

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 20-F**

(Mark One)

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2022
OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
OR

☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

For the transition period from to

Commission file number: 001-39703

Yatsen Holding Limited

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

Building No. 35, Art Port International Creation Center,

No. 2519 Xingang East Road, Haizhu District

Guangzhou 510330

People's Republic of China

(Address of principal executive offices)

Donghao Yang, Chief Financial Officer

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Guangzhou 510330

People's Republic of China

Telephone: +86 20-3837 3543

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
American Depositary Shares, each representing four Class A ordinary shares, par value US\$0.00001 per share	YSG	New York Stock Exchange
Class A ordinary shares, par value US\$0.00001 per share*		New York Stock Exchange

*Not for trading, but only in connection with the listing on the New York Stock Exchange of our American depositary shares, each American depositary shares representing four Class A ordinary shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2022, there were 2,697,173,763 ordinary shares outstanding, being the sum of 2,030,600,883 Class A ordinary shares and 666,572,880 Class B ordinary shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☒ Yes ☐ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. ☐ Yes ☒ No

Note — Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act. ☐

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☒ International Financial Reporting Standards as issued by the International Accounting Standards Board ☐ Other ☐

If "other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. ☐ Item 17 ☐ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. ☐ Yes ☐ No

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INTRODUCTION

Unless otherwise indicated or the context otherwise requires, references in this annual report on Form 20-F to:

- “ADRs” refer to the American depositary receipts that may evidence the ADSs;
- “ADSs” refer to the American depositary shares, each of which represents four Class A ordinary shares;
- “China” or the “PRC” refers to the People’s Republic of China, excluding, for the purposes of this annual report only, Hong Kong, Macau and Taiwan;
- “Class A ordinary shares” refer to our Class A ordinary shares, par value US\$0.00001 per share;
- “Class B ordinary shares” refer to our Class B ordinary shares, par value US\$0.00001 per share;
- “Color Cosmetics Brands” refer to *Perfect Diary*, *Little Ondine*, *Pink Bear* and other color cosmetics brands of our company;
- “DTC” refers to direct-to-consumer business model;
- “DTC customers” refer to the customers that have placed one or more orders purchasing our products through our DTC channels, including our online stores on third-party e-commerce platforms, our company channels on Weixin and our experience stores, during the relevant periods, if such products were shipped, but regardless of whether or not the customer returned the products. This number does not include the number of customers placing orders through our third-party e-commerce platform distributors including JD.com and Vipshop;
- “Gen-Z” refers to the group of people born between 1996 and 2005 (aged between 17 and 26 in 2022);
- “KOL” refers to key opinion leader;
- “Millennials” refer to the group of people born between 1986 and 1995 (aged between 27 and 36 in 2022);
- “ODM” refers to Original Design Manufacturer;
- “OEM” refers to Original Equipment Manufacturer;

- “our WFOE” refers to Guangzhou Yatsen Global Co., Ltd.;
- “retail sales value” refers to the total value of products and services purchased by consumers through multiple retail sales points, measured at retail selling price, including the impact of distributor and retailer incremental markups and value-added tax on the overall pricing;
- “RMB” and “Renminbi” refer to the legal currency of China;
- “Skincare Brands” refer to *DR.WU* (its mainland China business), *Galénic*, *Eve Lom*, *Abby’s Choice* and other skincare brands of our company;
- “SKU” refers to stock keeping unit;
- “US\$,” “U.S. dollars,” “\$,” and “dollars” refer to the legal currency of the United States;
- “VIE” refers to variable interest entity, and “the VIE” mainly refers to Huizhi Weimei (Guangzhou) Trading Co., Ltd.; and
- “Yatsen,” “we,” “us,” “our company,” “our” and “Group” are to Yatsen Holding Limited, our Cayman Islands holding company and its subsidiaries, and, in the context of describing our operations and consolidated financial information, the VIE and the subsidiaries of the VIE.

