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## RISK FACTORS

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*[REDACTED] should read and consider carefully all the information set out in this document, and, in particular, should evaluate the following risks and uncertainties before deciding to make any [REDACTED] in our [REDACTED]. You should pay particular attention to the fact that we conduct our operations in China, the legal and regulatory environment of which in some respects may differ from that in Hong Kong. Any of the risks and uncertainties listed below could have a material adverse effect on our business, results of operations, financial condition or on the [REDACTED] of our [REDACTED] and could cause you to lose all or part of your investment.*

### RISKS RELATING TO OUR BUSINESS

**Any damage to our brand or reputation may materially and adversely affect our business and results of operations.**

Our business relies on consumers’ recognition of and their trust in our brand. Our brand and reputation may be damaged by distributors’ improper conduct, counterfeit of our products, product defects, product liability claims, consumer complaints, negative rumors, negative media coverage or any other form of negative publicity. In particular, we engage distributors to distribute our products and authorize them to use our brand name and images in their course of sales for our products. In 2022, the revenue generated from our distributors, both online and offline, as a percentage of our total revenue was 28.5%. Any improper conduct of our distributors may materially and adversely affect our business and results of operations. In addition, we have established ourselves as the leader in China’s EBN industry. Counterfeiters may illegally manufacture and market EBN products under our brand. The occurrence of such incidents may have a negative impact on our reputation and brands.

Publicity about our business creates the possibility of heightened attention from the public, the regulators and the media. Heightened regulatory and public concerns over customer protection and customer safety issues may subject us to additional legal and social responsibilities and increased scrutiny and negative publicity over these issues, due to our large number of transactions and continued business expansion. Any negative report regarding our business, profitability, financial condition and results of operations, regardless of its truthfulness, could damage our brand image and severely affect the sales of our products and possibly lead to product liability claims, litigations or damages. In addition, improper behaviors or statements of our spokespersons, endorsers and other celebrities we have cooperated with, and our employees may result in substantial harm to our brand, reputation and operations. There is no assurance that we would not become a target for regulatory or public scrutiny in the future or that scrutiny and public exposure would not severely damage our reputation as well as our business and prospects.

**Any failure to successfully upgrade our existing products or to develop, launch and promote new products may adversely affect our business development plans and profitability.**

The choices and preferences of consumers may be influenced by new products that appear in the market. To support our product upgrade and expansion plans, we need to devote significant resources in researching and developing our products and recruiting production and marketing professionals as well as selecting raw material and packaging material suppliers that are appropriate for our products. All these tasks require substantial planning, effective execution, significant expenditures, and as a result, we face the risk of wasting all such resources without yielding desirable results. We cannot assure you that our upgraded or new products will be able to generate positive cash flows or become profitable within a short period of time or at all. If we fail to bring upgraded or new products to the market in a cost-effective manner, our profitability, results of operations and business prospects may be adversely affected.

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**We may not be successful in further increasing sales revenue from our online channels or may fail to manage the coordination of our offline and online channels, both of which could adversely affect our results of operations.**

Our revenue generated from sales made through our online channels experienced increases during the Track Record Period. Our online sales network consists of self-operated online stores, distributor-operated online stores, and e-commerce platforms. As of December 31, 2022, we had 23 self-operated online stores and 13 distributor-operated online stores on mainstream e-commerce or social media platforms such as JD.com, Tmall and Douyin. In addition, we began to engage e-commerce platforms to distribute our products through platform-operated online stores in 2018 to further expand our online presence. As of December 31, 2022, we had acquired 11 e-commerce platforms as our customers, including JD.com, Vipshop and Tmall Supermarket, among others. In 2020, 2021 and 2022, the revenue generated from sales made through our online channels accounted for 55.5%, 51.0% and 54.2% of our total revenue in the same years, respectively. However, as online and social media platforms continue to grow in popularity, any significant growth in our sales through online channels in the future may give rise to competition between offline and online channels. If we fail to balance the marketing efforts or optimize product mix and pricing strategies among our online and offline channels, or otherwise fail to effectively manage the integration of these channels, the competition among these channels may adversely affect our business, financial condition and results of operations.

We expect to further enhance our online strategies and increase sales revenue from our online channels. However, we may not be able to maintain a high growth rate of our online sales. If we fail to manage the continuous development of our online sales, our business, financial condition and results of operations may be adversely affected. In addition, we may incur additional expenses in connection with service fees that we are contractually required to pay to the relevant parties in order to continue using their e-commerce platforms, which in turn may have a material adverse impact on our results of operations and profitability.

Our results of operations could also be affected by our online brand marketing and advertising activities. If our online marketing and advertising activities do not continue to be successful, our business and operating results may be materially and adversely affected. In addition, we believe marketing trends in China are evolving, which requires us to experiment with new sales channels to keep pace with industry developments and consumer preferences. Moreover, as we continue to make efforts in this regard, we expect our operational and marketing expenses relating to cooperation with new channels to continue to increase.

**We depend on sales to our distributors for considerable amount of our revenue, and distributors are expected to remain important in our sales network. If distributors are not able to operate successfully or we fail to maintain good relationships with such distributors, our business, financial condition and results of operations could be materially and adversely affected.**

Our distributors are important to our business. As of December 31, 2020, 2021 and 2022, there were 161, 203 and 238 distributors in our distribution network, respectively. In 2020, 2021 and 2022, revenue generated from our distributors accounted for 32.3%, 34.8% and 28.5% of our total revenue, respectively. Despite the majority of our revenue was generated from direct sales to retail customers during the Track Record Period, we expect that distributorship will remain an important component of our sales network.

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Our distributors may not be able to market and sell our products successfully or maintain their competitiveness as a result of various factors. For example, our offline distributors may not be able to find suitable locations to operate distributor-operated stores, and they may not be able to renew their leasing contracts with lessors upon expiration, both of which may adversely affect our offline distributors' operations and competitiveness. In addition, our online distributors may not be able to successfully organize online marketing campaigns or promotional events that achieve desired results. If the sales volumes of our products to consumers are not maintained at a satisfactory level, our distributors may not place orders for new products with us, or they may reduce orders or request discounts on the purchase price. The loss of our distributors, or reduced orders from them, could adversely affect our access to consumers and our sales volume and revenue.

Although we require our distributors to comply with their distribution agreements with us, non-compliance with the distribution agreements by any of our distributors could disrupt our sales and may even affect our results of operations. We also could be liable for damages or fines due to defects or spoilage on the products marketed and sold by our distributors, which may have an adverse effect on our financial condition.

If we fail to successfully maintain our relationships with a significant number of distributors or our distributors fail to operate successfully, our ability to effectively sell our products could be negatively impacted. These and similar actions could also negatively affect our corporate and product image, which could result in loss of customers and a decline in sales. In addition, distributors selling the same products at uniform retail prices may result in marketing overlaps, cannibalization or even competition among these distributors. We cannot assure you that the expansion of our sales network will continue to be successful or will generate income as expected.

**Fluctuations in prices and changes in the quality of raw materials and packaging materials could materially and adversely affect our profitability and results of operations.**

Our ability to control our costs, in part, depends on our ability to secure raw nests, our primary raw materials, from Indonesia, and packaging materials, that meet our quality standards at reasonable prices. Our packaging materials primarily consist of polypropylene bowls (an FDA-approved food contact plastic), glass bottles, cardboard, and metal packaging materials. The cost of raw materials accounted for 76.7%, 79.3% and 77.3% of our total cost of sales in 2020, 2021 and 2022, respectively. Going forward, we expect our cost of raw materials to continue to account for a large portion of our cost of sales.

The procurement price of raw nests and packaging materials could be volatile due to a variety of factors beyond our control. The price of raw nests and packaging materials may be affected by factors such as the global and PRC economic condition, relevant government regulations and policies, and changes in supply and demand. In particular, the supply of raw nests from Indonesia may be negatively affected by factors such as adverse climate conditions and relationship between Indonesia and China.

We rely on suppliers to supply raw nests and packaging materials that meet our quality standards. We may fail to ensure the comprehensiveness and effectiveness of their quality control systems. Although we conduct sampling inspection for raw nests and packaging materials after they are delivered to us by suppliers, we cannot assure you that we will be able to detect all quality defects in a timely manner.

Any increase in the prices of raw nests and packaging materials may cause us to adjust our product prices upward, which could in turn reduce the competitiveness of our products. In cases where raw nests and packaging materials prices increase, and we choose not to increase the price of our products to maintain competitiveness despite the increases in costs, it would render us unable to pass on such costs to our customers and adversely affect our profitability.

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**We do not conduct any swiftlet farming and primarily depend on suppliers in Southeast Asia, particularly Indonesia, for raw nests. If we are not able to source adequate raw nests from suppliers in Southeast Asia or fail to maintain good relationships with such suppliers, our business, financial condition and results of operations could be materially and adversely affected.**

Suppliers in Southeast Asia, particularly Indonesia, that conduct swiftlet farming, which involves the creation and maintenance of man-made structures suitable for swiftlets to nest, to create and harvest raw nests are crucial to our business. We source substantially all of raw nests as primary raw materials for our products from them. In 2022, more than 52% of our purchase amount of raw nests were attributable to suppliers with over five years’ business relationship with us. However, if we fail to successfully maintain our business relationships with a significant number of suppliers for raw nests, or our suppliers are prohibited from or are not able to supply raw nests to us due to regulatory measures or administrative penalties imposed on them by the relevant authorities in Southeast Asian countries or China, or we fail to secure alternative suppliers, our ability to effectively produce our products could be negatively impacted. In addition, the customs clearance procedures for importing raw nests could be lengthy and may adversely affect the timely supply of such raw materials for our EBN products. If we encounter lengthy customs clearance for imported raw nests, we may experience delays in the production of our products. Potential trade or regulatory embargoes imposed either by Southeast Asian countries or China could result in delays or shortages of the supply for raw nests. If we are not able to source adequate raw nests, our business, financial condition and results of operations could be materially and adversely affected.

**Any failure to manage our inventory effectively would materially and adversely affect our results of operations, financial condition and cash flows.**

As of December 31, 2020, 2021 and 2022, we had inventories of RMB277.0 million, RMB279.7 million and RMB271.8 million, respectively. In 2020, 2021 and 2022, our inventory turnover days were 91.2 days, 130.2 days and 118.2 days, respectively. Our business relies on consumer demand for our products, which in turn depends substantially on factors such as consumers’ spending patterns, preferences and tastes, income, perceptions of and confidence in our product quality and food safety, and awareness of healthy lifestyle. Any change in consumer demand for our products or the occurrences of catastrophic events may have an adverse impact on our product sales, which may lead to inventory obsolescence, decline in inventory value or inventory write-off.

In addition, maintaining a certain amount of inventory also exposes us to the risk of inventory loss. As we have not purchased inventory insurance in full, in the event of natural disasters or other accidents such as fires caused by our employees or third parties, we may not be able to obtain sufficient compensation from the insurance company to cover our losses. At the same time, taking legal actions, such as filing a lawsuit, against such employees or third parties may divert our management’s attention from our business.

Furthermore, as we will not be able to recoup our cash paid for raw materials and packaging materials during the production process until the finished products are sold to our customers, and the purchase price is settled, our business is subject to significant working capital requirements given our considerable inventory level and inventory turnover days. If our inventory level increases substantially in the future, our financial condition and cash flows could be materially and adversely affected.

