inflation, government-mandated wage increases and other changes in labor laws and local economics. In particular, further changes in the labor laws, rules and regulations may be promulgated by the PRC government in the future and our operations may be materially and adversely affected if such laws, rules or regulations impose additional burden on the employers. The labor cost will continue to increase in the future which is in line with the economic growth in China. Competition for employees would require us to pay higher wages, which would result in higher labor costs.

We may be involved in lawsuits, claims, administrative proceedings or other legal proceedings against us, which could adversely affect our business, financial conditions, results of operations and reputation.

We may be involved in lawsuits, claims, administrative proceedings or other legal proceedings arising in the ordinary course of business or pursuant to governmental or regulatory enforcement activity from time to time. Litigation and governmental proceedings can be expensive, lengthy and disruptive to normal business operations, and can require extensive management attention and resources, regardless of their merit. Furthermore, any litigations, legal disputes, claims or administrative proceedings which are initially not of material importance may escalate and become important to us due to a variety of factors, such as the facts and circumstances of the cases, the likelihood of loss, the monetary amount at stake, and the parties involved.

Additionally, our insurance might not cover claims brought against us, might not provide sufficient payments to cover all of the costs to resolve one or more such claims, and might not continue to be available on terms acceptable to us. In particular, any claim could result in unanticipated liability to us if the claim is outside the scope of the indemnification arrangement we have with third parties, they do not abide by the indemnification arrangement as required, or the liability exceeds the amount of any applicable indemnification limits or available insurance coverage. While we intend to defend the aforementioned matters vigorously, we cannot predict the results of complex legal proceedings and an unfavorable resolution of a lawsuit or proceeding could materially adversely affect our business, results of operations, financial conditions and reputation.

If we engage in acquisitions, joint ventures or strategic partnerships, this may increase our capital requirements, dilute our shareholders, cause us to incur debt or assume contingent liabilities, may have a material adverse effect on our ability to manage our business and may not be successful.

From time to time, to pursue our growth strategy, we may evaluate various acquisitions, joint ventures and strategic partnerships, including licensing or acquiring complementary products, intellectual property rights, technologies or businesses. Any completed, in-process or potential acquisition or strategic partnership may entail numerous risks, including:

- increased operating expenses and cash requirements;
- the assumption of additional indebtedness or contingent or unforeseen liabilities;
- the issuance of our equity securities;
- assimilation of operations, intellectual property and products of an acquired company, including difficulties associated with integrating new personnel;
- the diversion of our management's attention from our existing product programs and initiatives in pursuing such a strategic merger or acquisition;
- retention of key employees, the loss of key personnel, and uncertainties in our ability to maintain key business relationships;
- risks and uncertainties associated with the other party to such a transaction, including the prospects of that party and their existing product candidates and regulatory approvals; and
- our inability to generate revenue from acquired technology and/or products sufficient to meet our objectives in undertaking the acquisition or even to offset the associated acquisition and maintenance costs.

We may not be able to identify attractive targets, and we have limited experience in acquisitions. In addition, we may not be able to successfully acquire the targets identified despite spending a significant amount of time and resources on pursuing such acquisition. Furthermore, integration of an acquired company, its intellectual property or technology into our own operations is a complex, time-consuming and expensive process. The successful integration of an acquisition may require, among other things, that we integrate and retain key management, sales, distribution and other personnel, integrate the acquired technologies or services from both an engineering and a sales and marketing perspective, integrate and support preexisting distributor, supplier and customer relationships, coordinate research and development efforts, and consolidate duplicate facilities and functions. The geographic distance between companies, the complexity of the technologies and operations being integrated, and the disparate corporate cultures being combined may increase the difficulties of integrating an acquired company or technology. In addition, it is common in our industry for competitors to attract customers and recruit key employees away from companies during the integration phase of an acquisition. In addition, if we undertake acquisitions, we may issue dilutive securities, assume or incur debt obligations, incur large one-time expenses, and acquire intangible assets that could result in significant future amortization expense.

PRC regulations and rules concerning mergers and acquisitions, including the Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rules, and other recently adopted regulations and rules with respect to mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. Moreover, according to the Anti-Monopoly Law of PRC and the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings, or the "Prior Notification Rules" issued by the State Council, the concentration of business undertakings by way of mergers, acquisitions or contractual arrangements that allow one market player to take control of or to exert decisive impact on another market player must also be notified in advance to the anti-monopoly enforcement agency of the State Council when the threshold is crossed and such concentration shall not be implemented without the clearance of prior notification. In addition, the Regulations on Implementation of Security Review System for the Merger and Acquisition of Domestic Enterprise by Foreign Investors, or the "Security Review Rules," issued by the Ministry of Commerce, or the MOFCOM, specify that mergers and acquisitions by foreign investors that raise "national defense and security" concerns, and mergers and acquisitions through which foreign investors may acquire the de facto control over domestic enterprises that raise "national security" concerns are subject to strict review by the MOFCOM. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time-consuming, and any required approval and filing processes, including obtaining approval or filings from the MOFCOM or its local counterparts, may delay or inhibit our ability to complete such transactions. Our ability to expand our business or maintain or expand our market share through future acquisitions would as such be materially and adversely affected.

Our internal information technology and other infrastructure, or those used by our CROs, SMOs, CMOs, CDMOs or other contractors or consultants, may fail or suffer security breaches.

Despite the implementation of security measures, our information technology systems and those of our current or future CROs, SMOs, CMOs, CDMOs, consultants and other service providers are vulnerable to damage from cyberattacks, computer viruses, malicious codes, unauthorized access, employee theft or misuse, natural disasters, fire, power loss, terrorism, war, and telecommunication and electrical failures, among other things. If such an event were to occur and cause interruptions in our operations, it could result in a material disruption of our research and development programs. For example, our data may not be backed up in a timely manner and the loss of clinical trial data from ongoing or future clinical trials for any of our product candidates could result in delays in regulatory approval efforts and significantly increase costs to recover or reproduce the data. To the extent that any disruption or security breach were to result in a loss of or damage to data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur liability and the further development of our product candidates could be delayed.

In the ordinary course of our business, we collect and store sensitive data, including, among other things, legally protected patient health information, personally identifiable information about our employees, intellectual property and proprietary business information. Disruptions in our on-site systems and by our outsourced vendors could have a material adverse impact on us and our business, including loss of data and damage to equipment, among other things.

We could be subject to risks caused by misappropriation, misuse, leakage, falsification, system malfunction or intentional or accidental release or loss of information maintained in the information systems and networks of our Company and our vendors, including but not limited to personal information of our employees and patients, and company, vendor and the other users of our vendors' confidential data.

If a material breach of our information technology systems or those of our vendors occurs, the market perception of the effectiveness of our security measures could be harmed and our reputation and credibility could be damaged. We could be subject to regulatory actions or claims made by individuals and groups in private litigation involving privacy issues related to data collection and use practices and other data privacy laws and regulations. As we engage in more electronic transactions with payers and patients, and collect and store an increasing volume of data, the related security risks will increase and we will need to expend additional resources to protect our technology and information systems.

We are subject to the risks of doing business globally, including risks relating to political and economic instability and changes in diplomatic and trade relationships, which may materially and adversely affect our business and results of operations.

Because we operate in China and cooperate with partners operating in other jurisdictions, our business is subject to risks associated with doing business globally. Accordingly, our business and financial results in the future could be adversely affected due to a variety of factors, including:

- changes in a specific country's or region's political and cultural climate or economic condition;
- unexpected changes in laws and regulatory requirements in local jurisdictions;
- efforts to develop an international sale, distribution, marketing organization may increase our expenses, divert our management's attention from the acquisition or development of product candidates or cause us to forgo profitable licensing opportunities in these geographies;
- the occurrence of economic weakness, including inflation or political instability;
- the burden of complying with a variety of foreign laws including difficulties in effective enforcement of contractual provisions in local jurisdictions;
- inadequate intellectual property protection in certain jurisdictions;
- enforcement of anti-corruption and anti-bribery laws;
- trade-protection measures, import or export licensing requirements and fines, penalties or suspension or revocation of export privileges;
- delays resulting from difficulty in obtaining export licenses, tariffs and other barriers and restrictions, potentially longer payment cycles, greater difficulty in accounts receivable collection and potentially adverse tax treatment;
- the effects of applicable local tax regimes and potentially adverse tax consequences; and
- significant adverse changes in local currency exchange rates.