Unless otherwise noted, all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this annual report are made at a rate of RMB6.8972 to US\$1.00, the exchange rate in effect as of December 30, 2022 as set forth in the H.10 statistical release of The Board of Governors of the Federal Reserve System. We make no representation that any Renminbi or U.S. dollar amounts referred to in this annual report could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange.

FORWARD-LOOKING INFORMATION

This annual report on Form 20-F contains forward-looking statements that reflect our current expectations and views of future events. The forward looking statements are contained principally in the sections entitled “Item 3. Key Information—D. Risk Factors,” “Item 4. Information on the Company—B. Business Overview,” and “Item 5. Operating and Financial Review and Prospects.” Known and unknown risks, uncertainties and other factors, including those listed under “Item 3. Key Information—D. Risk Factors,” may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements.

You can identify some of these forward-looking statements by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “is/are likely to,” “potential,” “continue” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include statements relating to

- our goals and strategies;
- our future business development, financial condition and results of operations;
- the trends in, expected growth and the market size of the beauty industry, both in the PRC and globally;
- our expectation regarding the prospects of our business model, and demand for and market acceptance of our products;
- our ability to develop and launch beauty products and introduce new brands that appeal to the preferences of customers;
- our expectations regarding the effectiveness of our marketing initiatives and the relationship with our third-party business partners;
- competition in our industry;
- relevant government policies and regulations relating to us, and their future development;
- general economic and business conditions globally and in China; and
- assumptions underlying or related to any of the foregoing.

These forward-looking statements involve various risks and uncertainties. Although we believe that our expectations expressed in these forward-looking statements are reasonable, our expectations may later be found to be incorrect. Our actual results could be materially different from our expectations. Important risks and factors that could cause our actual results to be materially different from our expectations are generally set forth in “Item 3. Key Information—D. Risk Factors,” “Item 4. Information on the Company—B. Business Overview,” “Item 5. Operating and Financial Review and Prospects,” and other sections in this annual report. You should read thoroughly this annual report and the documents that we refer to with the understanding that our actual future results may be materially different from and worse than what we expect. We qualify all of our forward-looking statements by these cautionary statements.

This annual report contains certain data and information that we obtained from various government and private publications. Statistical data in these publications also include projections based on a number of assumptions. Our industry may not grow at the rate projected by market data, or at all.

Failure of this market to grow at the projected rate may have a material and adverse effect on our business and the market price of the ADSs. In addition, the rapidly evolving nature of this industry results in significant uncertainties for any projections or estimates relating to the growth prospects or future condition of our market. Furthermore, if any one or more of the assumptions underlying the market data are later found to be incorrect, actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements.

The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this annual report and the documents that we refer to in this annual report and have filed as exhibits to this annual report completely and with the understanding that our actual future results may be materially different from what we expect.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