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**Our distributors may not be able to manage their inventory level effectively and we may not be able to accurately track their sales and inventory level, which could cause us to incorrectly predict sales trends and may damage the stability of our distribution network.**

Failure to manage inventory level may strain our distributors' financial resources and impair their liquidity, which may lead to their reluctance or inability to purchase new products from us. If they experience decreased profitability or suffer losses as a result, they may quit our distribution network. Also, distributors may, with or without any merit, blame their slow turnover on us, harming our relationship with such distributors and potentially damaging our reputation among distributors. If any of such incident happens to our distributors, the stability of our distribution network may be severely impaired, and our business, financial condition and results of operations may be materially and adversely affected. In addition, we may not be able to accurately track their sales and inventory level. This could in turn lead to our inability to correctly predict sales trends and accurately forecast customer demand, resulting in excess inventory levels or a shortage of products. There can be no assurance that we will be able to successfully manage our inventory at a level appropriate for future customer demand.

**Any product quality and safety issue could materially and adversely affect our results of operations.**

We believe that the quality of our products is critical to our success. Our quality control systems primarily consist of quality control measures for raw materials and packaging materials, production process, inventory storage, and delivery and sales. See "Business—Production—Production Process" and "—Quality Control." The effectiveness of our quality control systems depends on a number of factors, including the design of our quality control systems and our ability to ensure that our employees comply with our quality control policies and procedures. Although the value of the returned products was insignificant compared to our total revenue during the Track Record Period, we cannot assure you that the design of our quality control systems will be effective at all times. We also cannot assure you that all our employees will always comply with the quality control policies and will not make any mistakes when executing quality control procedures. In addition to risks associated with the processing and labeling of our products, certain third parties, such as (1) suppliers of raw materials and packaging materials, (2) logistics service providers, and (3) distributors, could also affect the quality of our products or lead to inventory obsolescence if these third parties fail to provide raw materials, packaging materials or services to us with satisfactory quality.

Any product quality issue resulted from failure of our quality control systems or other reasons could expose us to product liability claims, negative publicity, government scrutiny, investigation or intervention, administrative actions and product recalls or returns, which could materially and adversely affect our brand, reputation, results of operations, financial condition and business prospects.

**Incidents involving food-related illnesses, tampering, adulteration, contamination or mislabeling, whether or not accurate, as well as adverse public or medical opinions about the health effects of consuming our products, could harm our business. Any quality related issues for the EBN industry in general could also adversely affect our business and reputation.**

Instances or reports, whether true or not, of food-safety issues, such as illnesses, tampering, adulteration, contamination or mislabeling, either during manufacturing, packaging, transportation, storing or preparation, employee hygiene and cleanliness failures or improper employee conduct, have in the past severely injured the reputations of companies in the food sector. Other enterprises in the EBN industry may experience problems related to product quality and safety due to the quality standards they implement, quality defect, and inadequate compliance with and enforcement of inspection procedures under the food safety regulations. While we may not be involved in any of these events, any report linking us to such instances could cause consumers to be doubtful or fearful and could possibly lead to product liability claims, litigation and/or temporary store closures, severely hurting our sales. In addition,

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instances of food or beverage-safety issues, even those involving solely the stores of competitors or distributors (regardless of whether those distributors are associated with us), could, by resulting in negative publicity about us, the EBN industry or the food industry in general, adversely affect our sales on a regional, national or global basis. A decrease in consumer traffic as a result of food-safety concerns or negative publicity, or as a result of a temporary closure of any of our stores, product recalls or food safety claims or litigation, could materially harm our business and results of operations.

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

Demand for our products is generally sensitive to price. Our approach to pricing our products has had, and may continue to have, a significant impact on our revenue and profit margin. In addition, our competitors’ pricing strategies are beyond our control and could significantly affect the results of our pricing strategies. If we fail to meet our customers’ price expectations, or if we are unable to compete effectively with our competitors when they engage in aggressive pricing strategies and could not effectively adjust our cost structure due to potential downward changes in the prices of our products, it could have a material adverse effect on our business, financial condition and results of operations.

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

We adopt a multi-channel marketing approach that allows us to reach and influence a broad target customer base. Our focus is on maintaining and enhancing brand awareness through professional marketing and branding strategies. We conduct advertising campaigns via traditional channels such as television, radio and billboards. Additionally, we leverage e-commerce and social media platforms to promote our brand and products, collaborating with influencers and implementing targeted marketing campaigns on emerging platforms, such as Douyin and Xiaohongshu. Our marketing efforts also include sponsorship and celebrity endorsements. See “Business—Marketing and Branding.” We may incur considerable selling and distribution expenses for our sales and marketing activities. In 2020, 2021 and 2022, our selling and distribution expenses were RMB317.8 million, RMB399.0 million and RMB503.9 million, respectively, representing 24.4%, 26.5% and 29.1% of our total revenue in the same years, respectively. In the same years, our advertising and promotion fees were RMB236.0 million, RMB269.0 million and RMB326.3 million, respectively, representing 74.3%, 67.4% and 64.8% of our selling and distribution expenses, respectively.

We cannot assure you that our sales and marketing activities will enable us to achieve our sales targets. The effectiveness of sales and marketing activities is relatively difficult to predict and evaluate. Their effects may be delayed, resulting in a delayed revenue growth which may not be fully reflected during the period in which the sales and marketing activities took place. If the results of our sales and marketing activities fail to meet our expectation, or if we fail to conduct the sales and marketing activities as planned, our results of operations, financial condition, market share, brand and reputation may be adversely affected.

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

Our business relies on consumer demand for our products, which depends substantially on factors such as consumers’ spending patterns, preferences and tastes, income, perceptions of and confidence in our product quality and food safety, and awareness of healthy lifestyle. Driven by the growing consumer demand for healthy lifestyle, the increasing disposable income, and the consumption upgrade, the demand for EBN products has been continuously growing. Changes in any of the above factors at any time could result in decline in consumer demand for our products. In particular, consumers’ perceptions of and confidence in our product quality and food safety may significantly affect consumer demand for our products. Any incidents involving food-related illnesses, adulteration, contamination or mislabeling, whether or not accurate, as well as adverse public or medical opinions about the health effects of consuming our products, could negatively affect consumer confidence in our product quality and food safety.

Our business development will depend, in part, on our ability to (1) anticipate, identify or adapt to such changes, (2) introduce new products and adjust marketing strategies in a timely manner, and (3) develop appropriate sales and distribution networks accordingly. Although we dedicate manpower and financial resources to consumer-centric market research and analysis to upgrade our existing products and to develop, design and launch new products, we cannot assure you that our product portfolio will lead or follow the market trends. Any changes in consumer preferences and tastes may impose downward pressure on the sales and pricing of our products or lead to increases in our selling and distribution expenses.

**We rely on our distributors to place our products into the market, and our distributor management may not be as effective as we anticipate. Our offline distributors have the autonomy to further develop his offline sub-distributors within the designated city, over whom we are not able to assert direct control.**

As of December 31, 2022, our distributor sales network consisted of 225 offline distributors and 13 online distributors, covering 615 distributor-operated offline stores and 13 distributor-operated online stores in China. As we believe that distributorship is an important component of our sales network, any one of the following events could cause fluctuations or declines in our revenue and could have an adverse effect on our financial condition and results of operations:

- reduction, delay or cancelation of orders from one or more of our distributors;
- failure to renew distribution agreements and maintain relationships with our existing distributors;
- failure to establish relationships with new distributors on favorable or even standard terms; and
- inability to timely identify and appoint additional or replacement distributors upon the loss of one or more of our distributors.

We may not be able to successfully manage our distributors, and the cost of any consolidation or further expansion of our distributor sales network may exceed the revenue generated from these efforts. There can be no assurance that we will be successful in detecting any non-compliance by our distributors with the provisions of their distribution agreements. Non-compliance by our distributors may, among other things, negatively affect our brand, demand for our products and our relationships with other distributors. Furthermore, if the sales volumes of our products to distributors are not maintained at a satisfactory level, or if distribution orders fail to track end customers’ demand, our distributors may not place orders for new

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products from us or decrease the quantity of their usual orders. If any of our distributors fail to distribute our products to their customers in a timely manner, overstock or carry out actions inconsistent with our business strategies, it may affect our future sales. The occurrence of any of these factors could result in a significant decrease in the sales volume of our products, and therefore, adversely affect our financial condition and results of operations.

During the Track Record Period, our offline distributors have the autonomy to further develop his offline sub-distributors within the designated regions. We cannot assure you that offline sub-distributors will at all times comply with our overall sales and distribution policies or that they will not compete with each other for market share in respect of our products. If any of offline sub-distributors fail to distribute our products to their customers in a timely manner, overstock, or carry out actions inconsistent with our business strategies, it may affect our future sales, which may in turn materially and adversely affect our business, financial condition and results of operations.

**Our historical financial condition and results of operations may not be representative of our future performance. If we are unable to successfully manage our growth, our business and prospects may be materially and adversely affected.**

We experienced rapid expansion during the Track Record Period. Our revenue increased by 15.8% from RMB1,301.2 million in 2020 to RMB1,507.0 million in 2021 and further increased by 14.8% to RMB1,729.9 million in 2022. Our net profit margin in 2020, 2021 and 2022 was 9.5%, 11.4% and 11.9%, respectively. Our significant revenue growth during the Track Record Period was attributable to our continued efforts to grow our business, optimize sales channels, and launch products that cater to the evolving consumer demand. We cannot assure you that the demand for our products will continue to grow at a similar rate in the future due to reasons including market saturation as well as competition from new market participants and alternative products. We also cannot assure you that we will be able to sustain high profitability in the future, which depends on whether we can continue (1) generating a high level of sales revenue; (2) managing effectively the production costs; and (3) managing effectively the costs and expenses associated with operations, sales and marketing. If we fail to effectively manage our growth or sustain our profitability, our business, financial condition and results of operations could be adversely affected.

In addition, as we believe that our business will continue to grow, we will continue to encounter challenges in implementing our managerial, operating and financial strategies to keep up with our growth. The major challenges in managing our business growth include, among other things:

- effectively managing the daily operations of our retail sales network, including our self-operated online stores and self-operated offline stores;
- effectively managing our distribution network expansion;
- controlling costs in a competitive environment;
- continuing to introduce new products and timely upgrade existing products to cater to evolving consumers’ tastes;
- promoting, maintaining and capitalizing on our brand awareness;
- retaining existing customers and attracting new customers;
- remaining competitive in our industry;
- effectively managing our supply chain and ensuring our third-party suppliers continue to meet our quality and other standards and satisfy our future operations’ needs;



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- maintaining and upgrading our technology systems and market analytical capabilities in a cost-effective manner;
- attracting, training and retaining a growing workforce to support our operations;
- implementing a variety of new and upgraded internal systems and procedures as our business continues to grow; and
- ensuring full compliance with relevant laws and regulations.

In particular, we may not be able to effectively manage the daily operations of our self-operated stores to maintain or increase the sales volume of products. For example, each day our self-operated online stores receive a significant number of inquiries from e-commerce consumers, our customer service team may not be always able to efficiently communicate with them and increase customer satisfaction with our brand. In addition, we may not always be able to ship our products in a timely manner, subject to the capacities of our suppliers for logistics and transportation services, especially during certain e-commerce festivals.

Furthermore, we may not be able to effectively manage the expansion of our distribution network. The number and timing of distributor-operated stores opened during any given period are subject to a number of factors, including our distributors' ability to identify suitable locations for opening new stores, secure leases on commercially reasonable terms, obtain adequate funding for store expansion, execute the stores opening process efficiently and obtain all required licenses, permits and approvals for new stores, and our ability to effectively manage supply chain and control product quality, and recruit, train and retain skilled employees, among other things.