Furthermore, we are subject to general geopolitical risks in foreign countries where we operate, such as political and economic instability and changes in diplomatic and trade relationships, which could cause our results to fluctuate and our revenue to decline. The occurrence of any one or more of these risks of doing business internationally, individually or in the aggregate, could materially and adversely affect our business and results of operations.

We have limited insurance coverage, and any claims beyond our insurance coverage may result in our incurring substantial costs and a diversion of resources.

We maintain insurance policies that are required under the PRC laws and regulations as well as based on our assessment of our operational needs and industry practice, including insurance for our new facilities. In line with industry practice in the PRC, we have elected not to maintain certain types of insurance. Our insurance coverage may be insufficient to cover any claims that we may have. Any liability or damage to, or caused by, our facilities or our personnel beyond our insurance coverage may result in our incurring substantial costs and a diversion of resources and may negatively impact our product development and overall operations.

We may be subject to risks relating to leased properties.

As of the Latest Practicable Date, we leased eight properties with an aggregate area of approximately 21,100.7 sq.m. in Mainland China and Hong Kong. Upon expiration of the leases, we will need to negotiate for renewal of the leases and may have to pay increased rent. We cannot assure you that we will be able to renew our leases on terms which are favorable or otherwise acceptable to us, or at all. If we fail to renew any of our leases or if any of our leases are terminated or if we cannot continue to use any of our leased property, we may need to seek an alternative location and incur expenses related to such relocation, and our operation and businesses may also be disrupted or even suspended if we are not able to complete the relocation, including the reconstruction of relevant facilities in the new location, in a timely manner.

We leased one property for office use from an Independent Third Party. As advised by our PRC Legal Advisors, such parcel of land was obtained by the landlord by way of government allocation (劃撥地). In order to lease allocated land, one must obtain necessary approval from relevant government authorities and comply with legal procedures to convert allocated land into assigned land (出讓地). Therefore, the lease entered into by us may be deemed invalid and unenforceable under the applicable PRC laws. The premises is used for general office space and a comparable replacement site is readily available in the vicinity. As of the Latest Practicable Date, we were not aware of any challenge by a third party or government authority on the titles of any of our leased properties that might affect our current occupation. As of the Latest Practicable Date, one of our leased property failed to complete the fire safety filing. As advised by our PRC Legal Adviser, the maximum penalty that we could incur in connection with such non-compliance incidents shall be (i) a fine of RMB5,000 for failure to complete the fire safety filing; and (ii) closure of such leased property which have not rectified such non-compliance incidents. As of the Latest Practicable Date, we had not been subject to any actual administrative penalties due to our failure to complete in time the necessary fire safety procedures, and we plan to relocate to another property in 2023. Given the reasons above, our Directors believe that such title defects do not and will not have any material financial or operational impact on us. However, we may not be able to rectify such defect or take other remedial actions in time. Relevant government authorities could impose penalties on the owners of the leased properties and we could be required to vacate such properties. If this occurs, our business operations and financial condition could be adversely affected.

In addition, pursuant to the Measures for Administration of Lease of Commodity Properties (《商品房屋租賃管理辦法》), which was promulgated by the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部) on December 1, 2010 and became effective on February 1, 2011, the lease agreements shall be filed for registration and property leasing filing certificates shall be obtained. As of the Latest Practicable Date, certain of our lease agreements for properties in China have not been registered with relevant authorities in China. The registration of these relevant lease agreements requires additional steps to be taken by the lessors which are beyond our control. We cannot assure you that the lessors will be cooperative and that we can complete the registration of these lease agreements. We also maintain a pool of site candidates, and believe we would be able to relocate to a different site relatively easily should we be required to do so. As advised by our PRC Legal Advisor, if we cannot complete the registration of lease agreement, we may be subject to a fine ranging from RMB1,000 to RMB10,000 for each of the lease agreements. Such noncompliance does not affect the validity of the property lease agreement, and we believe such non-compliance is unlikely to have a material adverse effect on our business operations and financial performance.

If we fail to comply with applicable anti-bribery laws for commercialization, our reputation may be harmed and we could be subject to penalties and significant expenses that have a material adverse effect on our business, financial condition and results of operations.

We are subject to the anti-bribery laws of various jurisdictions. As our business has expanded, the applicability of the relevant anti-bribery laws to our operations has increased. Our procedures and controls to monitor anti-bribery compliance may fail to protect us from reckless or criminal acts committed by our employees or agents. If we, due to either our own deliberate or inadvertent acts or those of others, fail to comply with applicable anti-bribery laws, our reputation could be harmed and we could incur criminal or civil penalties, other sanctions and/or significant expenses, which could have a material adverse effect on our business, including our financial condition, results of operations, cash flows and prospects.

If our brands fail to maintain a positive reputation, many aspects of our business and our business prospects could be adversely affected.

If our brands fail to maintain a positive reputation, many aspects of our business and our business prospects could be adversely affected. We, our Shareholders, Directors, officers, employees, collaboration partners, distributors, customers, suppliers, or other third parties we cooperate with or rely on may be subject to negative media coverage and publicity from time to time. Such negative coverage in the media and publicity could threaten the perception of our reputation. In addition, to the extent our Shareholders, Directors, officers, employees, collaboration partners, distributors, customers, suppliers or other third parties we work with or rely on were non-compliant with any laws or regulations, we may also suffer negative publicity or harm to our reputation. Any negative publicity regarding our industry could also affect our reputation and commercialization. As a result, we may be required to spend significant time and incur substantial costs in response to allegations and negative publicity that may or may not directly related to us, and may not be able to diffuse them to the satisfaction of our current or future [**REDACTED**], distributors, customers, patients and business partners.

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

We are exposed to the risk that our employees, distributors, customers, suppliers, contracted manufacturers or other third parties that we have contracted may engage in illegal, fraudulent or unethical conduct with respect to our business. Misconduct by these individuals and institutions could include intentional, reckless and/or negligent conduct that violates the relevant laws and regulations, including those requiring the reporting of true, complete and accurate information and data to regulatory authorities, data privacy and security, product quality and manufacturing standards, and other relevant laws and regulations in China. Such misconduct could also involve individually identifiable information, including the improper use of information obtained in the course of clinical trials or illegal misappropriation of drug products.

In particular, sales, distribution, marketing and other business arrangements in our industry are subject to extensive laws and regulations intended to prevent fraud, bribery, misconduct, kickbacks, self-dealing and other abusive practices. We could be liable for actions taken by our employees, distributors, customers, suppliers or other business partners that violate anti-bribery, anti-corruption and other related laws and regulations in China or other countries, over which we may not have full control. The government authorities may seize the products involved in any illegal or improper conduct by our employees and other third parties, and we may be subject to claims, fines or suspension of our operations. Our brand and reputation, our sales and distribution activities, or the price of our Shares could be adversely affected if we are associated with any negative publicity as a result of illegal, improper or unethical conduct, or allegations of such, by our employees and other third parties.

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 delay our R&D programs, or result in failure to continue the marketing, sales and distribution of our products and obtain regulatory approval for our product candidates. Regulatory authorities may also impose civil, criminal and administrative penalties, damages and monetary fines on us, which could materially and adversely affect our reputation, business, results of operations and financial condition.

Illegal and parallel imports and counterfeits of our products may reduce demand for our products and harm our reputation and business.

The illegal importation of competing products from jurisdictions where government price controls or other market dynamics result in lower prices may adversely affect the demand for our future approved product candidates and, in turn, may adversely affect our sales, distribution and profitability in China and other jurisdictions where we commercialize our products upon approval. Unapproved imports of prescription drugs are illegal under current laws of China. However, illegal imports may continue to occur or even increase as the ability of patients to obtain these lower priced imports continues to grow. Furthermore, cross-border imports from lower-priced markets (parallel imports) into higher-priced markets could harm sales and distribution of our future drug products and exert commercial pressure on pricing within one or more markets. In addition, competent government authorities may expand consumers' ability to import lower priced versions of our future approved products, or competing products, from outside China or other jurisdictions where we operate. Any future legislation or regulations that increase consumer access to lower priced medicines from outside China or other jurisdictions where we operate could have a material adverse effect on our business.