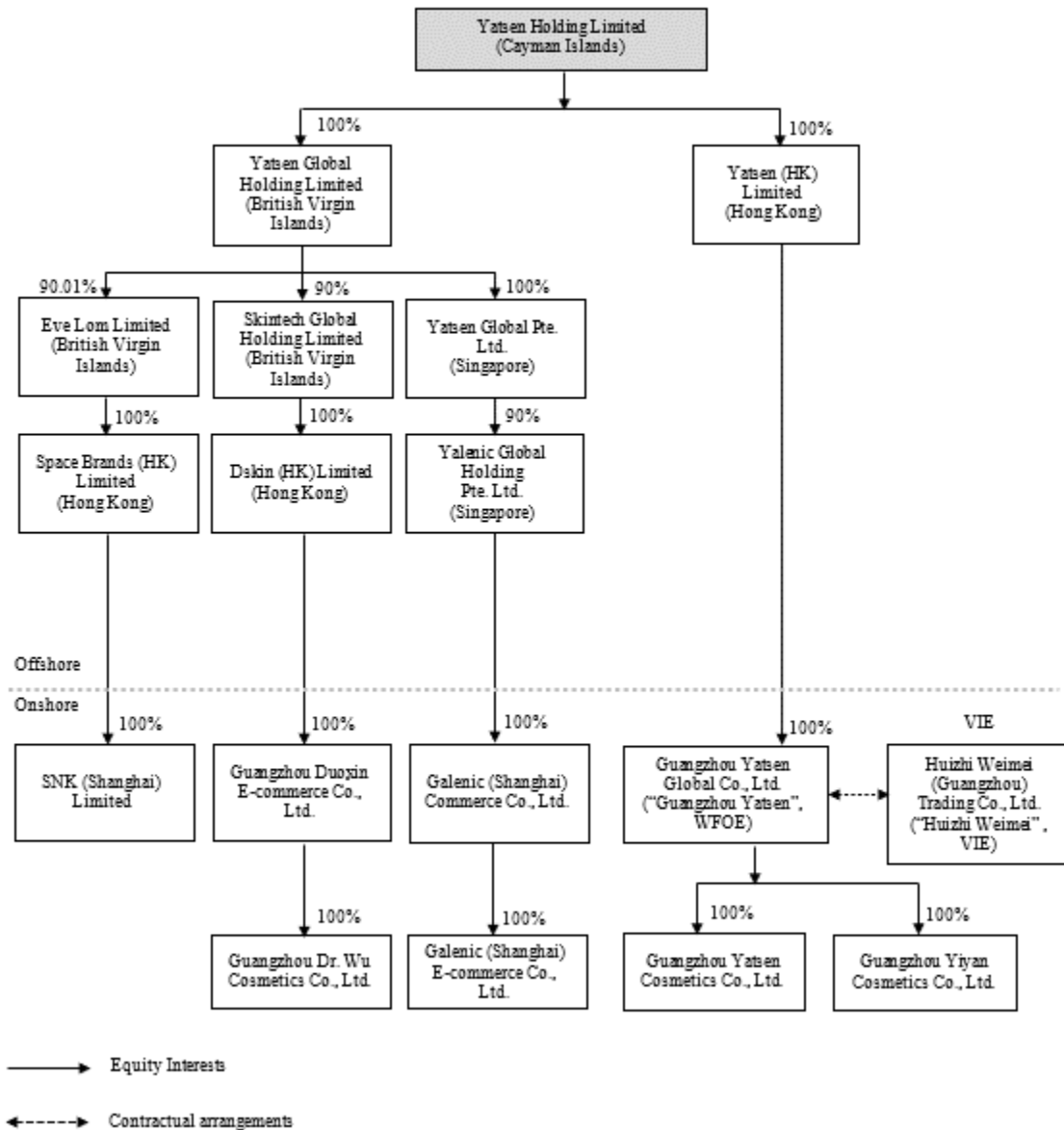
Not applicable.

ITEM 3. KEY INFORMATION

Our Holding Company Structure and Contractual Arrangements with the VIE

Yatsen Holding Limited is not an operating company in China but a Cayman Islands holding company with no equity ownership in the VIE. Our Cayman Islands holding company does not conduct business operations directly. We conduct our operations in China through (i) our PRC subsidiaries and (ii) the VIE with which we have maintained contractual arrangements. PRC laws and regulations impose certain restrictions or prohibitions on foreign ownership of companies that engage in certain value-added telecommunication services, internet audio-video program services and certain other businesses. Accordingly, we operate these businesses in China through the VIE and its subsidiaries, and rely on contractual arrangements among one of our PRC subsidiaries, the VIE and its nominee shareholders to control the business operations of the VIE, although our wholly foreign-owned subsidiaries still generate a significant majority of our revenues and hold a significant majority of our operational assets. The VIE structure provides contractual exposure to foreign investment in the China-based operating companies where PRC laws and regulations impose certain restrictions or prohibitions on direct foreign investment in the operating companies. Main assets held by the VIE and its subsidiaries include the majority of the social platforms and content offering platforms we operate such as Weixin public accounts and mini-programs, which are registered and held by the VIE and its subsidiaries, and the ICP License and the Permit for Production and Operation of Radio and Television Programs, which are critical to the online operation of our business. Revenues contributed by the VIE and its subsidiaries accounted for 17.1%, 8.9% and 8.7% of our total revenues for the years ended December 31, 2020, 2021 and 2022, respectively. As used in this annual report, “we,” “us,” “our company” and “our” refers to Yatsen Holding Limited, its subsidiaries, and, in the context of describing our operations and consolidated financial information, the VIE in China, which mainly refers to Huizhi Weimei (Guangzhou) Trading Co., Ltd. (including its subsidiaries), or Huizhi Weimei. Holders of our ADSs hold equity interest in Yatsen Holding Limited, our Cayman Islands holding company, and do not have direct or indirect equity interest in the VIE. The VIE structure involves unique risks to investors, and holders of our ADSs may never directly hold equity interests in the Chinese operating company. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure.”