Any foregoing factors, either individually or in aggregate, may delay or hinder our plan to increase the number of stores in desirable locations at manageable cost levels. In addition, we may incur additional operating expenses at the store, distributor and headquarters levels as we continue to expand our sales network. If we fail to manage our expansion of stores in a cost-effective manner, our business, results of operations and financial condition may be materially adversely impacted. Furthermore, consumers' demand for our products may not be as strong as we expect to support our business growth, which may result in over-expansion of our sales network. In particular, we plan to expand our offline presence through the addition of both self-operated stores and distributor-operated stores. Although such expansion plan, which we believe will allow us to increase market shares while achieving sustainable profitability in the long term, was determined by our management based on thorough market analysis, we cannot assure you that actual market demands will meet our expectation. If our expansion plan proves to be too aggressive, we may experience a significant decrease in sales of our existing stores, and as a result, our business, results of operation, liquidity and financial condition would be materially adversely impacted.

We also face significant challenges in continuing to introduce new products and timely upgrade existing products to cater to the evolving consumers' tastes. To support our product upgrade and new product launching plans, we need to devote significant resources to researching and developing our products and recruiting production and marketing professionals that are appropriate for our products. We cannot assure you that our upgraded or new products will be able to generate positive cash flows or become profitable within a short period of time or at all. If we fail to bring upgraded or new products to the market in a cost-effective manner, our profitability, results of operations and business prospects may be adversely affected.

All of our efforts to address the challenges of our growth require significant managerial, financial and human resources. We cannot assure you that we will be able to execute managerial, operating and financial strategies to keep up with our growth. If we are not able to manage our growth or execute our strategies effectively, our growth may slow down, and our business and results of operations may be materially and adversely affected.

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**An occurrence of a natural disaster, widespread health epidemic or other outbreaks, such as the outbreak of COVID-19, could have a material adverse effect on the demand for our products and our business operations.**

Our business could be materially and adversely affected by natural disasters, such as snowstorms, earthquakes, fires or floods, the outbreak of a widespread health epidemic or other events, such as wars, acts of terrorism, environmental accidents, power shortage or communication interruptions. The occurrence of such a disaster or prolonged outbreak of an epidemic illness or other adverse public health developments in China or elsewhere, including but not limited to the severe acute respiratory syndrome, or SARS, the H5N1 avian flu, the human swine flu, also known as Influenza A (H1N1), or the novel coronavirus (COVID-19), could materially disrupt our business and operations.

The outbreak of COVID-19, which began in late 2019, has materially and adversely affected the Chinese and global economy. In response to the pandemic, the Chinese government implemented mitigation measures from time to time to contain the spread of the pandemic. During the COVID-19 outbreak, we experienced temporary suspension to our production bases and disruptions to our stores in affected regions from time to time. The COVID-19 outbreak also affected our suppliers for logistics and transportation services. The COVID-19 pandemic may also have the effect of heightening other risks disclosed in this section, including but not limited to those related to: (1) decreased consumer demand for our products, which may be caused by their fear of an economic downturn; (2) decreased offline marketing activities, caused by circumstances beyond our control; (3) disruption of the operations of our business partners, including our logistics service providers and suppliers for raw materials and packaging materials; and (4) increase volatility or significant disruption of global capital markets due in part to the COVID-19 pandemic, which may adversely affect our ability to access capital markets and other funding sources on acceptable terms or at all.

Any future impact caused by the COVID-19 pandemic will depend on its subsequent development. We cannot be entirely certain as to when the COVID-19 pandemic will be fully contained, and its impact will be completely alleviated. There remain significant uncertainties surrounding the COVID-19 outbreak and its further development as a global pandemic, considering the severe global situation and occasional regional resurgence of COVID-19 cases in certain areas in China. We are closely monitoring the development of the COVID-19 pandemic and continually evaluating any potential impact on our business operations.

**We may be subject to liability for placing advertisements with content that is deemed inappropriate or misleading under PRC laws.**

Our advertising materials are produced by our in-house advertising department or relevant third party service providers. PRC laws and regulations prohibit advertising companies from producing, distributing or publishing any advertisement with content that violates PRC laws and regulations, impairs the national dignity of the PRC, involves designs of the PRC national flag, national emblem or national anthem is considered reactionary, obscene, superstitious or absurd, is fraudulent, or disparages similar products. We may also be subject to claims by customers misled by information in our advertisements. If the advertising materials produced by our third-party service providers contain inappropriate or misleading information, we may not be able to recover our losses from such advertisers by enforcing the indemnification provisions in the contracts, which may result us in diverting management's time and other resources from our business and operations to defend against these infringement claims. As a result, our business, financial condition and results of operations could be materially and adversely affected.

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**Any delivery delay, improper handling of goods or increase in transportation costs of our logistic service providers could adversely affect our business and results of operations.**

We engage logistics service providers to transport products to our customers, including direct sale customers, distributors and e-commerce platform customers. In 2020, 2021 and 2022, our courier fees were RMB38.8 million, RMB37.0 million and RMB40.0 million, respectively, accounting for 5.2%, 4.7% and 4.7% of our cost of sales, respectively. The services provided by our logistics service providers may be suspended or cancelled due to unforeseen events, which could cause interruption to the sales or delivery of our products. In addition, delivery delays may occur for various reasons beyond our control, including improper handling by our logistics service providers, labor disputes or strikes, acts of war or terrorism, outbreaks of epidemics, earthquakes and other natural disasters.

Any improper handling of our products by the logistics service providers could also result in product contamination or damage, which may in turn lead to product recalls, product liabilities, increased costs and damage to our reputation. As such, our business, financial condition and results of operations could be materially and adversely affected.

The transportation costs of our logistics service providers are subject to factors beyond our control, such as the fluctuation in the gasoline price, increases in road tolls and bridge tolls, and changes in transportation regulations. Any increase in the service costs of our logistics service providers may lead to an increase to our logistic expenses, which may in turn negatively affect our results of operations.

**Any natural disaster or other catastrophic event affecting our supply chain management, production process or the demand for our products may materially and adversely affect our business.**

Our ability in supply chain management and efficient manufacturing is critical to our success. Any delay or disruption in our supply chain may adversely affect our ability to perform our contractual obligations to our customers.

Our EBN products are manufactured through a series of sophisticated processes. Problems may arise during the production process for a variety of reasons, including quality defects in raw materials or packaging materials, lack of production conditions or suspension of production due to natural disasters (such as storms, earthquakes, fires and floods) or other catastrophic events (such as explosions, acts of terrorism, wars and outbreaks of epidemics), strikes, power outages, technical or mechanical problems, failure to follow production safety protocols, failure to promptly upgrade equipment and production and operational software systems, and the infection or hacking of such software systems. Any of the above occurrences could impair our business or our suppliers, which would in turn impede our ability to manufacture and deliver our products to our customers in a timely manner.

**Our investment in research and development, including relevant collaborations with third parties, may not generate expected outcomes.**

Our future success, in part, depends on our ability to continue to upgrade our existing products and to develop, design and launch new products, which requires significant human and capital resources. In 2020, 2021 and 2022, our research and development expenses was RMB17.7 million, RMB19.0 million and RMB24.3 million, respectively. We intend to continue to strengthen our research and development capabilities, which can be capital intensive and time consuming. If we are unable to design, develop, manufacture and market new products successfully in a timely manner, our business and results of operations may be adversely affected. While we expect to continue to collaborate with third parties such as academicians, experts and professors from reputable research or education institutions in China, we cannot assure you that such efforts will be successful or that the new products we introduce will achieve widespread market acceptance. If we fail to generate ideal results from our research and development, there may be a waste of capital and human resources, which may adversely affect our business, results of operations and financial condition.

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## RISK FACTORS

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**Any major changes in relation to food safety regulations and relevant policies may affect our business.**

Manufacturers within the EBN industry in China must comply with PRC food safety laws and regulations. These food safety laws and regulations require all enterprises engaged in the production of food and beverages to obtain the food production permits. They also set out safety standards with respect to food and food additives, packaging and containers, information to be disclosed on packaging as well as requirements for food production and sites, facilities and equipment used for the transportation and sale of food. In recent years, the PRC government has been strengthening the supervision of food safety. The revised Food Safety Law of the People’s Republic of China (中華人民共和國食品安全法) and the Regulation on the Implementation of the Food Safety Law of the People’s Republic of China (中華人民共和國食品安全法實施條例) stipulate that businesses engaged in food production should conduct their production and operation activities according to the applicable laws and regulations and food safety standards, establish a comprehensive food safety management system, and take effective measures to prevent and control food safety related risks to ensure the safety of the food produced. This may increase the compliance costs of companies similar to us in China. In the event that the PRC government further makes changes on food safety regulation, our production, sales and distribution costs may increase, and we may be unable to successfully pass on these additional costs to our customers, which could adversely affect our business, results of operations and financial condition.

**We may be exposed to the risk of product infringement.**

We may be exposed to the risk of product infringement. We cannot assure you that there will be no counterfeit or forgery of our products, trademarks or brands in the market. Counterfeiters may illegally manufacture and market EBN products under our brand. Such counterfeit or forged products are usually difficult to be detected or banned in a timely manner. We are also not able to control the quality of these counterfeit or forged products, which may fail to meet relevant health and safety or other laws and regulations and could cause illness or health issues. The occurrence of such incidents may have an impact on our reputation and brand. Our reputation and brand are crucial to our profitability and competitiveness, any damage to our reputation or brand resulting from product infringement may adversely affect our profitability and competitiveness.

**Our investment, maintenance or upgrade regarding our production equipment and facilities, technologies and other equipment related to operations may not be carried out successfully, which may in turn adversely affect our business growth.**

In order to ensure the continuous operation and expansion of our business, we maintain the existing production equipment and facilities, expand the production capacity through upgrading our existing equipment and establishing new production facilities, purchase new production equipment and improve production techniques. In addition, we allocate our human resources and other resources to manage these undertakings. We cannot assure you that such investments, maintenance and upgrades could be carried out successfully, or generate positive cash flows or profitable return within a short period of time. Such investments, maintenance and upgrades may become ineffective or obsolete as a result of updates in technology or industry standards, which could result in a material adverse effect on our business and financial condition.

Our ability to achieve business growth is also subject to a wide range of market, operational and financial risks, including those arising from the competition with existing competitors, changing consumer spending patterns, as well as maintaining our high food safety standards and our relationships with customers. Under the influence of these risks, our investments and upgrades may not be able to generate the expected business growth, which may materially and adversely affect our financial condition and results of operations.

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## RISK FACTORS

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

Our current business performance and future success depend substantially on the abilities and contributions of our senior management members, including Mr. Huang, founder and chairman of our Company, all executive Directors and other key personnel with industry expertise, know-how or experience in areas such as research and development, production, sales, marketing, financial management, human resources or risk management. Any loss of such personnel could materially and adversely affect our ability to sustain and develop our business. Moreover, we cannot assure you that our key personnel will not join a competitor or form a competing business or will follow the terms and conditions of their employment contracts. As competition for talents such as skilled technical personnel and experienced management is fierce in our industry, any loss of key personnel or failure to promptly recruit such personnel for our future business development may adversely affect our business.

**Our performance depends on our ability to maintain good relationship with our employees, and any deterioration in relationships with our employees, shortage of labor or material increase in wages may have an adverse effect on our results of operations.**

Our continued success, in part, depends on our ability to attract, motivate, retain and maintain good relationships with a sufficient number of qualified employees, such as production workers, retail store managers, marketing and sales specialists, and other administrative and management personnel. We cannot assure you that we will be able to recruit or retain a sufficient number of qualified employees for our business or maintain good relationships with them, nor can we assure you that we will not experience any shortage in labor. If there is a high turnover rate of employees and we fail to recruit enough qualified personnel and retain them due to various factors, such as failure to keep up with the rising employee salary levels, we may fail to implement our growth strategies.