Certain products sold in the market may be manufactured without proper licenses or approvals, or are fraudulently mislabeled with respect to their content or manufacturers. These products are generally referred to as counterfeit products. The counterfeit product control and enforcement system, particularly in emerging markets such as China, may be inadequate to discourage or eliminate the manufacturing and sale of counterfeit products imitating our products. Since counterfeit products in many cases have very similar appearances compared with the authentic products but are generally sold at lower prices, counterfeits of our products can quickly erode the demand for our future approved product candidates. Our reputation and business could suffer harm as a result of counterfeit products sold under our or our collaborators' brand name(s). In addition, thefts of inventory at warehouses, plants or while in-transit, which are not properly stored and which are sold through unauthorized channels, could adversely impact patient safety, our reputation and our business.

If we fail to effectively manage our inventory, our results of operations and financial condition may be adversely affected.

We must maintain a reasonable level of inventory to effectively meet the market demand of our products, ensure timely delivery and manage our business growth. We had inventories of RMB1.8 million as of December 31, 2021 and RMB12.0 million as of June 30, 2022. For more details, see "Financial Information – Discussion of Certain Selected Items from the Consolidated Statements of Financial Position – Net Current Assets/Liabilities – Inventories." We have implemented an efficient supply chain management system to ensure the timely supply of our products. We determine our inventory level by holistically considering the then-current inventory storage level, manufacturing plan, and market demand, and we also closely monitor outgoing inventory to ensure sufficient supply of our products. However, such internal forecasts are inherently uncertain, and the demand for our products may fluctuate. If

our forecast is lower than actual demand, we may not be able to maintain an adequate inventory level of our products or produce our products in a timely manner, and may lose sales, distribution and market share to our competitors. On the other hand, we may be exposed to increased inventory risks due to accumulated excess inventory of our finished products or raw materials, which may increase our inventory holding costs, risk of inventory obsolescence or write-offs. In addition, if the inventory information we collect is incomplete or inaccurate, we may fail to maintain a reasonable level of inventory, and our business, financial condition and results of operations may be adversely affected.

RISKS RELATING TO OUR FINANCIAL POSITION AND NEED FOR ADDITIONAL CAPITAL

We have a limited operating history, which may make it difficult to evaluate our current business and predict our future performance.

Our operations to date have focused on commercialization of our product candidates, conducting pre-clinical studies and clinical trials of our product candidates, establishing our intellectual property portfolio, organizing and staffing, business planning, and raising capital. Our limited operating history, particularly in light of the rapidly evolving broader dermatology treatment and care industry, may make it difficult to evaluate our current business and reliably predict our future performance. We may encounter unforeseen expenses, difficulties, complications, delays and other business uncertainties. If we do not address these business uncertainties and difficulties successfully, our business will suffer. These risks may cause potential [**REDACTED**] to lose substantially all or part of their [**REDACTED**].

Our ability to generate revenue from future sales of our product candidates and become profitable depends significantly on our success in a number of factors, including the success of our product candidates.

As of the Latest Practicable Date, we had two commercialized products and another two clinical-stage products have commenced pilot commercialization in Hainan. We had made sales of products RMB2.0 million and RMB0.7 million in 2021 and the six months ended June 30, 2022, respectively. We expect that sales of the commercialized products will continue to comprise a substantial portion of our total revenue in the near future. Any reduction in sales or profit margins of the commercialized products will thus have a direct negative impact on our business, financial condition and results of operations in the future.

Our ability to generate revenue from future sales and achieve profitability depends significantly on our success in many factors, including:

- completing non-clinical and clinical research and development of our product candidates;
- obtaining regulatory approvals and marketing authorizations for product candidates for which we have completed clinical trials for;
- developing a sustainable and scalable manufacturing process for our product candidates, including establishing and maintaining commercially viable supply relationships with third parties and establishing our own manufacturing capabilities and infrastructure;
- controlling the cost of production of our product candidates;
- launching and commercializing product candidates for which we obtain regulatory approvals and marketing authorizations;
- obtaining market acceptance of our product candidates as viable treatment options to be paid as an out-of-pocket expense, and availability of adequate coverage, reimbursement, pricing by third-party payors and integrated delivery networks;
- addressing any competing technological and market developments;
- maintaining, protecting, expanding and enforcing our portfolio of intellectual property rights, including patents, trademarks, trade secrets, and know-how;
- identifying, assessing, acquiring and/or developing new product candidates, intellectual properties and technologies;
- negotiating favorable terms in any collaboration, licensing, or other arrangements into which we may enter;
- maintaining and managing a sales network that communicate effectively with the local medical institutions, practitioners and distributors and timely delivers our products to our current and potential markets; and
- attracting, hiring, and retaining qualified personnel.

Even if one or more of the product candidates that we develop is approved for commercial sale, we anticipate incurring significant costs associated with commercializing any approved product candidate. Our expenses could increase beyond expectations if we are required by the NMPA or other relevant regulatory authorities to modify our manufacturing processes or assays, or to perform clinical, nonclinical, or other types of studies in addition to those we

currently anticipate. Even if we are successful in obtaining regulatory approvals to market one or more of our product candidates, our revenue will be dependent, in part, upon the size of the market and competitive landscape for the relevant product in China, the U.S. or other relevant jurisdictions, the accepted price for the product to be paid with out-of-pocket expenses and the ability to get reimbursement for any amount. If the number of patients with our addressable disease is not as significant as we estimate, the indication approved by regulatory authorities is narrower than we expect, or the reasonably accepted population for treatment is narrowed by competition, physician choice or treatment guidelines, we may not generate significant revenue from sales of such products, even if approved. If we are not able to generate revenue from the sale of any approved products, we may never become profitable.

Our results of operations, financial condition, and prospects may be adversely affected by fair value changes and credit risk associated with our financial assets at fair value through profit or loss and related valuation uncertainty.

During the Track Record Period, we had certain financial assets at fair value through profit or loss. For the years ended December 31, 2020 and 2021, we recorded fair value losses on financial assets at FVTPL of RMB4.6 million and RMB5.2 million, respectively. For the six months ended June 30, 2022, we recorded fair value gains on financial assets at FVTPL of RMB1.7 million. We are exposed to risks in relation to the financial assets, which may adversely affect our net changes in their fair value. The financial assets at fair value through profit or loss are stated at fair value, and net changes in their fair value are recorded as other gains or other expenses, and therefore directly affect our results of operations. We cannot assure you that market conditions and regulatory environment will create fair value gains and we will not incur any fair value losses on our financial assets at fair value through profit or loss in the future. If we incur such fair value losses, our results of operations, financial condition and prospects may be adversely affected.

We had net operating cash outflow during the Track Record Period and may continue to have net operating cash outflow going forward.

We had net cash used in operating activities of RMB172.7 million, RMB159.9 million and RMB97.5 million in 2020, 2021 and the six months ended June 30, 2022, respectively. While we believe we have sufficient working capital to fund our current operations for the next 12 months, we expect that we may continue to experience net cash outflows from our operating activities for the foreseeable future. If we are unable to maintain adequate working capital, we may default on our payment obligations such the milestone payments under our licensing agreements, be unable to meet our capital expenditure requirements, be forced to scale back our operations, and/or experience other negative impacts on our operations, which may have a material adverse effect on our business, financial condition, results of operations and prospects.

We incurred deficit and recorded net liabilities during the Track Record Period and may continue to have deficit going forward, which can expose us to liquidity risk.

We had a total deficit of RMB512.0 million, RMB790.5 million and RMB1,003.5 million as of December 31, 2020 and 2021 and June 30, 2022, respectively. A total deficit can expose us to the risk of shortfalls in liquidity. This in turn would require us to seek adequate financing from sources such as external debt or issuance of our equity interest, which may not be available on terms favorable or commercially reasonable to us or at all. Although we expect our net liability position to be reversed after the automatic conversion of the convertible redeemable preferred shares into Shares upon the [**REDACTED**], a net liabilities position can expose us to the risk of shortfalls in liquidity. Any difficulty or failure to meet our liquidity needs as and when needed can have a material adverse effect on our prospects.

We may need additional capital to meet our operating cash requirements, and financing may not be available on terms acceptable to us, or at all.