The following diagram illustrates our corporate structure as of the date of this annual report, including our principal subsidiaries and other entities that are material to our business, as of the date of this annual report:



Note:

- (1) Mr. Jinfeng Huang, our chief executive officer and controlling shareholder, holds 75.0% of equity interests in Huizhi Weimei. The remaining 25.0% of the equity interests in Huizhi Weimei are held by Huiyue (Guangzhou) Trading Limited Partnership, a limited partnership organized under the laws of the PRC whose general partner is Yuemei (Guangzhou) Trading Co., Ltd., a PRC company controlled by Mr. Jinfeng Huang.

A series of contractual agreements, including proxy agreement and power of attorney, equity pledge agreement, exclusive business cooperation agreement and exclusive call option agreement, have been entered into by and among our subsidiary, the VIE and its shareholders. Despite the lack of legal majority ownership, our Cayman Islands holding company is considered the primary beneficiary of the VIE and consolidates the VIE and its subsidiaries as required by Accounting Standards Codification (“ASC”) topic 810, *Consolidation*. Accordingly, we treat the VIE as our consolidated entity under U.S. GAAP and we consolidate the financial results of the VIE in our consolidated financial statements in accordance with U.S. GAAP. For more details of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with the VIE and Its Shareholders.”

Our corporate structure is subject to risks associated with our contractual arrangements with the VIE. The contractual arrangements may not be as effective as direct ownership in providing us with control over the VIE and we may incur substantial costs to enforce the terms of the arrangements. As of the date of this annual report, our contracts with the VIE have not been tested in a court of law. Uncertainties in the PRC legal system may limit our ability, as a Cayman Islands holding company, to enforce these contractual arrangements. It is uncertain whether any new PRC laws or regulations relating to VIE structures will be adopted or if adopted, what they would provide. If we or the VIE is found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures. There are very few precedents as to whether contractual arrangements would be judged to form effective control over the relevant VIE through the contractual arrangements, or how contractual arrangements in the context of a VIE should be interpreted or enforced by the PRC courts. Should legal actions become necessary, we cannot guarantee that the court will rule in favor of the enforceability of the VIE contractual arrangements. In the event we are unable to enforce these contractual arrangements, or if we suffer significant delay or other obstacles in the process of enforcing those contractual arrangements, we may not be able to exert effective control over the VIE, and our ability to conduct our business and the financial performance of the VIE and our company as a whole may be materially adversely affected. In addition, the PRC regulatory authorities could disallow the VIE structure, which would likely result in a material adverse change in our operations, and our ADSs may decline significantly in value or become worthless. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure.”

We face various legal and operational risks and uncertainties related to doing business in China that could result in a material change in our operations and the value of our ADSs. The majority of our current business operations are conducted in China, and we are subject to complex and evolving PRC laws and regulations. For example, we face risks associated with regulatory approvals on offshore offerings and listings, anti-monopoly regulatory actions, and oversight on cybersecurity and data privacy. PRC government’s significant authority in regulating our operations and its oversight and control over offerings conducted overseas by, and foreign investment in, China-based issuers could significantly limit or completely hinder our ability to offer or continue to offer securities to investors. Implementation of industry-wide regulations in this nature may cause the value of such securities to significantly decline or be worthless. For more details, see “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—The PRC government’s significant oversight and discretion over our business operation could result in a material adverse change in our operations and the value of our ADSs.”