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

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

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## RISK FACTORS

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**We, our Directors, management and employees may be subject to litigation and regulatory investigations and proceedings, such as claiming in relation to food safety, commercial, labor, employment, antitrust or securities matters, and may not always be successful in defending ourselves against such claims or proceedings.**

We face potential liability, expenses for legal claims and harm due to our business nature. For example, customers could assert legal claims against us in connection with personal injuries related to food poisoning or tampering. The PRC government, media outlets and public advocacy groups have been increasingly focused on customer protection in recent years. See “Regulatory Overview—Laws and Regulations Relating to Consumer Protection.” Sales of defective products may expose us to liabilities associated with customer protection laws. Sellers may be responsible for compensation on customers’ loss even if the contamination of food is not caused by the sellers. We may also be held liable if our suppliers or other business partners fail to comply with applicable food-safety related rules and regulations. Though we can seek indemnity from the responsible parties, our reputation could still be adversely affected. In addition, our Directors, management and employees may from time to time be subject to litigation and regulatory investigations and proceedings or otherwise face potential liability and expense in relation to commercial, labor, employment, antitrust, securities or other matters, which could adversely affect our reputation and results of operations.

After we become a [REDACTED], we may face additional exposure to claims and lawsuits. These claims could divert management time and attention away from our business and result in significant costs to investigate and defend, regardless of the merits of the claims. In some instances, we may elect or be forced to pay substantial damages if we are unsuccessful in our efforts to defend against these claims, which could harm our business, financial condition and results of operations.

**We may undertake strategic partnerships which may not be successful. If our collaboration with any of our strategic partners is terminated or curtailed, or if we are no longer able to benefit from the business collaborations with our strategic partners, our business may be adversely affected.**

Our business has benefited from our collaborations with our strategic partners in the areas such as online ordering and payment, supply chains and joint marketing. We cannot assure you that such alliances or partnerships will contribute to our business, and we might not be able to maintain our cooperative relationships with our strategic partners and their respective affiliates in the future. If the services provided by these strategic partners become limited, compromised, restricted, curtailed or less effective or become more expensive or unavailable to us for any reason, our business may be materially and adversely affected. To the extent we cannot maintain our cooperative relationships with any of these strategic partners, it may be difficult for us to identify other alternative partners at commercially reasonable terms, which may divert significant management attention from existing business operations and adversely impact our daily operation and customer experience.

**Our employment practices may be adversely impacted under PRC labor-related laws. Implementation of the labor laws and regulations in China may adversely affect our business and results of operation.**

The Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) promulgated the Labor Contract Law of the PRC (中華人民共和國勞動合同法) (the “Labor Contract Law”), which became effective on January 1, 2008 and was amended on December 28, 2012, and the State Council promulgated implementing rules for the Labor Contract Law on September 18, 2008. The Labor Contract Law and the implementing rules impose requirements concerning, among others, the execution of written contracts between employers and employees, the time limits for probationary periods, and the length of employment contracts. The interpretation and implementation of these regulations are still evolving, our employment practices may violate the Labor Contract Law and related regulations and we could be subject to penalties, fines or legal fees as a result. If we are subject to severe penalties or incur significant legal fees in connection with labor law disputes or investigations, our business, financial condition and results of operations may be adversely affected.

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## RISK FACTORS

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

We may be exposed to fraud, bribery, or other misconduct committed by our employees, customers or third parties, which could subject us to financial losses and penalties from governmental authorities. Although our internal control procedures are designed to monitor our operations and ensure overall compliance, our internal control procedures may be unable to identify all non-compliances, suspicious transactions, fraud, corruption or bribery in a timely manner. If such misconduct occurs, we will suffer from negative publicity and reputation damages.

**Any failure to protect our intellectual property rights could undermine our competitive position, and litigation to protect our intellectual property rights may be costly and ineffective.**

We consider our trade secrets, trademarks, trade names, patents and other intellectual property important to our business. From time to time, our intellectual properties may have been infringed by third parties. Preventing intellectual property infringement is difficult, costly and time-consuming, and continued unauthorized use of our intellectual properties by unrelated third parties may damage our reputation and brand image. The measures we take to protect our trademarks, patents, trade secrets and other intellectual property rights may not be adequate to prevent intellectual property infringement by third parties. If we are unable to adequately protect our trademarks, patents, trade secrets and other intellectual property rights, we may lose these rights, our brand image may be harmed, and our competitive position and business may suffer.

**We may face intellectual property infringement claims by third parties, which could disrupt our business, cause substantial legal costs, and damage our reputation.**

We cannot assure you that our products will not infringe any intellectual property rights held by third parties in the future. We may face claims of infringement of third parties’ proprietary rights or claims for indemnification resulting from infringement arising from our products. A third-party individual submitted an application to the National Intellectual Property Administration seeking to invalidate two of our registered trademarks. We received defense notification for such invalidation application in August 2022 and submitted defense materials in December 2022. Our Directors believe such invalidation application is frivolous and without merit, and we are confident in our ability to successfully defend ourselves against this claim, based on the fact that (1) our trademarks disputed by the individual claimant are derived from our original trademark that was registered in 2003, which has been officially recognized and protected as a Well-known Trademark by the State Administration of Industry and Commerce of China since 2011, and the protection of our trademark as a Well-known Trademark has remained uninterrupted; and (2) the individual claimant has had multiple trademarks declared invalid by the China National Intellectual Property Administration or the Beijing Intellectual Property Court, and these invalidated trademarks bear similarities to the trademarks that the claimant alleges we have infringed upon. We cannot assure you, however, that our defense against such invalidation application will be successful or that similar incidents will not occur in the future. In addition, we may be unaware of intellectual property registrations or applications relating to our products or business operations that may give rise to potential infringement claims against us. There may also be technologies licensed to and relied on by us that are subject to infringement or other corresponding allegations or claims by third parties. We are subject to additional risks as a result of the hiring of our current and new employees, especially those that were previously employed by our competitors, who may misappropriate intellectual properties from their former employers.

Parties making infringement claims may be able to obtain an injunction to prevent us from delivering our products or using relevant technology. Intellectual property litigation is expensive and time-consuming and could divert management’s attention from our business. A successful infringement claim against us could, among others things, make us to pay substantial damages, develop non-infringing technology, or enter into royalty or license agreements that may not be available on acceptable terms, if at all, and cease manufacturing, selling or using products that have infringed a third party’s intellectual property rights. Any intellectual property claim or litigation, regardless whether we ultimately win or lose, could damage our reputation and have a material adverse effect on our business, results of operations or financial condition.

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## RISK FACTORS

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

During the Track Record Period, certain of our customers settled their payments with us through third-party payors (the “Third-party Payment Arrangements”). It is relatively common, according to the F&S Report, for EBN product distributors in China to settle their payments through third-party payors to EBN product companies, such as payments for procurement of EBN products. Many small-sized EBN product distributors operated their business in the form of sole proprietorship (個體工商戶), which is a type of organization that typically prefers not to open a separate business bank account but to settle payments through personal bank accounts due to the complexity of using corporate bank accounts. In 2020, 2021 and 2022, the aggregate amount of third-party payments accounted for approximately 5.8%, 3.3% and nil of the total payments we received from all customers, respectively. We have implemented various internal control measures to reduce the proportion of payments received from third-party payors and mitigate the relevant risks and have ceased all Third-party Payment Arrangements since January 1, 2022.

We are subject to various risks relating to such Third-party Payment Arrangements during the Track Record Period, including possible claims from third-party payors for return of funds as they were not contractually indebted to us and possible claims from liquidators of third-party payors. In the event of any claims from third-party payors or their liquidators, or legal proceedings (whether civil or criminal) instituted or brought against us in respect of third-party payments, we will have to spend financial and managerial resources to defend against such claims and legal proceedings, and our financial condition and results of operations may as a result be adversely affected. As advised by our PRC Legal Advisor, our Directors believe that any possible claims arising from such Third-party Payment Arrangements will not have any material adverse effect upon our business and results of operation. In addition, Third-party Payment Arrangements also exposed us to the risk of money laundering, as such arrangements may not be based on genuine business transactions. As further advised by our PRC Legal Advisor, the risk is remote that Third-party Payment Arrangements in 2020 and 2021 involved money laundering.

### **We may not fully recover our deferred tax assets, which may affect our financial positions in the future.**

We had deferred tax assets of RMB4.3 million, RMB16.3 million and RMB36.1 million as of December 31, 2020, 2021 and 2022, respectively. Our deferred tax assets relate to deductible temporary differences between the tax bases of assets and liabilities and their carrying amounts to the extent that the utilization of such differences and losses against future taxable profits is probable. Deferred tax assets also arise from unused tax losses and unused tax credits. This requires significant judgment on the tax treatments of transactions and an assessment of the probability that adequate future taxable profits will be available for the deferred tax assets to be utilized. The carrying amount of deferred income tax assets is reviewed at the end of each period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. We cannot guarantee we can recover or predict the movement of our deferred tax assets. Failure to recover deferred tax assets may adversely affect our financial position in the future. See Note 29(b) to the Accountants’ Report in Appendix I to this document for details of our deferred tax assets during the Track Record Period.

### **Our failure to recover a significant portion of our trade receivables in a timely manner may have a material adverse effect on our business, results of operations and financial condition.**

We generate trade receivables in the ordinary course of business. Our trade receivables primarily consist of receivables due from third parties in connection with their purchases of our EBN products. For offline distributors, we require them to make payment before the delivery of our products. We may provide short-term payment period for certain offline distributors with excellent qualifications and stable business relationships with us. For online distributors, we generally deliver our products after receiving the orders



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from e-commerce consumers who have made the payments online and settle full payments with online distributors on a monthly basis for such orders. For e-commerce platform customers, we settle payment with them according to respective cooperation agreements with such customers and typically have an agreed payment cycle of 60 days. As of December 31, 2020, 2021 and 2022, our trade receivables was RMB24.4 million, RMB39.7 million and RMB67.0 million, respectively. In the event that our trade receivables increase significantly, and we fail to collect these receivables in a timely manner, our financial condition and business operations may be materially and adversely affected. See “Financial Information—Discussion of Certain Items from the Consolidated Statements of Financial Position—Trade and Other Receivables.”

**If we fail to perform our contractual obligation, our liquidity and financial positions may be materially and adversely affected in the future.**

As of December 31, 2020, 2021 and 2022, our contract liabilities were RMB102.1 million, RMB138.8 million and RMB176.5 million, respectively. Our contract liabilities mainly represent advance payments received from our customers. Contract liabilities would be recognized as revenue upon the delivery of our products. All of our contract liabilities balance as of December 31, 2020, 2021 and 2022 was recognized or expected to be recognized as revenue within our normal operating cycle. See “Financial Information—Discussion of Certain Items from the Consolidated Statements of Financial Position—Contract Liabilities” and Note 24 to the Accountants’ Report in Appendix I to this document. However, if we fail to fulfill our obligations with respect to our contract liabilities, we may not be able to convert such contract liabilities into revenue as expected. Furthermore, if we fail to fulfill our obligations with respect to our contract liabilities, customers may request not to prepay us in the future. Any of these circumstances could materially and adversely affect our business, results of operations, cash flow and liquidity condition.

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

We rely on our information technology and software systems to effectively manage various sales and distribution data, marketing activities and expenses data, production and operation data, and financial and human resources data. Any significant failure in our information technology and software systems could result in transaction errors, processing inefficiencies and loss of sales and customers, or lead to loss or leakage of confidential information. We collect and store sensitive personal information such as customer contact information and their addresses for the purpose of our business needs. The security of such information is of paramount importance. Any security and privacy breaches on customer information may damage our customer relations and our reputation and may expose us to legal liability.