We believe our current cash and cash equivalents and the estimated net [**REDACTED**] from the [**REDACTED**] will be sufficient to meet our anticipated cash needs for at least the next 12 months from the date of this Document. We may, however, require additional cash resources to meet our continued operating cash requirements in the future, especially to fund our R&D activities. Our cash operating costs mainly consist of (i) R&D costs including staff costs, third party contracting costs, and others and (ii) workforce employment costs. In 2020, 2021 and the six months ended June 30, 2022, we incurred total cash operating costs of RMB166.2 million, RMB156.6 million and RMB99.6 million, respectively. For more details of our cash operating costs, see "Financial Information – Cash Operating Costs." We expect our cash operating costs will increase significantly in light of our expanding clinical trial programs. If the financial resources available to us after the [**REDACTED**] are insufficient to satisfy our cash requirements, we may seek additional funding through [**REDACTED**], debt financings, collaborations and licensing arrangements. It is uncertain whether financing will be available in the amounts or on terms acceptable to us, if at all. If we were not able to obtain additional capital to meet our cash requirements in the future, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Raising additional capital may cause dilution to our shareholders, restrict our operations or, when licensing of intellectual property rights is deployed as a means of financing our operations, require us to relinquish rights to our technologies or product candidates.

We may seek additional funding through a combination of [**REDACTED**], debt financings, collaborations and licensing arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities, your ownership interest will be diluted, and the terms may include liquidation or other preferences that may adversely affect your rights as a holder of our Shares. Incurring additional debt could result in increased fixed payment obligations and could also result in certain additional restrictive covenants, such as

limitations on our ability to incur additional debt or issue additional equity, limitations on our ability to acquire or license intellectual property rights and other operating restrictions that could adversely impact our ability to conduct our business. In addition, issuance of additional equity securities, or the possibility of such issuance, may cause the [**REDACTED**] of our Shares to decline. In the event that we enter into collaborations or licensing arrangements in order to raise capital, we may be required to accept unfavorable terms, including relinquishing or licensing to a third party on unfavorable terms our rights to technologies or product candidates that we otherwise would seek to develop or commercialize ourselves or potentially reserve for future arrangements when we might be able to achieve more favorable terms.

Share-based payment may cause shareholding dilution to our existing Shareholders and have a negative effect on our financial performance.

We adopted an equity incentive plan for the benefit of our employees as remuneration for their services provided to us to incentivize and reward the eligible persons who have contributed to the success of our Company. In 2020, 2021 and the six months ended June 30, 2022, we incurred share-based compensation of RMB20.0 million, RMB41.1 million and RMB38.6 million, respectively. To further incentivize our 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 negative effect on our financial performance.

Our results of operations, financial condition and prospects may be adversely affected by fair-value changes in our Preferred Shares at fair value through profit or loss.

During the Track Record Period, we had certain financial liabilities categorized within Level 3 fair value measurement, which included the convertible redeemable preferred shares measured at fair value through profit or loss ("**FVTPL**"). We recorded total deficits of RMB512.0 million, RMB790.5 million and RMB1,003.5 million as of December 31, 2020 and 2021 and June 30, 2022, respectively, primarily due to such financial liabilities. The estimated changes in fair value involve the exercise of professional judgment and the use of certain bases, assumptions and unobservable inputs, which, by their nature, are subjective and uncertain. For more details, see "Financial Information – Significant Accounting Policies, Judgements and Estimates – Fair Value Measurement." As such, the financial liabilities valuation has been, and will continue to be, subject to uncertainties in accounting estimation, which may not reflect actual fair value of these derivative financial liabilities and result in significant fluctuations in profit or loss from year to year. The Preferred Shares will automatically convert into Shares upon [**REDACTED**], at which time we expect to record them as equity and, accordingly, turn into a net asset position. However, we do expect to recognize additional loss from the fair-value changes of financial liabilities after December 31, 2022 to the [**REDACTED**], and we may still retain accumulated losses due to the fair-value loss of our convertible redeemable preferred shares prior to the [**REDACTED**].

RISKS RELATING TO DOING BUSINESS IN CHINA

The broader dermatology treatment and care industry in China is highly regulated and such regulations are subject to change, which may affect approval and commercialization of our product candidates.

The broader dermatology treatment and care industry in China is subject to comprehensive government regulation and supervision, encompassing the approval, registration, manufacturing, packaging, licensing and marketing of new products. In recent years, the regulatory framework in China regarding the broader dermatology treatment and care industry has undergone significant changes, and we expect that it will continue to undergo significant changes. Any such changes or amendments may result in increased compliance costs on our business or cause delays in or prevent the successful development or commercialization of our product candidates in China and reduce the benefits we believe are available to us from developing and manufacturing products in China.

We are subject to laws that are applicable to our business, including advertising and promotion laws, pricing laws and consumer rights and interests protection laws, and other consumer protection laws that could subject us to penalties and other administrative actions. Laws and regulations related to e-commerce and social media activities in China may impose additional requirements and obligations on our on-line channels or could increase our compliance cost.

Changes in the political and economic policies of the PRC government may materially and adversely affect our business, financial condition and results of operations and may result in our inability to sustain our growth and expansion strategies.

Due to our extensive operations in China, our business, results of operations, financial condition and prospects may be influenced to a significant degree by economic, political, legal and social conditions in China. China's economy differs from the economies of developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, and control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth over the past 40 years, growth has been uneven across different regions and among various economic sectors of China. The PRC government has implemented various measures to encourage economic development and guide the allocation of resources. Some of these measures may benefit the overall PRC economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are currently applicable to us. In addition, in the past the PRC government implemented certain measures, including interest rate increases, to control the pace of economic growth. These measures may cause decreased economic activity in China, which may adversely affect our business and results of operation. More generally, if the business environment in China deteriorates from the perspective of domestic or international investment, our business in China may also be adversely affected.

There are uncertainties regarding the interpretation and enforcement of the PRC laws, rules and regulations.

A large portion of our operations are conducted in China through our PRC subsidiaries, and are governed by PRC laws, rules and regulations. Our PRC subsidiaries are subject to laws, rules and regulations applicable to foreign investment in China. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions may be cited for reference but have limited precedential value.

In 1979, the PRC government began to promulgate a comprehensive system of laws, rules and regulations governing economic matters in general. The overall effect of legislation over the past four decades has significantly enhanced the protections afforded to various forms of foreign investment in China. However, China has not developed a fully integrated legal system, and recently enacted laws, rules and regulations may not sufficiently cover all aspects of economic activities in China or may be subject to significant degrees of interpretation by PRC regulatory agencies. In particular, because these laws, rules and regulations are relatively new and often give the relevant regulator significant discretion in how to enforce them, and because of the limited number of published decisions and the nonbinding nature of such decisions, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and can be inconsistent and unpredictable. In addition, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all, and which may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until after the occurrence of the violation.

Additionally, the NMPA's reform of the drug-approval system may face implementation challenges in recent years. The timing and full impact of such reforms is uncertain and could prevent us from commercializing our product candidates in a timely manner.

In addition, any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than we would in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into and could materially and adversely affect our business, financial condition and results of operations.

We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business.

We are a holding company incorporated in the 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 or to service any debt we may incur. If any of our PRC

subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Under PRC laws and regulations, our PRC subsidiaries may pay dividends only out of their respective accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, our PRC subsidiaries are required to set aside at least 10% of its accumulated after-tax profits each year, if any, to fund a certain statutory reserve fund, until the aggregate amount of such fund reaches 50% of its registered capital. Such reserve funds cannot be distributed to us as dividends.

In response to the persistent capital outflow in China and RMB's depreciation against the U.S. dollar, the People's Bank of China, or PBOC, and the State Administration of Foreign Exchange of the PRC (SAFE) promulgated a series of capital control measures, including stricter vetting procedures for domestic companies to remit foreign currency for overseas investments, dividends payments and shareholder loan repayments. The PRC government may continue to strengthen its capital controls, and more restrictions and substantial vetting process may be put forward by the SAFE for cross-border transactions falling under both the current account and the capital account. Any limitation on the ability of our PRC subsidiaries to pay dividends or make other kinds of payments to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends to our [**REDACTED**] or other obligations to our suppliers, or otherwise fund and conduct our business.

Uncertainties exist with respect to the interpretation and implementation of the PRC Foreign Investment Law, which may impose new burdens on us.

The PRC Foreign Investment Law, or the FIL, was enacted by the NPC on March 15, 2019 and became effective on January 1, 2020, which replaces a trio of previous 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. This law has become the legal foundation for foreign investment in the PRC. The FIL embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. The Implementation Rules to the Foreign Investment Law were promulgated by the State Council on December 26, 2019 and became effective on January 1, 2020. However, uncertainties exist with respect to interpretation and implementation of the FIL and its Implementation Rules, which may adversely impact our corporate governance practice and increase our compliance costs. For instance, the FIL imposes information reporting requirements on foreign investors or foreign-invested enterprises. Failure to take timely and appropriate measures to cope with any of these or other regulatory compliance requirements under the FIL may lead to rectification obligations, penalties or other regulatory sanctions on us.