Our information technology and software systems may be subject to damage or interruption, primarily due to unexpected emergency circumstances beyond our control, including power outages, fire, natural disasters, systems failures, security breaches, unauthorized access to our information systems, hackings intended to cause malfunctions, loss or corruption of data, software, hardware or other computer equipment, intentional or inadvertent transmission of computer viruses and other similar events. We may also encounter problems when upgrading our systems, which could disrupt our operations and adversely affect our results of operations.

**We are in possession of certain information regarding our customers, and the improper collection, storage, use or disclosure of such information could materially and adversely affect our business and reputation.**

With the prior consent of our customers, we collect and maintain personal information of our customers to the extent necessary for the sales and delivery of our products through e-commerce platforms or our membership program. The types of personal information we collect primarily include customer

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names, contact information and addresses for delivery. Unless otherwise provided in laws and administrative regulations, Personal Information Protection Law (個人信息保護法) (the “PIPL”) only allows us to collect personal information of customers with their prior consents and to the extent necessary. The PIPL also requires us to protect the privacy of our customers and prohibit unauthorized disclosure of their personal information. We may be liable for damages caused by divulging our customers’ personal information without consent. In addition, there is a risk that such information could be compromised in the event of a security breach at our internal system. Such information could be divulged due to, for example, theft or misuse arising from staff misconduct or negligence.

### **We may be subject to additional cybersecurity review or inspection by government authorities.**

On June 10, 2021, the Data Security Law (數據安全法) was adopted by the Standing Committee of the National People’s Congress and became effective on September 1, 2021. On August 20, 2021, the PIPL was adopted by the Standing Committee of the National People’s Congress and became effective on November 1, 2021. Pursuant to the Measures for Cybersecurity Review (網絡安全審查辦法) (the “Cybersecurity Review Measures”), which became effective in February 2022, critical information infrastructure operators that purchase network products and services and data processing operators engaging in data processing activities that affect or may affect national security must be subject to the cybersecurity review, reflecting the increased attention of the government authorities on data security and protection. However, the Cybersecurity Review Measures provides no further explanation or interpretation for “listed abroad.” Given that the expression used in the Cybersecurity Review Measures is “[REDACTED] in a foreign country” rather than [REDACTED] and that Hong Kong is likely to be considered as “offshore” rather than “foreign country,” it is not likely that a [REDACTED] in Hong Kong will be considered as “[REDACTED] in a foreign country.” Furthermore, the exact scope of “critical information infrastructure operators” under the Cybersecurity Review Measures and the current regulatory regime remains unclear, and the identification rules of critical information infrastructure operators still need to be formulated and clarified by relevant Protection Work Departments (the competent departments and supervision and management departments of important industries and sectors) in future legislation.

On November 14, 2021, the Cyberspace Administration of China (the “CAC”) published Regulations on Cyber Data Security Management (Draft for Comments) (網絡數據安全管理條例(徵求意見稿)) (the “Draft Regulations on Cyber Data Security Management”), which further elaborated a [REDACTED] in Hong Kong should not be treated as “[REDACTED] in a foreign country,” which was mentioned in the Cybersecurity Review Measures. According to Draft Regulations on Cyber Data Security Management, seeking to be listed in Hong Kong that affects or may affect the national security should be reported and undergo the cybersecurity review. According to the National Security Law of the PRC (中華人民共和國國家安全法) issued by Standing Committee of the National People’s Congress on July 1, 2015 and became effective on the same date, national security refers to a status in which the regime, sovereignty, unity, territorial integrity, welfare of the people, sustainable economic and social development, and other major interests of the state are relatively not faced with any danger and not threatened internally or externally and the capability to maintain a sustained security status.

However, we cannot assure you that we will not be deemed as a data processor that “affects or may affect national security” in the future. We may be subject to cybersecurity review by the competent government authority even upon completion of our [REDACTED]. If the data processing activities of a Hong Kong [REDACTED] company or a company that is in the process of applying for [REDACTED] in Hong Kong are deemed as “affecting or may affect national security” and such company has failed to conduct cybersecurity review according to the relevant laws and regulations, such company will be requested to take rectification actions, subject to disciplinary warning, and/or imposed an administrative penalty ranging from RMB50,000 to RMB500,000 for a single violation incident. Furthermore, if such violation causes material impact or such company refuses to rectify the violation, such company may be subject to more severe penalties, such as revocation of relevant licenses and/or permits. Therefore, if our

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business is deemed to involve activities that “affect or may affect national security” when the Draft Regulations on Cyber Data Security Management become effective and we fail to conduct cybersecurity review according to the relevant laws and regulations and/or take rectification actions as required by the relevant competent government authority, we might be subject to more severe penalties, warnings or revocation of our licenses and/or permits, which could materially and adversely affect our business, reputation as well as financial performance.

On July 7, 2022, the CAC promulgated the Measures on Security Assessment of Outbound Data Transfer (數據出境安全評估辦法), effective September 1, 2022. These measures shall apply to the security assessment of the provision of important data and personal information collected and generated by data processors in the course of their operations within the territory of the PRC by such data processors to overseas recipients, or the outbound data transfer. Where there are other provisions in laws and administrative regulations, such other provisions shall prevail. These measures specify that an outbound data transfer by a data processor that falls under any of the following circumstances, the data processor shall apply to the CAC for the security assessment via the local provincial-level cyberspace administration authority: (1) outbound transfer of important data by a data processor; (2) outbound transfer of personal information by a critical information infrastructure operator or a personal information processor who has processed the personal information of more than 1,000,000 people; (3) outbound transfer of personal information by a personal information processor who has made outbound transfers of the personal information of 100,000 people cumulatively or the sensitive personal information of 10,000 people cumulatively since January 1 of the previous year; or (4) other circumstances where an application for the security assessment of an outbound data transfer is required as prescribed by the CAC. As advised by our PRC Legal Advisor, there is no outbound data transfer involved during our daily business operations.

Our Directors and our PRC Legal Advisor are of the view that the Cybersecurity Review Measures and the Draft Regulations on Cyber Data Security Management, if implemented in current form, will not have material adverse effects on our business operations or the [REDACTED]. However, with the continuous expansion of our business and growth of our customer base, there can be no assurance that we will not be subject to national security review or the recent tightening of regulations on the collection and use of personal information by relevant government authorities in China will have no material adverse effect to our business operations in the future. If we cannot meet relevant requirements under the evolving applicable laws or regulations relating to data privacy, data protection or information security or any additional tax related requirements relating to data, or any compromise of security that results in unauthorized access, use or leakage of our customers’ personal information, we could face damage in our reputation or other negative consequences, such as investigations, fines, or suspension of our business, any of which could materially and adversely affect our business, financial condition and results of operations. In addition, complying with various laws and regulations on cybersecurity and data security could cause us to incur additional costs or require us to change our business practices, including our data practices, which may significantly distract our management’s attention and adversely affect our business.

**Our online sales depend on the proper operation of third-party e-commerce platforms and any serious interruptions of these platforms could adversely affect our operations.**

Our revenue generated from online sales channels was RMB722.7 million, RMB768.3 million and RMB938.0 million in 2020, 2021 and 2022, respectively. As of December 31, 2022, we had 23 self-operated online stores and 13 distributor-operated online stores on mainstream e-commerce or social media platforms such as JD.com, Tmall and Douyin. During the Track Record Period, our revenue generated from online sales channels was primarily attributable to our business operations on or relating to JD.com and Tmall. Our online sales depend on the proper operation of those third-party e-commerce platforms. However, we do not have control over the operation of such third-party e-commerce platforms, and they may be vulnerable to damage or interruptions such as power failure, computer viruses, acts of hacking, vandalism and similar events. Any serious interruption or damage to the e-commerce platforms may have an adverse effect on our business, financial condition and results of operations.

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**We are subject to various risks relating to third-party payment applications and services.**

We accept a variety of payment methods including WeChat Pay, Alipay and UnionPay through third-party payment services. We pay service fees for such payment services, which may increase over time and raise our operating costs. We may also be subject to fraud, security breaches and other illegal activities in connection with the various payment methods we offer. If any of these happens, we may be subject to fines or higher service fees for these payment services, and our business, financial condition and results of operations may be materially and adversely affected.

**If we fail to effectively implement our future expansion plans, our business prospects may be adversely affected.**

We may encounter risks when we develop new sales channels and markets in China and overseas. New sales channels and markets may have different regulatory requirements, competitive landscape, consumer preferences, spending patterns and operation environment from our existing channels and markets. We may need to increase our promotion efforts in these new sales channels and markets, establish appropriate operation model, distribution system, talent reserve, strengthen the financial management capability, and develop or adjust the information technology and software systems. In addition, we may need to search for suppliers and construct new production facilities based on the conditions of the new sales channels and markets. As a result, it may be relatively expensive and risky to expand new sales channels and markets and may take longer to reach targeted sales and profit levels.

We may from time to time pursue acquisitions that we believe would benefit our business. We have limited experience in acquisitions. We may not be able to successfully execute any proposed acquisitions. In addition, we may be exposed to challenges in integrating the acquired companies into our existing operations. If we fail to achieve the desired results from acquisitions, our financial condition and results of operations may be materially and adversely affected.

**We require a significant amount of capital to fund our operations and respond to business opportunities. If we cannot obtain sufficient capital on acceptable terms, our business, financial condition and prospects may be materially and adversely affected.**

Expanding our store network, building a well-known brand, and accumulating a large and growing customer base is costly and time-consuming. A vast majority of our capital is invested to fund the capital expenditures and associated costs arising from our daily operations. Our capital expenditures during the Track Record Period, consisting primarily of payments for purchase of property, plant and equipment and purchase of intangible assets, were RMB11.7 million, RMB24.8 million and RMB22.5 million in 2020, 2021 and 2022, respectively. Our ability to obtain additional capital in the future, however, is subject to a number of uncertainties, including those relating to our future business development, financial condition and results of operations, general market conditions for financing activities by companies in our industry, and macro-economic and other conditions in China and globally. If we cannot obtain sufficient capital on acceptable terms to meet our capital needs, we may not be able to execute our growth strategies, and our business, financial condition and results of operations may be materially and adversely affected.

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**We lease properties in various place as premises primarily for our self-operated stores, office spaces, warehouses or production bases. Any non-renewal of leases, substantial increase in rent, or any third-party or government challenge to our leasehold interest may affect our business and financial performance.**

As most of our self-operated stores are currently located at leased properties, our operations are susceptible to fluctuations in the property rental market. Before the expiry of each of our leases, we have to negotiate the terms of renewal with our respective lessors. The term of the lease agreements for our self-operated stores typically varies from one to two years, and the term for our office space typically varies from one to three years. There is no assurance that our existing leases would be renewed on similar or favorable terms or at all, in particular with respect to the amount of rent and the term of the lease. Any substantial increase in the rent of our leased properties may increase our property rental and related expenses, which could materially and adversely affect our profitability.

There is also no assurance that our existing leases will not be terminated early by the lessors before the expiry of the relevant term. In the event that we are required to relocate our self-operated stores or office space, there is no assurance that we will be able to identify comparable locations in a timely manner or at all or that we will secure a lease on comparable terms. We may also incur substantial reinstatement, relocation and renovation costs. In addition, it typically takes new stores a period of time to achieve a profitability rate comparable to the existing ones, due to factors such as the time needed to find suitable locations, build consumer awareness in the local community, renovate new stores, and integrate the operations of such stores into our existing sales network. Any non-renewal of lease of either of our self-operated stores or office space may have a material adverse effect on our business, results of operations and financial condition.