More stringent restrictions on the remittance of RMB into and out of the PRC and governmental control over currency conversion may limit our ability to pay dividends and other obligations, and affect the value of your [REDACTED].

The PRC government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of China. Shortages in availability of foreign currency may then restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to our offshore entities for our offshore entities to pay dividends or make other payments or otherwise to satisfy our foreign-currency-denominated obligations. The RMB is currently convertible under the "current account," which includes dividends, trade and service-related foreign exchange transactions, but not under the "capital account," which includes foreign direct investment and foreign currency debt, including loans we may secure for our onshore subsidiaries. Currently, our PRC subsidiaries may purchase foreign currency for settlement of "current account transactions," including payment of dividends to us, without the approval of SAFE by complying with certain procedural requirements. However, the relevant PRC governmental authorities may limit or eliminate our ability to purchase foreign currencies in the future for current account transactions. Since a portion of our revenue is expected to be denominated in RMB, any existing and future restrictions on currency exchange may limit our ability to utilize revenue generated in RMB to fund our business activities outside of the PRC or pay dividends in foreign currencies to holders of our Shares. Foreign exchange transactions under the capital account remain subject to limitations and require approvals from, or registration with, SAFE and other relevant PRC governmental authorities. This could affect our ability to obtain foreign currency through debt or equity financing for our subsidiaries.

Our business benefits from certain financial incentives and preferential policies granted by local governments. Expiration of, or changes to, these incentives or policies would have an adverse effect on our results of operations.

In the past, local governments in China granted certain financial incentives from time to time to our PRC subsidiaries as part of their efforts to encourage R&D activities. We recorded government grants of nil, RMB3.2 million and nil in 2020, 2021 and the six months ended June 30, 2022, respectively, which represent subsidies from local governments. The local governments have the discretion in deciding the timing, amount and criteria of government financial incentives and thus we cannot predict with certainty whether or how much financial incentive will be granted to us even if we apply for such funding. We generally do not have the ability to influence local governments in making these decisions. Government authorities may also decide to reduce or eliminate incentives or may amend or terminate the relevant financial incentive policies at any time. In addition, some of the government financial incentives are granted to us on a project basis and subject to the satisfaction of certain conditions, including compliance with the applicable financial incentive agreements and completion of the specific projects therein. We cannot guarantee that we will satisfy all relevant conditions, and if we fail to satisfy any such conditions, we may be deprived of the relevant incentives. We cannot assure you of the continued availability of the government incentives currently enjoyed by us. Any reduction or elimination of incentives would have an adverse effect on our results of operations.

We are subject to PRC tax laws and regulations.

We are subject to periodic examinations on fulfillment of our tax obligation under the PRC tax laws and regulations by PRC tax authorities. Although we believe that in the past we had acted in compliance with the requirements under the relevant PRC tax laws and regulations in all material aspects and had established effective internal control measures in relation to accounting regularities, we cannot assure you that future examinations by PRC tax authorities would not result in fines, other penalties or actions that could adversely affect our business, financial condition and results of operations, as well as our reputation. Furthermore, the PRC government from time to time adjusts or changes its tax laws and regulations. Such adjustments or changes, together with any uncertainty resulting therefrom, could have an adverse effect on our business, financial condition and results of operations.

It may be difficult to effect service of process upon us or our management that reside in China or to enforce against them or us in China any judgments obtained from foreign courts.

Most of our operating subsidiaries are incorporated in China. Some of our management reside in China. Almost all of our assets are located in China. Therefore, it may not be possible for [**REDACTED**] to effect service of process upon us or our management inside China. China 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 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 (《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 a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in China. Similarly, a party with an enforceable final judgment rendered by a Chinese court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing 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 Chinese court is expressly designated as the court having sole jurisdiction for the dispute.

On January 18, 2019, the Supreme People's Court and the government of the Hong Kong Special Administrative Region 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 (《關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排》) (the "**New Arrangement**"), which seeks to establish a mechanism with further clarification on and certainty for recognition and enforcement of judgments in a wider range of civil and commercial matters between Hong Kong Special Administrative Region and the China. The New Arrangement discontinued the requirements for a choice of court agreement for bilateral recognition and enforcement. The New Arrangement will only take effect after the promulgation of a judicial interpretation by the Supreme People's Court and the completion of the relevant legislative procedures in the Hong Kong Special Administrative Region. The New Arrangement will, upon its effectiveness, supersede the Arrangement. Therefore, before the New Arrangement becomes effective it may be difficult or

impossible to enforce a judgment rendered by a Hong Kong court in China if the parties in the dispute do not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for [**REDACTED**] to effect service of process against our assets or management in China in order to seek recognition and enforcement of foreign judgments in China.

Furthermore, China does not have treaties or agreements providing for the reciprocal recognition and enforcement of judgments awarded by courts of the U.S., the United Kingdom, or most other western countries. Hence, the recognition and enforcement in China of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

Any failure by the Shareholders or beneficial owners of our Shares to comply with PRC foreign exchange or other regulations relating to offshore investment activities could restrict our ability to distribute profits, restrict our overseas and cross-border investment activities and subject us to liability under PRC laws.

SAFE has promulgated several regulations associated with offshore investment such as Circular of the State Administration of Foreign Exchange on the Administration of Foreign Exchange Involved in Overseas Investment, Financing and Roundtrip Investment through Special Purpose Vehicles Conducted by domestic Residents in China via Special-Purpose Companies (《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》) or SAFE Circular 37, issued and effective on July 4, 2014, the Notice of the State Administration of Foreign Exchange on Issuing the Provisions on the Foreign Exchange Administration of the Overseas Direct Investments (《國家外匯管理局關於發佈<境內機構境外直接投資外匯管理規定>的通知》) (SAFE Circular 30). Failure to comply with the various SAFE regulations might result in liability under PRC laws for evasion of applicable foreign exchange restriction, including (1) the requirement by the SAFE to return the foreign exchange remitted overseas within a period of time specified by the SAFE, with a fine of up to 30% of the total amount of foreign exchange remitted overseas and deemed to have been evasive, and (2) in circumstances involving serious violations, a fine of no less than 30% of and up to the total amount of remitted foreign exchange deemed evasive.

There remains uncertainty as to the interpretation and implementation of the latest SAFE rules at practice level. We are committed to complying with and to ensuring that our Shareholders who are subject to the regulations will comply with the relevant SAFE rules and other regulations; however, due to the inherent uncertainty in the implementation of the regulatory requirements by PRC authorities, such registration might not be always practically available in all circumstances as prescribed in those regulations. In addition, we may not always be fully aware or informed of the identities of our beneficiaries who are PRC nationals or entities, and may not be able to compel them to comply with relevant SAFE rules and other regulations. We cannot assure you that all of our Shareholders or beneficiaries will at all times comply with, or in the future make or obtain any applicable registrations or approvals required by SAFE rules or other regulations. We cannot assure you that the SAFE or its local branches will not release explicit requirements or interpret the relevant PRC laws and regulations otherwise. Failure by any such shareholders to comply with SAFE rules or other regulations may result in restrictions on the foreign exchange activities of our PRC subsidiaries and may also subject the relevant PRC resident or entity to penalties under the PRC foreign exchange administration regulations.

Failure to comply with PRC regulations regarding the human genetic resources management in China may subject us to fines and other legal or administrative sanctions.

The Notice on the Implementation of Administrative License of Gathering, Collecting, Trading, Export and Exit of Human Genetic Resources (《關於實施人類遺傳資源採集、收集、買賣、出口、出境行政許可的通知》) was issued and came into effect on August 24, 2015 by Ministry of Science & Technology. According this Notice, gathering and collecting of human genetic resources through clinical trials shall be registered in the China Human Genetic Resources Management Office through the online system. According to the Circular on Optimizing Administrative Approval Processing of Human Genetic Resources (《關於優化人類遺傳資源行政審批流程的通知》) been issued on October 26, 2017 by Ministry of Science & Technology and come into effect on December 1, 2017, approval processing of gathering and collecting of human genetic resources shall be simplified.