We have entered into lease agreements with respect to 26 of our leased properties (accounting for 2.0% of the aggregate gross floor area of our leased properties relating to our business operations), where the lessors have not provided us with valid title certificates or real estate purchase agreements. If these lessors are not the legal owners or have not obtained the proper authorization from the legal owners of such premises, the legal owners of such premises or third-party tenants that have leased from the legal owners will have ground to challenge the validity of our leasehold interest in the affected premises. Additionally, the intended purposes contained in the title certificates or relevant authorization documents are inconsistent with the actual use of four leased properties (accounting for 0.6% of the aggregate gross floor area of our leased properties relating to our business operations). These four leased properties are occupied as office space or warehouses. As of the Latest Practicable Date, we were not aware of any title or usage challenge being made by any third party or government agency with respect to these leased properties.

Additionally, we did not register the lease agreements in respect of 124 lease properties with the competent authorities as of the Latest Practicable Date. Under the relevant PRC laws and regulations, the parties to a lease agreement have the obligation to register and file the executed lease agreement. As advised by our PRC Legal Advisor, the validity and enforceability of the lease agreements are not affected by the failure to register or file the lease agreements with the relevant government authorities. According to the relevant PRC regulations, we may be ordered by the relevant government authorities to register the relevant lease agreements within a prescribed period, failing which we may be subject to a fine ranging from RMB1,000 to RMB10,000 for each nonregistered lease. As of the Latest Practicable Date, we had not received any such request from the relevant government authorities.

Should disputes or government actions due to title or usage challenges arise to the above-described properties, we may encounter difficulties in continuing to lease such properties and may be required to relocate. If any of our leases are terminated or voided as a result of challenges from third parties or government agencies, we would need to seek alternative premises and incur relocation costs. We cannot assure you that we will be able to relocate such operations to suitable alternative premises, and any such relocation may result in disruption to our business operations and result in loss of earnings. We also cannot assure you that we will be able to effectively mitigate the possible adverse effects that may be caused by such disruption, including loss and costs. Any of such disruption, loss or costs could materially and adversely affect our business, financial condition and results of operations.

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**We received government grants during the Track Record Period, and any significant reduction of government grants offered to us may adversely affect our financial condition and results of operations.**

During the Track Record Period, we received certain government grants as rewards for our contribution to the local economic development. In 2020, 2021 and 2022, we recognized government grants of RMB17.2 million, RMB36.5 million and RMB24.6 million as other net income, respectively. We cannot assure you that we will continue to receive such government grants or that the amount of such grants will not be reduced in the future. Any significant reduction of government grants received by us may adversely affect our financial condition and results of operations.

**If our preferential tax treatment becomes unavailable or if the calculation of our tax liability is challenged by the PRC tax authorities, our results of operations may be adversely affected.**

During the Track Record Period, we enjoyed preferential tax treatment under relevant preferential tax policies. We cannot assure you that we will continue to enjoy similar preferential tax treatment in the future. The PRC Enterprise Income Tax Law and its implementation rules have adopted a flat statutory enterprise income tax rate of 25% to all enterprises in China (if not entitled to any preferential tax treatment). During the Track Record Period, we paid an enterprise income tax rate of 25%, except for Guanghe Yan Palace, one of our subsidiaries, which enjoyed preferential tax treatment of an income tax rate of 15% and is expected to enjoy such preferential income tax treatment until December 31, 2030. If we cease to be entitled to preferential tax treatment, our income tax expenses may increase, which would adversely affect our results of operations.

**We may be required to make additional contributions of social insurance fund and/or housing provident fund and late payments and fines under PRC laws and regulations.**

Companies operating in the PRC are required to participate in various employee benefit plans, including social insurance fund and housing provident fund and contribute to the amounts equal to certain percentage of salaries, including bonuses and allowances, of their employees up to a maximum amount specified by the local government from time to time at locations where they operate their business. The requirement of employee benefit plans has not been implemented consistently by the local governments in China given the different levels of economic development in different locations. During the Track Record Period, we did not make adequate contributions to the social insurance and housing provident funds with respect to certain of our employees such as production line workers, as required by the relevant PRC laws and regulations. As a result, we may be required to make additional contributions of social insurance fund and/or housing provident fund and late payments and fines under PRC laws and regulations. See “Business—Our Employees.”

As advised by our PRC Legal Advisor, if the competent PRC government authority determines that the social insurance contributions we made for our employees violate the requirements under the relevant PRC laws and regulations, we may be required to pay all outstanding social insurance contributions within a prescribed period, with late fees at a daily rate of 0.05% of the outstanding amount, accruing from the date when the social insurance contributions were due. If this payment is not made within the stipulated period, the competent authority may further impose a fine of one to three times of the overdue amount on us. In addition, pursuant to relevant PRC laws and regulations, in case of a failure to pay the full amount of housing provident fund, the housing provident fund management center may require us to pay the outstanding amount within a prescribed period. If the payment is not made within such time limit, an application may be made to the PRC courts for compulsory enforcement. We made provisions of RMB3.9 million, RMB5.6 million and RMB7.9 million as of December 31, 2020, 2021 and 2022, respectively. Our PRC Legal Advisor is of the view that the risk is low that we would be subject to administrative penalties by the competent authorities regarding our contribution to the mandatory social insurance and housing provident fund during the Track Record Period. However, we cannot assure you that we will not be subject

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to any order to rectify the non-compliance in the future, nor can we assure you that there are no, or will not be any, employee complaints regarding payment of the outstanding amount of the social insurance and housing provident fund contributions against us, or that we will not receive any claims in respect of the outstanding amount of the social insurance and housing provident fund contributions under national laws and regulations. In addition, we may incur additional expenses to comply with such laws and regulations promulgated by the PRC government or relevant local authorities.

**Our insurance coverage is limited and may not be sufficient to cover all of our potential losses.**

We believe that we have purchased and maintained various insurances in accordance with relevant laws and regulations. See “Business—Insurance.” We cannot assure you that our insurances will provide adequate coverage for all the risks in connection with our business operations. If we were to incur substantial losses and liabilities that are not covered by our insurance policies, we may be required to bear our losses to the extent that our insurance coverage is insufficient. As a result, we could suffer significant costs and diversion of our resources, which could have a material adverse effect on our financial condition and results of operations.

**Our Controlling Shareholders have substantial influence over us, and their interests may not be aligned with the interests of our other Shareholders.**

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

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

From time to time, we may be involved in claims, disputes and legal proceedings in our ordinary course of business. These may concern issues relating to, among others, breach of contract, employment or labor disputes, infringement of intellectual property rights and environmental matters. In particular, the manufacture and sales of our products subject us to potential product liability claims if our products are proven to have failed to meet relevant health and safety or other laws and regulations, or cause or are alleged to have caused illness or health issues.

If we are unsuccessful in any product liability claims, we may be subject to substantial damages to compensate the claimants. Any claims, disputes or legal proceedings initiated by us or brought against us, with or without merit, may result in substantial costs and diversion of resources and materially harm our reputation.

Claims, disputes or legal proceedings against us may be due to defects of supplies, such as raw materials and packaging materials, sold to us by our suppliers, who may not be able to indemnify us in a timely manner, or at all, for any costs that we incur as a result of such claims, disputes and legal proceedings.

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### RISKS RELATING TO OUR INDUSTRY

**Failure to compete effectively may adversely affect our market share and profitability.**

Our industry is highly competitive, and the competition may further intensify. Some of our competitors have solid positions in the EBN market with long operating histories, global vision or greater financial, research and development or other resources. As a result, our competitors may introduce better products or adapt more quickly to the evolving industry trends or market demands. Our current or potential competitors may provide products that are highly similar to ours. We cannot assure you that imitation or counterfeiting of our products, logos or brands will not occur in the market. It is often difficult to identify or eliminate those imitated or counterfeit products in a timely manner. Such incidents may affect our reputation and brand.

It is also possible that there will be significant consolidation or development of alliances in our industry, which may enable our competitors to rapidly acquire significant market share. Furthermore, competition may cause competitors to substantially increase their advertising expenses and marketing activities or to engage in unreasonable or predatory pricing behavior, or may even result in activities, whether legal or illegal, designed to undermine our brand and reputation or to influence consumers’ confidence in our products. Any failure to respond to such competition effectively may materially and adversely affect our brand, reputation, results of operations, financial condition and business prospects.

**The market in which we operate may be saturated with a growing number of EBN brands.**

According to the F&S Report, the number of EBN product companies in China grew steadily from approximately 8,000 in 2017 to 13,000 in 2022. However, we cannot assure you that there can always be sufficient customer demand, if at all, to support the continued expansion of China’s EBN industry. If the key players within our industry continue to rapidly broaden their store network to out-compete each other and capture more market share, the market may be saturated to the extent our sales, results of operations and financial condition may be adversely impacted.

**Any slowdown or decline in the Chinese economy or EBN market in China could have an adverse impact on our business, results of operations and financial condition.**

We derive substantially all of our revenue from the sales of our products in China. The success of our business depends on the condition and growth of the Chinese market, which in turn depends on macro-economic conditions and individual income levels in China. We cannot assure you that projected growth rates of the Chinese economy and the Chinese consumer market will be realized under the current economic situation. Any future slowdowns, declines or instability in the Chinese economy or consumer spending could adversely affect our business, operating results and financial condition. We believe that consumer spending habits could be adversely affected during a period of recession in the economy and that uncertainties regarding future economic prospects could also affect consumer spending habits, any of which may have an adverse effect on certain enterprises operating within the EBN market in China, including us.

**Government investigations over food safety incidents in China’s EBN industry and the resulting negative publicity could adversely affect our business and reputation.**

Government investigations over food safety incidents in China’s EBN industry and the resulting negative publicity may materially and adversely affect our business and reputation. The EBN industry in China has historically faced governmental scrutiny over food safety issues, in particular, prior to the publication of the first industry standard for EBN products in China in 2014. For instance, a high level of nitrite content was discovered in certain red EBN products by the industry and commerce department



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of Zhejiang Province in 2011. This incident involved EBN product manufacturers in China who sourced raw nests from Malaysia and caused widespread distrust of EBN products among consumers. Any similar government investigation or negative publicity in the future, whether directed at our business or the industry as a whole, could have adverse effects on our brand image and severely impact the success of our products. There is no assurance that our business would not become a target of regulatory or public scrutiny in the future, or that such scrutiny would not significantly damage our reputation, undermine our operations, and hinder our business prospects.

### **RISKS RELATING TO DOING BUSINESS IN CHINA**

#### **The economic, political and social conditions in China could affect our business, results of operations, financial conditions and prospects.**

During the Track Record Period, substantially all of our revenue was derived from our businesses in China. Accordingly, our business, financial condition, results of operations and prospects are, to a material extent, subject to economic, political, and legal developments in China. In particular, factors such as consumer, corporate and government spending, business investment, level of economic development, and resource allocation could affect the growth of our business.

The PRC economy has experienced significant growth over the past decades since the implementation of China’s reform and opening-up policy. In recent years, the PRC government has implemented measures emphasizing the utilization of market forces in economic reform and the establishment of sound corporate governance practices in business enterprises. These economic reform measures may be adaptively adjusted from industry to industry or across different regions of the country. If the business environment in China changes, our business in China may also be materially and adversely affected.