The Regulations of the PRC on the Administration of Human Genetic Resources (《中華人民共和國人類遺傳資源管理條例》), was promulgated by the State Council on May 28, 2019 and came into effect on July 1, 2019. According to the provisions of the Regulations, the state supports the rational use of human genetic resources to carry out scientific research, develop biomedical industry, improve diagnosis and treatment technologies, enhance China's biosafety guarantee capabilities, and raise the level of guaranteeing the people's health. Foreign organizations and individuals and the institutions formed or actually controlled by them shall not collect or preserve China's human genetic resources within the territory of China and shall not provide China's human genetic resources abroad. The collection, preservation, utilization and external provision of China's human genetic resources shall conform to ethical principles for human genetic resource providers and be subject to ethical review in accordance with the relevant provisions of the state. The Ministry of Science and Technology further promulgated the Implementation Rules for the Administrative Regulation on Human Genetic Resources (Draft for Comments) (《人類遺傳資源管理條例實施細則(徵求意見稿)》) to state details on March 21, 2022. In addition, the Ministry of Science and Technology published the Notice on Updating the Frequently Asked Questions on Human Genetic Resources Management (《關於更新人類遺傳資源管理常見問題解答的通知》) on March 2, 2022 and Notice on Updating the Frequently Asked Questions on Human Genetic Resources Management (Q&A Series II) (《關於更新人類遺傳資源管理常見問題解答(系列問答二)的通知》) on April 15, 2022 to provide answers for some detailed question regarding human genetic resources.

The Bio-Security Law of the PRC (《中華人民共和國生物安全法》) was promulgated by the Standing Committee of the National People's Congress ("**SCNPC**") on October 17, 2020, and implemented on April 15, 2021. The law reaffirms the PRC's sovereignty over its human genetic resources and biological resources, and sets out more detailed provisions for the regulatory requirements contained in the Regulations for the Administration of Human Genetic Resources of the PRC.

Any failure to comply with these rules and regulations regarding human genetic resources management may subject us to fines and other legal or administrative sanctions. For more details relating to the human genetic resources management, see "Regulatory Overview – Regulation on Pharmaceutical Product Development, Approval and Registration – Clinical Trial Process and Good Clinical Practices – Approval or Filing of Human Genetic Resources".

We and our shareholders face uncertainty relating to PRC laws and regulations relating to the indirect transfer of equity interests in PRC resident enterprises by a non-PRC resident enterprise.

On February 3, 2015, the State Taxation Administration of the PRC (STA) issued the Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-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公告》), or Circular 7, which supersedes certain provisions in the Notice on Strengthening the Administration of Enterprise Income Tax on non-Resident Enterprises (《關於加強非居民企業股權轉讓企業所得稅管理的通知》), or Circular 698, which was previously issued by the STA on December 10, 2009, as well as certain other rules providing clarification on Circular 698. Circular 7 provides comprehensive guidelines relating to, and heightened the PRC tax authorities' scrutiny over, indirect transfers by a non-resident enterprise of assets (including equity interests) of a PRC resident enterprise, or PRC Taxable Assets.

For example, Circular 7 specifies that when a non-resident enterprise transfers PRC Taxable Assets indirectly by disposing of equity interests in an overseas holding company which directly or indirectly holds such PRC Taxable Assets, the PRC tax authorities are entitled to reclassify the nature of an indirect transfer of PRC Taxable Assets by disregarding the existence of such overseas holding company and considering the transaction to be a direct transfer of PRC Taxable Assets, if such transfer is deemed to have been conducted for the purposes of avoiding PRC enterprise income taxes and without any other reasonable commercial purpose.

Except as provided in Circular 7, transfers of PRC Taxable Assets under the following circumstances shall be automatically deemed as having no reasonable commercial purpose, and are subject to PRC enterprise income tax: (i) more than 75% of the value of the equity interest of the overseas enterprise is directly or indirectly attributable to the PRC Taxable Assets; (ii) more than 90% of the total assets (cash excluded) of the overseas enterprise are directly or indirectly composed of investment in China at any time during the year prior to the indirect transfer of PRC Taxable Assets, or more than 90% of the income of the overseas enterprise is directly or indirectly from China during the year prior to the indirect transfer of PRC Taxable Assets; (iii) the overseas enterprise and its subsidiaries directly or indirectly hold PRC Taxable Assets and have registered with the relevant authorities in the host countries (regions) in order to meet the local legal requirements in relation to organization forms, yet prove to be inadequate in their ability to perform their intended functions and withstand risks as their alleged organization forms suggest; or (iv) the income tax from the indirect transfer of PRC Taxable Assets payable abroad is lower than the income tax in China that may be imposed on the direct transfer of such PRC Taxable Assets.

Circular 7 contains certain exemptions, including (i) the Public Market Safe Harbor described below; and (ii) where there is an indirect transfer of PRC Taxable Assets, but if the non-resident enterprise had directly held and disposed of such PRC Taxable Assets, the income from the transfer would have been exempted from enterprise income tax in the PRC under an applicable tax treaty or arrangement. However, it remains unclear whether any exemptions

under Circular 7 will be applicable to the transfer of our Shares that do not qualify for the Public Market Safe Harbor or to any future acquisition by us outside of the PRC involving PRC Taxable Assets, or whether the PRC tax authorities will reclassify such transactions by applying Circular 7. Therefore, the PRC tax authorities may deem any transfer of our Shares that do not qualify for the Public Market Safe Harbor by our Shareholders that are non-resident enterprises, or any future acquisition by us outside of the PRC involving PRC Taxable Assets, to be subject to the foregoing regulations, which may subject our Shareholders or us to additional PRC tax reporting obligations or tax liabilities.

Provisions of Circular 7, which impose PRC tax liabilities and reporting obligations, do not apply to "non-resident enterprise acquiring and disposing of the equity interests of the same offshore listed company in a public market," or the Public Market Safe Harbor, which is determined by whether the parties, number and price of the shares acquired and disposed are not previously agreed upon, but determined in accordance with general trading rules in the public securities markets, according to one implementing rule for Circular 698. In general, transfers of the Shares by Shareholders on the Stock Exchange or other public market would not be subject to the PRC tax liabilities and reporting obligations imposed under the Circular 7 if the transfers fall under the Public Market Safe Harbor. As stated in "Information about this Document and the [**REDACTED**]" in this Document, potential [**REDACTED**] should consult their professional advisors if they are in any doubt as to the tax implications of subscribing for, purchasing, holding, disposing of and dealing in the Shares.

Under the EIT Law, we may be classified as a "PRC resident enterprise" for PRC income tax purposes, and such classification could result in unfavorable tax consequences to us and our non-PRC shareholders.

Under the EIT Law, an enterprise established outside of China with "de facto management bodies" within China is considered a "resident enterprise," meaning that it can be treated in a manner similar to a Chinese enterprise for PRC enterprise income tax purposes. A tax circular issued by STA on April 22, 2009, or Circular 82, regarding the standards used to classify resident enterprises clarified that dividends and other distributions paid by such resident enterprises which are considered to be PRC source income will be subject to PRC withholding tax, currently at a rate of 10%, when received or recognized by non-PRC resident enterprise shareholders. This circular also subjects such resident enterprises to various reporting requirements with the PRC tax authorities. The implementing rules of the EIT Law define "de facto management bodies" as "management bodies that exercise substantial and overall management and control over the production and operations, personnel, accounting and properties" of the enterprise. In addition, Circular 82 specifies that certain China-invested enterprises controlled by Chinese enterprises or Chinese group enterprises will be classified as resident enterprises if the following are located or resident in China: (i) senior management personnel and departments that are responsible for daily production, operation and management; (ii) financial and personnel decision-making bodies; (iii) key properties, accounting books, company seal and minutes of board meetings and shareholders' meetings; and (iv) half or more of senior management or directors having voting rights. On July 27, 2011, the PRC State Administration of Taxation issued Administrative Measures of Enterprise

Income Tax of Chinese-Controlled Offshore Incorporated Resident Enterprises (Trial), or Bulletin 45, which became effective on September 1, 2011, to provide further guidance on the implementation of Circular 82. Bulletin 45 clarifies certain issues related to determining PRC resident enterprise status, including which competent tax authorities are responsible for determining offshore incorporated PRC resident enterprise status, as well as post-determination administration. Currently, most of the members of our management team are, and the management team of some of our offshore shareholders may be, located in China. However, Circular 82 and Bulletin 45 only apply to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreign corporations like us. In the absence of detailed implementing regulations or other guidance determining that offshore companies controlled by PRC individuals or foreign corporations like us are PRC resident enterprises, we do not currently consider our Company or any of our overseas subsidiaries to be a PRC resident enterprise.

Despite the foregoing, the STA may take the view that the determining criteria set forth in Circular 82 and Bulletin 45 reflect the general position on how the "*de facto* management body" test should be applied in determining the tax resident status of all offshore enterprises. Additional implementing regulations or guidance may be issued determining that our Cayman Islands holding company is a "resident enterprise" for PRC enterprise income tax purposes. If the PRC tax authorities determine that our Cayman Islands holding company or any of our non-PRC subsidiaries is a resident enterprise for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we and our non-PRC subsidiaries may be subject to enterprise income tax at a rate of 25% on our worldwide taxable income, as well as to PRC enterprise income tax reporting obligations. Second, although under the EIT Law and its implementing rules and Bulletin 45 dividends paid by a PRC tax resident enterprise to an offshore incorporated PRC tax resident enterprise controlled by a PRC enterprise or enterprise group would qualify as tax-exempted income, we cannot assure that dividends paid by our PRC subsidiaries to us will not be subject to a 10% withholding tax, as the PRC foreign-exchange control authorities and tax authorities have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes but not controlled by a PRC enterprise or enterprise group like us. Finally, under the EIT Law and its implementing rules issued by PRC tax authorities dividends paid by us to our non-PRC shareholders may be subject to a withholding tax of 10% for non-PRC enterprise shareholders and 20% for non-PRC individual shareholders, and gains recognized by our non-PRC shareholders may be subject to PRC tax of 10% for non-PRC enterprise shareholders and 20% for non-PRC individual shareholders (which in the case of dividends may be withheld at source). Any PRC tax liability on dividends or gain described above may be reduced under applicable tax treaties. However, it is unclear whether, if our Cayman Islands holding company is considered a PRC resident enterprise, non-PRC shareholders would be able to obtain in practice the benefit of income tax treaties entered into between PRC and their countries. Similarly, these unfavorable consequences could apply to our other offshore companies if they are classified as a PRC resident enterprise. Any such tax may reduce the returns on your investment in our Shares.

Government control of currency conversion of and regulations on loans to, and direct investment in, PRC entities by offshore holding companies may delay or prevent us from making loans or additional contributions to our PRC subsidiaries, which could restrict our ability to utilize the [REDACTED] from the [REDACTED] effectively and affect our ability to fund and expand our business.

The PRC government imposes controls on the convertibility of foreign currencies into Renminbi. Under China's existing foreign-exchange regulations, foreign-exchange transactions under capital accounts continue to be subject to significant foreign-exchange controls and require the registration with, and approval of, PRC governmental authorities. In particular, if one subsidiary receives foreign-currency loans from us or other foreign lenders, these loans must be registered with SAFE or its local counterparts. If we finance such subsidiary by means of additional capital contributions, these capital contributions must be filed with or approved by certain government authorities, including the MOFCOM or its local counterparts and the State Administration for Industry and Commerce (now known as the State Administration for Market Regulation ("**SAMR**")) through the Enterprise Registration System (企業登記系統) and the National Enterprise Credit Information Publicity System (國家企業信用信息公示系統) and the SAFE.

On March 30, 2015, SAFE released the Notice on the Reform of the Management Method for the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》), or SAFE Circular 19, which came into force from June 1, 2015. On June 9, 2016, SAFE further promulgated the Circular on the Reform and Standardization of the Management Policy of the Settlement of Capital Projects (《關於改革和規範資本項目結匯管理政策的通知》), or SAFE Circular 16. SAFE Circular 19 has made certain adjustments to some regulatory requirements on the settlement of foreign exchange capital of foreign-invested enterprises. Under SAFE Circular 19 and SAFE Circular 16, the settlement of foreign exchange by foreign invested enterprises shall be governed by the policy of foreign exchange settlement on a discretionary basis. However, SAFE Circular 19 and SAFE Circular 16 also reiterate that the settlement of foreign exchange shall only be used for its own operation purposes within the business scope of the foreign invested enterprises and following the principles of authenticity. For example, under SAFE Circular 19 and SAFE Circular 16, we may still not be allowed to convert foreign-currency-registered capital of our PRC subsidiaries which are foreign-invested enterprises into RMB capital for securities investments or other finance and investment except for principal-guaranteed bank products. Further, SAFE Circular 19 and SAFE Circular 16 restrict a foreign-invested enterprise from using Renminbi converted from its registered capital to provide loans to a its non-affiliated company. On October 23, 2019, SAFE released the Circular on Further Promoting Cross-border Trade and Investment Facilitation (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》), or SAFE Circular 28, according to which non-investment foreign-invested enterprises are permitted to make domestic equity investments with their capital funds provided that such investments do not violate the Negative List and the target investment projects are genuine and in compliance with laws. On April 10, 2020, SAFE promulgated the Circular on Optimizing Administration of Foreign Exchange to Support the Development of Foreign-related Business (《關於優化外匯管理支持涉外業務發展的通知》),

or SAFE Circular 8, eligible enterprises are allowed to make domestic payments by using their capital funds, foreign loans and the income under capital accounts of overseas listing, without providing evidentiary materials concerning authenticity of each expenditure, provided that their capital use shall be authentic and in line with provisions, and conform to the prevailing administrative regulations on the use of income under capital accounts. Considering that SAFE Circular 28 and SAFE Circular 8 are often principle-oriented and subject to the detailed interpretations by the enforcement bodies to further apply and enforce such laws and regulations in practice, it is unclear how they will be implemented, and there exist substantial uncertainties with respect to its interpretation and implementation by government authorities and banks.

Violations of SAFE Circular 19 and SAFE Circular 16 could result in severe monetary or other penalties. We cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our PRC subsidiaries, and conversion of such loans or capital contributions into Renminbi. If we fail to complete such registrations or obtain such approvals, our ability to capitalize or otherwise fund our PRC operations may be negatively affected, which could adversely affect our ability to fund and expand our business.

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

The Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors (《關於外國投資者併購境內企業的規定》), or the M&A Rules, and relevant regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. The M&A Rules require that the Ministry of Commerce, or the MOFCOM, be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, if (i) any important industry is concerned, (ii) such transaction involves factors that have or may have an impact on the 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. The approval from MOFCOM shall be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies.

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, or NPC, which became effective in August 2008, requires that when a concentration of undertakings occurs and reaches statutory thresholds, the undertakings concerned shall file a prior notification with MOFCOM. Without the clearance from MOFCOM, no concentration of undertakings shall be implemented and effected. Mergers, acquisitions or contractual arrangements that allow one market player to take control of or to exert decisive impact on another market player must also be notified in advance to the MOFCOM when the threshold under the Provisions on Thresholds for Prior

Notification of Concentrations of Undertakings (《關於經營者集中申報標準的規定》) or the Prior Notification Rules, issued by the State Council in August 2008 is triggered. If such prior notification is not obtained, MOFCOM may order the concentration to cease its operations, dispose of shares or assets, transfer the business of the concentration within a time limit, take any other necessary measures to restore the situation as it was before the concentration, and may impose administrative fines. SAMR becomes the successive authority of MOFCOM with regard to the above matters, upon the government reorganization in March 2018.

In addition, the Implementing Rules Concerning Security Review on the Mergers and Acquisitions by Foreign Investors of Domestic Enterprises, issued by the MOFCOM in August 2011, specify that mergers and acquisitions by foreign investors relating to national security are subject to strict review by the MOFCOM, and prohibit any activities attempting to bypass such security review, including by structuring the transaction through a proxy or contractual control arrangement. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the abovementioned regulations and other relevant rules to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the MOFCOM or its local counterparts may delay or inhibit our ability to complete such transactions.

We cannot preclude the possibility that the MOFCOM or other government agencies may publish explanations contrary to our understanding or broaden the scope of such security reviews in the future, in which case our future acquisitions in the PRC, including those by way of entering into contractual control arrangements with target entities, may be closely scrutinized or prohibited. Our ability to expand our business or maintain or expand our market share through future acquisitions would as such be materially and adversely affected.

Failure to comply with relevant regulations relating to social insurance and the housing provident fund may subject us to penalties and adversely affect our business, financial condition, results of operations and prospects.

Pursuant to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) and the Regulations on the Administration of Housing Provident Funds (《住房公積金管理條例》), we are required to make contributions to the social insurance plans and the housing provident fund under the relevant PRC laws and regulations for our employees. For more details relating to these relevant laws and regulations, see the paragraph headed "Regulatory Overview – Regulations on Labor" in this Document.