#### **The development of the PRC legal system and changes in the interpretation and enforcement of PRC laws, regulations and policies in China could materially and adversely affect us.**

Our Company is incorporated under the laws of the PRC. The PRC legal system is based on written statutes. Since the late 1970s, the PRC government has promulgated laws and regulations dealing with economic matters, such as foreign investment, corporate organization and governance, commerce, taxation and trade, with a view towards developing a comprehensive system of commercial law. However, as many of these laws and regulations are relatively new and continue to evolve, these laws and regulations may be subject to different interpretation. As other civil law countries, there is a limited volume of published court decisions, which may be cited for reference but are not binding on subsequent cases and have limited precedential value unless the Supreme People’s Court otherwise provides. As these laws and regulations are continually evolving in response to changing economic and other conditions, these uncertainties relating to the interpretation and implementation of PRC laws and regulations may adversely affect the legal protections and remedies that are available to [REDACTED] and us.

#### **PRC government’s control of currency conversion and restrictions on the remittance of RMB into and out of China could limit our ability to utilize our revenues effectively, to pay dividends and other obligations, and adversely affect the value of our H Shares.**

The remittance of currency in and out of China is subject to various laws and regulations. Our revenues and expenses are substantially denominated in Renminbi, and the [REDACTED] from the [REDACTED] and any dividends we pay on our H Shares will be in Hong Kong dollars. Under China’s existing foreign exchange regulations, following the completion of the [REDACTED], we will be able to make current account foreign exchange transactions, including paying dividends in foreign currencies without prior approval from SAFE.

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However, in the future, the PRC government may take measures to restrict access to foreign currencies for capital account and current account transactions under certain circumstances. If such measures are implemented, we may not be able to pay dividends in foreign currencies to holders of our H Shares. Foreign exchange transactions under our capital account are subject to significant foreign exchange controls and require SAFE’s approval. These limitations could affect our ability to obtain foreign exchange through offshore financing.

Furthermore, the [REDACTED] from the [REDACTED] are expected to be deposited in currencies other than Renminbi until we obtain necessary approvals from relevant PRC regulatory authorities to convert these [REDACTED] into onshore Renminbi. If the [REDACTED] cannot be [REDACTED] into onshore Renminbi in a timely manner, our ability to deploy these [REDACTED] efficiently may be affected as we will not be able to invest these [REDACTED] on RMB denominated assets onshore or deploy them in uses onshore where Renminbi is required. All of these factors could materially and adversely affect our business, results of operations, financial condition and prospects.

### **Fluctuations in exchange rates of Renminbi against Hong Kong dollar, U.S. dollar or other foreign currencies could adversely affect our results of operations and the value of your investment.**

Fluctuations in the exchange rate of Renminbi against Hong Kong dollar, U.S. dollar and other foreign currencies are affected by, among other things, the policies of the PRC Government and changes in China’s and international political and economic conditions. The [REDACTED] from the [REDACTED] will be denominated in Hong Kong dollars. As a result, any appreciation of Renminbi against U.S. dollar, Hong Kong dollar or any other foreign currencies may result in a decrease in the value of our foreign currency-denominated assets and our [REDACTED] from the [REDACTED]. Conversely, any depreciation of Renminbi may adversely affect the value of, and any dividends payable on our H Shares in foreign currencies. There are limited instruments available for us to reduce our foreign currency risk exposure at reasonable cost in China, and we have not utilized, and may not in the future utilize, any such instrument. All of these factors could materially and adversely affect our business, results of operations, financial condition and prospects, and could reduce the value of, and dividends payable on, our H Shares in foreign currency terms.

### **We may be subject to the approval or other requirements of the China Securities Regulatory Commission or other PRC governmental authorities in connection with future security activities.**

On July 6, 2021, the General Office of the CPC Central Committee and the General Office of the State Council jointly promulgated the Opinions on Strictly Combatting Illegal Securities Activities (關於依法從嚴打擊證券違法活動的意見) (the “July 6 Opinion”), which called for the enhanced administration and supervision of overseas-listed China-based companies, proposed to revise the relevant regulation governing the overseas issuance and listing of shares by such companies and clarified the responsibilities of competent domestic industry regulators and government authorities. The July 6 Opinion aims to achieve this by establishing a regulatory system and revising the existing rules for overseas listings of Chinese entities and affiliates including potential extraterritorial application of Chinese securities laws.

On February 17, 2023, the CSRC promulgated the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies (境內企業境外發行證券和上市管理試行辦法) (the “Overseas Listing Trial Measures”) and relevant supporting guidelines, which came into effect on March 31, 2023. The Overseas Listing Trial Measures comprehensively improve and reform the existing regulatory regime for overseas offering and [REDACTED] of PRC domestic companies’ securities and regulate both direct and indirect overseas offering and [REDACTED] of PRC domestic companies’ securities. Pursuant to the Overseas Listing Trial Measures, where a PRC domestic company submits an application for initial public offering to competent overseas regulators or overseas stock exchanges, such issuer must [REDACTED]. As advised by our PRC Legal Advisor, we are required to go through the [REDACTED].

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[REDACTED] and seek guidance from the relevant regulator and/or legal advisors to ensure our compliance in all respects. However, given that the [REDACTED] were recently promulgated, there remain substantial uncertainties as to their interpretation, application and enforcement, and how they will affect our operations and our future financing. In addition, it is uncertain whether we can or how long it will take us to complete [REDACTED]. Any failure to complete [REDACTED] for the [REDACTED] would subject us to sanctions by the PRC regulatory agencies. Furthermore, such failure may adversely affect our ability to finance the development of our business and may have a material adverse effect on our business and financial condition.

In addition, we cannot guarantee that new rules or regulations promulgated in the future pursuant to the July 6 Opinion and any other related PRC rules and regulations will not impose any additional requirement on us or otherwise tightening the regulations on us. If it is determined that we are subject to any [REDACTED] in a timely manner or at all. Such failure may adversely affect our ability to finance the development of our business and may have a material adverse effect on our business and financial conditions. Furthermore, any uncertainty and/or negative publicity regarding such [REDACTED] may also have a material adverse effect on the [REDACTED] of our [REDACTED].

**[REDACTED] of our H Shares may become subject to PRC taxation on dividends received from us and gains from the disposition of our H Shares.**

Non-Chinese resident individual holders of H Shares whose names appear on the register of members of H Shares (“Non-Chinese Resident Individual Holders”), are subject to Chinese individual income tax on dividends received from us. Pursuant to the Circular on Questions Concerning the Collection of Individual Income Tax Following the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知(國稅函[2011]348號) dated June 28, 2011 and issued by the SAT, the tax rate applicable to dividends paid to Non-Chinese Resident Individual Holders of H Shares varies from 5% to 20% (usually 10%), depending on whether there is any applicable tax treaty between China and the jurisdiction in which the Non-Chinese Resident Individual Holder of H Shares resides, as well as the tax arrangement between China and Hong Kong. Non-Chinese Resident Individual Holders who reside in jurisdictions that have not entered into tax treaties with the PRC are subject to a 20.0% withholding tax on dividends received from us. See “Appendix III—Taxation and Foreign Exchange.” In addition, under the Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法) and its implementation regulations, Non-Chinese Resident Individual Holders of H Shares are subject to individual income tax at a rate of 20% on gains realized upon the sale or other disposition of H Shares. However, pursuant to the Circular Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals from Transfer of Shares (關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知) issued by the Ministry of Finance and the SAT on March 30, 1998, gains of individuals derived from the transfer of listed shares of enterprises may be exempt from individual income tax. As of the Latest Practicable Date, none of the aforesaid provisions has expressly provided that whether individual income tax shall be levied from non-mainland China resident individual holders on the transfer of shares in mainland China resident enterprises listed on overseas stock exchanges. To the best of our knowledge, the Chinese tax authorities have not in practice sought to collect individual income tax on such gains. If such tax is collected in the future, the value of such individual holders’ [REDACTED] in [REDACTED] may be materially and adversely affected.

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Under the EIT Law and its implementation regulations, a non-Chinese resident enterprise is generally subject to enterprise income tax at a rate of 10% with respect to its Chinese-sourced income, including dividends received from a Chinese company and gains derived from the disposition of equity interests in a Chinese company. This rate may be reduced under any special arrangement or applicable treaty between the China and the jurisdiction in which the non-Chinese resident enterprise resides. Pursuant to the Circular on Questions Concerning Withholding of Enterprise Income Tax for Dividends Distributed by Resident Enterprises in China to Non-resident Enterprises Holding H-shares of the Enterprises (Guo Shui Han [2008] No. 897) (關於中國居民企業向境外H股非居民企業股東派發股息代扣繳企業所得稅有關問題的通知(國稅函[2008]897號)) promulgated by the SAT on November 6, 2008, we intend to withhold tax at 10% from dividends payable to non-Chinese resident enterprise holders of H Shares (including HKSCC Nominees). Non-Chinese resident enterprises that are entitled to be taxed at a reduced rate under an applicable income tax treaty or arrangement will be required to apply to the Chinese tax authorities for a refund of any amount withheld in excess of the applicable treaty rate, and payment of such refund will be subject to the Chinese tax authorities’ approval. See “Appendix III—Taxation and Foreign Exchange.” There are uncertainties as to the interpretation and implementation of the EIT Law and its implementation rules by the Chinese tax authorities, including whether and how enterprise income tax on gains derived upon the sale or other disposition of H Shares will be collected from non-Chinese resident enterprise holders of H Shares. If such tax is collected in the future, the value of such non-Chinese resident enterprise holders’ [REDACTED] in H Shares may be materially and adversely affected.

### **Payment of dividends is subject to restrictions under PRC law.**

Under PRC law, dividends may be paid only out of distributable profits. Distributable profits are defined as our profits after taxes as determined under PRC GAAP less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient, if any, distributable profits to enable us to make dividend distributions to our Shareholders in the future, including periods for which our financial statements indicate that our operations have been profitable. Any distributable profits not distributed in a given year are retained and available for distribution in subsequent years.

Moreover, because the calculation of distributable profits under PRC GAAP is different from the calculation under IFRS in certain respects, our subsidiaries may not have distributable profits as determined under PRC GAAP, even if they have profits for that year as determined under IFRS, or vice versa. Accordingly, we may not receive sufficient distributions from our subsidiaries. Failure by our subsidiaries to pay dividends to us could have a negative impact on our cash flow and our ability to make dividend distributions to our Shareholders in the future, including those periods in which our financial statements indicate that our operations have been profitable.

### **It may be difficult to effect service of process, enforce foreign judgments or bring original actions against us, our Directors, Supervisors and senior management residing in China.**

We are a company incorporated under the laws of China, and a substantial majority of our assets are located in China. In addition, most of our Directors, Supervisors and senior management reside within China. As a result, it may be difficult for you to effect service of process within Hong Kong, the United States or elsewhere outside China upon us or these persons, or to bring an action in Hong Kong against us or these individuals.

On July 14, 2006, the Supreme People’s Court of China and Hong Kong entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgements 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 “2006 Arrangement”). Pursuant to such arrangement, a party with

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a final 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, and vice versa. However, it is subject to the parties in the dispute agreeing to enter into a choice of court agreement in writing under the 2006 Arrangement.

On January 18, 2019, the Supreme People’s Court of China and Hong Kong 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 “2019 Arrangement”), the commencement date of which shall be announced after the Supreme People’s Court promulgates judicial interpretations and relevant procedures are completed in Hong Kong. The 2019 Arrangement will supersede the 2006 Arrangement and afford greater clarity and certainty for reciprocal recognition and enforcement of judgments in civil and commercial matters. The 2006 Arrangement will remain applicable to a “choice of court agreement in writing” entered into before the 2019 Arrangement taking effect. However, there remains uncertainties as to the outcome of any applications to recognize and enforce such judgments and arbitral awards in China.

Furthermore, an original action may only be brought in China against us or our Directors, Supervisors and senior management if the actions are not required to be arbitrated by PRC laws and upon satisfaction of the conditions for commencing a cause of action pursuant to the PRC civil procedure law. As a result of the conditions set forth in the PRC civil procedure law and the discretion of the PRC courts to determine whether the conditions are satisfied and whether to accept the action for adjudication, it is uncertain whether [REDACTED] will be able to bring an original action in China in this manner.