During the Track Record Period, we engaged third-party human resource agency to pay social insurance premium and housing provident funds for seven of our employees. Pursuant to the agreement entered into between such third-party human resources agency and us, the third-party human resources agency have the obligation to pay social insurance premium and housing provident funds for our relevant employees on behalf of us. As of the Latest Practicable Date, we had not received any administrative penalty or labor arbitration application from employees for its agency arrangement with third-party human resources agency. These seven employees have never pursued any claims against us with the competent

authorities. As advised by our PRC Legal Advisor, considering the facts stated above, the risk of us being subject to material penalties as a result of paying the social insurance premium or housing provident funds through third-party agency and thus have any material adverse effect on our financial condition or results of operations taken as a whole is relatively low. However, if the local governments determine the use of third-party agency to pay social insurance and housing provident funds to be non-compliant in the future or such human resource agency fail to pay the social insurance premium or housing provident funds for and on behalf of our employees as required by applicable PRC laws and regulations, we may be subject to additional contribution, late payment fee and/or penalties imposed by the relevant PRC authorities for failing to discharge our obligations in relation to payment of social insurance and housing provident funds as an employer or be ordered to rectify. This in turn may adversely affect our financial condition and results of operations.

We have enhanced our internal control measures requiring social insurance and housing provident fund contributions to be made in compliance with relevant PRC laws and regulations in all material aspects. In particular, we plan to regularly review and monitor the reporting and contributions of social insurance and housing provident fund and consult our PRC legal counsel on a regular basis to keep us abreast of relevant regulatory developments.

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

During the Track Record Period, we have formed partnerships with entities in foreign countries and regions and initiated or plan to initiate clinical trials, in other countries and regions. Establishing new collaboration partnerships globally is key to our future growth. Our business is therefore subject to constantly changing international economic, regulatory, social and political conditions, and local conditions in those foreign countries and regions. As a result, China's political relationships with those foreign countries and regions may affect the prospects of maintaining existing or establishing new collaboration partnerships.

There can be no assurance that such collaborators or business partners will not alter their perception of us or their preferences as a result of adverse changes to the state of political relationships between China and the relevant foreign countries or regions. Since mid-2018, political tension has increased between China and the U.S. There can be no assurance that potential collaboration partners will not alter their perception of us or their preferences as a result of such adverse changes between China and relevant foreign countries or regions. Any 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. It also remains unclear what actions, if any, the U.S. government will take with respect to other existing international trade agreements. If the U.S. were to withdraw from or materially modify certain international trade agreements to which it is a party, especially with respect to intellectual properties transfer, our business, financial condition and results of operations could be negatively impacted.

RISKS RELATING TO THE [REDACTED]

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

No public market currently exists for our Shares. The initial [**REDACTED**] for our Shares to the public will be the result of negotiations between our Company and the [**REDACTED**] (on behalf of the [**REDACTED**]), and the [**REDACTED**] may differ significantly from the [**REDACTED**] of the Shares following the [**REDACTED**]. We have applied to the Stock Exchange for the [**REDACTED**] of, and permission to deal in, the Shares.

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

The price and [**REDACTED**] of our Shares may be subject to significant volatility in response to various factors beyond our control, including the general market conditions of the securities in Hong Kong and elsewhere in the world. In particular, the business and performance and the [**REDACTED**] of the shares of other companies engaging in similar business may affect the price and [**REDACTED**] of our Shares. In addition to market and industry factors, the price and [**REDACTED**] of our Shares may be highly volatile for specific business reasons, such as the results of clinical trials of our product candidates, the results of our applications for approval of our product candidates, regulatory developments affecting the broader dermatology treatment and care industry, healthcare, health insurance and other related matters, fluctuations in our revenue, earnings, cash flows, investments and expenditures, relationships with our distributors and suppliers, movements or activities of key personnel, or actions taken by competitors. Moreover, shares of other companies listed on the Stock Exchange with significant operations and assets in China have experienced price volatility in the past, and it is possible that our Shares may be subject to changes in price not directly related to our performance.

There will be a gap of several days between pricing and trading of our Shares, and the price of our Shares when trading 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 trading on the Stock Exchange until they are delivered, which is expected to be five Business Days after the [**REDACTED**]. As a result, [**REDACTED**] may not be able to sell or otherwise deal in the Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of the Shares when trading begins could be lower than the [**REDACTED**] as a result of adverse market conditions or other adverse developments that may occur between the time of sale and the time trading begins.

Future sales or perceived sales of our Shares in the public market by our Shareholders following the [REDACTED] could materially and adversely affect the price of our Shares.

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

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

The [**REDACTED**] of the [**REDACTED**] is higher than the net tangible asset value per Share immediately prior to the [**REDACTED**]. Therefore, purchasers of the [**REDACTED**] in the [**REDACTED**] will experience an immediate dilution in [**REDACTED**] net tangible asset value. In order to expand our business, we may consider [**REDACTED**] and issuing additional Shares in the future. Purchasers of the [**REDACTED**] may experience dilution in the net tangible asset value per share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible asset value per Share at that time. Furthermore, we may issue Shares pursuant to the share incentive schemes, which would further dilute Shareholders' interests in our Company.

We do not expect to pay dividends in the foreseeable future after the [REDACTED].

We currently intend to retain most, if not all, of our available funds and any future earnings after the [**REDACTED**] to fund the development and commercialization of our products and product candidates. As a result, we do not expect to pay any cash dividends in the foreseeable future. Therefore, you should not rely on an [**REDACTED**] in our Shares as a source for any future dividend income.

Our Board has complete discretion as to whether to distribute dividends. Even if our Board decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions (if any) received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our Board. Accordingly, the return on your [**REDACTED**] in our Shares will likely depend entirely upon any future price appreciation of our Shares. There is no guarantee that our Shares will

appreciate in value after the [**REDACTED**] or even maintain the price at which you purchased the Shares. You may not realize a return on your [**REDACTED**] in our Shares and you may even lose your entire [**REDACTED**] in our Shares.

Our Controlling Shareholders have had and will continue to have substantial influence over the outcome of shareholder actions in our Company. The interests of our Controlling Shareholders may not be aligned with the interests of our other Shareholders.

Upon completion of the [**REDACTED**], the Controlling Shareholders will hold [**REDACTED**]% of our total issued and outstanding Shares (assuming that all of the Preferred Shares have been converted into the Shares on a one-to-one basis and the [**REDACTED**] is not exercised). As a result, the Controlling Shareholders, will have significant influence over our business, including decisions regarding mergers, consolidations, liquidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions.

They may take actions that are not in the best interest of us or our other Shareholders. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could have the effect of depriving our other Shareholders of the opportunity to receive a premium for their shares as part of a sale of our company and may reduce the price of the Shares. This concentrated control will limit your ability to influence corporate matters and could discourage others from pursuing any potential merger, takeover or other change of control transactions that other holders of our ordinary shares may view as beneficial.

We are a Cayman Islands 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 more details, see "Summary of the Constitution of our Company and Cayman Companies Act" in Appendix III in this Document.

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

Fluctuations in exchange rates could result in foreign currency exchange losses and could materially reduce the value of your [REDACTED].

The change in the value of RMB against the Hong Kong dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions and China's foreign exchange policies. Substantially all of our costs are denominated in RMB and the U.S. dollars, most of our assets are cash and cash equivalents primarily denominated in RMB and the U.S. dollars, and our [**REDACTED**] from the [**REDACTED**] will be denominated in Hong Kong dollars. Any significant change in the exchange rates of the Hong Kong dollar against RMB or U.S. dollars against RMB may materially and adversely affect the value of and any dividends payable on, our Shares in Hong Kong dollars.

Facts, forecasts and statistics in this Document relating to the broader dermatology treatment and care industry may not be fully reliable.

Facts, forecasts and statistics in this Document relating to the industry in and outside China are obtained from various sources that we believe are reliable, including official government publications as well as a report prepared by Frost & Sullivan that we commissioned. We believe that the sources of such information is appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Joint Sponsors, the [**REDACTED**] or any other party involved in the [**REDACTED**] and no representation is given as to its accuracy.

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

Subsequent to the date of this Document but prior to the completion of the [**REDACTED**], there may be press and media coverage regarding us and the [**REDACTED**], which may contain, among other things, certain financial information, projections, valuations and other forward-looking information about us and the [**REDACTED**]. We have not authorized the disclosure of any such information in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this

Document, we disclaim responsibility for them. Accordingly, prospective [**REDACTED**] are cautioned to make their [**REDACTED**] decisions on the basis of the information contained in this Document only and should not rely on any other information.

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