**The custodians or authorized users of our controlling non-tangible assets, including chops and seals, may fail to fulfill their responsibilities, or misappropriate or misuse these assets.**

Under the PRC law, legal documents for corporate transactions, including agreements and contracts are executed using the chop or seal of the signing entity or with the signature of a legal representative whose designation is registered and filed with relevant PRC market regulation administrative authorities. In order to secure the use of our chops and seals, we have established internal control procedures and rules for using these chops and seals. In any event that the chops and seals are intended to be used, the responsible personnel will submit a formal application, which will be verified and approved by authorized employees in accordance with our internal control procedures and rules. In addition, in order to maintain the physical security of our chops, we generally have them stored in secured locations accessible only to authorized employees. Although we monitor such authorized employees, the procedures may not be sufficient to prevent all instances of abuse or negligence. There is a risk that our employees could abuse their authority, for example, by entering into a contract not approved by us or seeking to gain control of one of our subsidiaries or our affiliated entities or their subsidiaries. If any employee obtains, misuses or misappropriates our chops and seals or other controlling non-tangible assets for whatever reason, we could experience disruption to our normal business operations. We may have to take corporate or legal action, which could involve significant time and resources to resolve and divert management from our operations, and we may not be able to recover our loss due to such misuse or misappropriation if the third party relies on the apparent authority of such employees and acts in good faith.

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### RISKS RELATING TO THE [REDACTED]

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

Prior to the [REDACTED], there has been no [REDACTED] for our H Shares. The [REDACTED] for our H Shares was the result of negotiations between us, the [REDACTED] on behalf of the [REDACTED], and the [REDACTED] may differ significantly from the [REDACTED] for our H Shares following the [REDACTED]. We have applied for [REDACTED] of, and permission to [REDACTED] in, our [REDACTED] on the Stock Exchange. A [REDACTED] on the Stock Exchange, however, does not guarantee that an active and liquid [REDACTED] for our H Shares will develop, or if it does develop, that it will be sustained following the [REDACTED] or that the [REDACTED] of our H Shares will not decline following the [REDACTED]. Furthermore, the [REDACTED] and [REDACTED] of our H Shares may be volatile. The following factors may affect the [REDACTED] and [REDACTED] of our H Shares:

- actual or anticipated fluctuations in our operating performance and revenue;
- our failure to execute our strategies;
- an unexpected business interruption resulting from operational breakdowns, natural disasters, or major changes in our key personnel or senior management;
- adverse market reaction to any indebtedness that we may incur or securities that we may issue in the future;
- announcements of competitive developments, acquisitions or strategic alliances in our industry;
- potential litigation or regulatory investigations;
- general market conditions or other developments affecting us or our industry;
- changes or proposed changes in laws or regulations, or differing interpretations thereof, affecting our ability to obtain or maintain regulatory approval for our products;
- inadequate protection of our intellectual property rights or legal proceedings brought against us for infringement of third parties' intellectual property rights;
- the operating and stock price performance of other companies in our industry, and other events or factors beyond our control; and
- the release of [REDACTED] or other transfer restrictions on our outstanding [REDACTED] or sales or perceived sales of [REDACTED] by us or other Shareholders.

Moreover, the capital market has from time to time experienced significant [REDACTED] and [REDACTED] fluctuations that were unrelated or not directly related to the operating performance of the underlying companies in the market. These [REDACTED] and industry fluctuations may have a material and adverse effect on the [REDACTED] and [REDACTED] of our H Shares.

**An active and liquid [REDACTED] for our H Shares may not develop.**

Prior to the [REDACTED], our H Shares were not [REDACTED] on any [REDACTED]. We cannot assure you that an active and liquid trading market for our H Shares will be developed or be maintained after the [REDACTED]. Liquid and active trading markets usually result in less price

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## RISK FACTORS

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volatility and more efficiency in carrying out [REDACTED] purchase and sale orders. The [REDACTED] of our H Shares could vary significantly as a result of a number of factors, some of which are beyond our control. In the event of a drop in the [REDACTED] of our H Shares, you could lose a substantial part or all of your [REDACTED] in our H Shares.

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

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

**Because the [REDACTED] of our H Shares is substantially higher than the consolidated net tangible book value per share, purchasers in the [REDACTED] may experience immediate dilution.**

As the [REDACTED] of our H Shares is higher than the consolidated [REDACTED] per share immediately prior to the [REDACTED], purchasers of our H Shares in the [REDACTED] will experience an immediate dilution in [REDACTED] adjusted consolidated [REDACTED]. Our existing Shareholders will receive an increase in the [REDACTED] adjusted consolidated net tangible asset value per share of their shares. Please refer to Appendix II to this document for details. In addition, holders of our Shares may experience further dilution of their interest if the [REDACTED] exercise the [REDACTED] or if we issue additional shares in the future to raise additional capital.

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

Our management may spend the [REDACTED] from the [REDACTED] in ways you may not agree with or that do not yield a favorable return. See “Future Plans and [REDACTED]” for details of our intended [REDACTED]. However, our management will have discretion as to the actual application of our [REDACTED]. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific use we will make of the [REDACTED] from this [REDACTED].

**Future sales or perceived sales or conversion of substantial amounts of our securities in the [REDACTED], such as [REDACTED], could have a material and adverse effect on the prevailing [REDACTED] of our H Shares and our ability to raise additional capital in the future, or may result in dilution of your shareholdings.**

Future sales of substantial amounts of our H Shares or other securities relating to our H Shares in the [REDACTED], or the issuance of new [REDACTED] or other securities relating to our H Shares, or the perception that such sales or issuances may occur could all cause a decline in the [REDACTED] of our H Shares. Future sales, or perceived sales, of substantial amounts of our securities or other securities relating to our H Shares, including part of any future offerings, could also materially and adversely affect the prevailing [REDACTED] of our H Shares and our ability to raise capital in the future at a time and at a price which we deem appropriate.

Although our Controlling Shareholders are subject to restrictions on their sales of H Shares within 12 months from the [REDACTED] as described in “History, Development and Corporate Structure” in this document, future sales of a significant number of our H Shares by our Controlling Shareholders or

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other existing shareholders in the [REDACTED] after the [REDACTED], or the perception that these sales could occur, could cause the [REDACTED] of our H Shares to decline and could materially impair our future ability to raise capital through offerings of our H Shares. We cannot assure you that our Controlling Shareholders, or other existing shareholders will not dispose of H Shares held by them or that we will not [REDACTED] pursuant to the general mandate to [REDACTED] granted to our Directors as described in “Appendix IV—Summary of Principal Legal and Regulatory Provisions,” upon the expiration of restrictions set out above.

Our [REDACTED], and such [REDACTED] H Shares may be [REDACTED] or [REDACTED] on an [REDACTED], provided that prior to the [REDACTED] and [REDACTED] of such [REDACTED] shares, any requisite internal approval processes shall have been duly completed and the approval from the relevant Chinese regulatory authorities, including the CSRC, shall have been obtained (the “Arrangement”). In addition, such [REDACTED] shall in all respects comply with the regulations prescribed by the State Council’s securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange. The Arrangement applies only to Domestic Shares. All of our Domestic Shares are subject to the Arrangement and may be [REDACTED] upon the [REDACTED] of the relevant regulatory authorities, including the [REDACTED].

**Our historical dividends may not be indicative of our future dividend policy, and we may not be able to pay any dividends on our H Shares.**

During the Track Record Period, we declared dividends to our then Shareholders of RMB120.0 million, RMB100.0 million and RMB80.0 million in 2020, 2021 and 2022, respectively, in light of our cumulative business growth. As of December 31, 2022, all of such dividends declared during the Track Record Period had been fully settled by bank transfer to our then Shareholders. On March 31, 2023, we declared dividends of RMB160.0 million, which was fully settled by bank transfer in April 2023. See also Notes 30(b) and 36 to the Accountants’ Report in Appendix I to this document. However, our historical dividends may not be indicative of our future dividend policy. We cannot guarantee when and in what form dividends will be paid on our H Shares following the [REDACTED]. The declaration of dividends is proposed by the Board and is based on, and limited by, various factors, including without limitation, our business and financial performance, capital and regulatory requirements, and general business conditions. We may not have sufficient or any profits to enable us to make dividend distributions to our Shareholders in the future, even if our financial statements indicate that our operations have been profitable. See “Financial Information—Dividends” for more details.



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**If securities or industry analysts do not publish research reports about us, or if they adversely change their recommendations regarding our H Shares, the [REDACTED] of our H Shares may decline.**

The [REDACTED] of our H Shares may be influenced by research reports that industry or securities analysts publish about us or our business. If one or more analysts who cover us downgrade our H Shares or publish negative opinions about us, the [REDACTED] of our H Shares would likely decline regardless of the accuracy of the information. If one or more of these analysts cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which, in turn, could cause the [REDACTED] of our H Shares to decline.

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

This document contains forward-looking statements with respect to our business strategies, operating efficiencies, competitive positions, growth opportunities for existing operations, plans and objectives of management, certain [REDACTED] information and other matters.

The words “anticipate,” “believe,” “could,” “potential,” “continue,” “expect,” “intend,” “may,” “plan,” “seek,” “will,” “would,” “should” and the negative of these terms and other similar expressions identify a number of these forward-looking statements. These forward-looking statements, including, among others, those relating to our future business prospects, capital expenditure, cash flows, working capital, liquidity and capital resources are necessary estimates reflecting the best judgment of our Directors, Supervisors and senior management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. As a result, these forward-looking statements should be considered in light of various important factors, including those set out in “Risk Factors” in this document. Accordingly, such statements are not a guarantee of future performance, and you should not place undue reliance on any forward-looking information. All forward-looking statements in this document are qualified by reference to this cautionary statement.

**The industry data and forecasts in this document obtained from various government publications and the industry report have not been independently verified.**

This document includes industry data and forecasts that we obtained from various government publications and the industry report that we believe are reliable. 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. However, we cannot assure you of the accuracy or completeness of information obtained from these sources. We have not independently verified any of the data, forecasts and other statistics from such sources, nor have we ascertained that the underlying economic assumptions relied upon in those sources. Additionally, the Joint Sponsors, the [REDACTED], the [REDACTED], any of their respective directors, officers, affiliates, advisors and representatives, or any other parties involved in the [REDACTED] make no representation as to the accuracy or completeness of aforementioned facts, forecasts and other statistics in this document. Moreover, such facts, forecasts and other statistics may not be prepared on the same basis or with the same degree of accuracy (as the case may be) in other publications or jurisdictions. For these reasons, the information from various government publications and the industry report contained in this document may not be accurate and should not be given undue reliance as a basis for making your [REDACTED] in our H Shares.

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**We may need additional capital, and the sale or issue of additional H Shares or other equity securities could result in additional dilution to our Shareholders.**

Notwithstanding our current cash and cash equivalents and the [REDACTED] from the [REDACTED], we may require additional cash resources to finance our continued growth or other future developments. We cannot assure you that financing will be available in the amounts or on terms acceptable to us, if at all. If we fail to raise additional funds, we may need to sell additional equity securities, which could result in additional dilution to our Shareholders.

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

Prior to the publication of this document, there has been and there may also be, subsequent to the date of this document but prior to the completion of the [REDACTED], press and media coverage regarding us, our business, our industries and the [REDACTED], which contained, 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 such 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, [REDACTED] are cautioned to make their investment decisions on the basis of the information contained in this document only and should not rely on any other information.