For example, the Data Security Law and the Personal Information Protection Law in 2021 posed additional challenges to our cybersecurity and data privacy compliance. The Revised Measures for Cybersecurity Review issued by the Cyberspace Administration of China, or the CAC and several other PRC governmental authorities in December 2021, as well as the Regulations on the Network Data Security (Draft for Comments), or the Draft Regulations, published by the CAC for public comments in November 2021, imposed potential additional restrictions on China-based overseas-listed companies like us. If the Revised Measures for Cybersecurity Review and the enacted version of the Draft Regulations mandate clearance of cybersecurity review and other specific actions to be taken by issuers like us, we face uncertainties as to whether these additional procedures can be completed by us timely, or at all, which may subject us to government enforcement actions and investigations, fines, penalties, or suspension of our non-compliant operations, and materially and adversely affect our business and results of operations and the price of our ADSs. See “Item 3. Key Information—Risk Factors—Risks Relating to Our Business and Industry—We collect, store, process and use a variety of customer data and information for analysis of the changing consumer preferences and fashion trends, and we are required to comply with PRC and other applicable laws relating to privacy, personal

information, data security and cybersecurity. The improper use or disclosure of data could have a material and adverse effect on our business and prospects” for additional details.

In addition, on February 17, 2023, the China Securities Regulatory Commission, or the CSRC, promulgated Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies, or the Overseas Listing Trial Measures, and five relevant supporting guidelines, together referred to as the New Overseas Listing Rules, which became effective on March 31, 2023. According to the New Overseas Listing Rules, an overseas offering and listing by a domestic company, whether directly or indirectly, shall be filed with the CSRC. On the same day when the New Overseas Listing Rules were promulgated, the CSRC also held a press conference for the release of the Overseas Listing Trial Measures and issued Notice on Administration for the Filing of Overseas Offering and Listing by Domestic Companies, which clarified that starting from March 31, 2023, enterprises that have been listed overseas shall be deemed as “the Stock Enterprises” and are not required to complete the overseas listing filing immediately until they conduct refinancing or are involved in other circumstances that require filing with the CSRC. However, in the event that we conduct refinancing or are involved in other circumstances where filings are required with the CSRC and we fail to do so, or if we fail to complete the relevant filing procedures for any future offshore offering or listing, our PRC operations may face sanctions by the CSRC or other PRC regulatory authorities, which may include warnings, orders of correction and fines between RMB1 million to RMB10 million, which could have a material and adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ADSs. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—The approval of and filing with the CSRC or other PRC government authorities may be required in connection with our offshore offerings under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval or complete such filing.”

Furthermore, the PRC anti-monopoly regulators have promulgated new anti-monopoly and competition laws and regulations and strengthened the enforcement under these laws and regulations. There remain uncertainties as to how these laws, regulations and guidelines will be implemented and whether these laws, regulations and guidelines will have a material impact on our business, financial condition, results of operations and prospects. We cannot assure you that our business operations comply with such regulations and authorities’ requirements in all respects. If any non-compliance is raised by relevant authorities and determined against us, we may be subject to fines and other penalties.

Risks and uncertainties arising from the legal system in China, including risks and uncertainties regarding the enforcement of laws and quickly evolving rules and regulations in China, could result in a material adverse change in our operations and the value of our ADSs. For more details, see “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—Uncertainties with respect to the PRC legal system could adversely affect us” and “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of internet-related business and companies, including limitations on our ability to own key assets.”

These risks, if materialized, could result in a material adverse change in our operations and the value of our ADSs, significantly limit or completely hinder our ability to continue to offer securities to investors, or cause the value of such securities to significantly decline or be worthless. For a detailed description of risks related to doing business in China, see “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China.”

Permissions or Filings Required from the PRC Authorities for Our Operations and Offshore Offerings

We conduct our business primarily through our subsidiaries and the VIE in China. Our operations in China are governed by PRC laws and regulations. As of the date of this annual report, our PRC subsidiaries and the VIE are required to obtain, and have obtained the following requisite permissions from the PRC government authorities that are necessary for the business operations of our holding company, our subsidiaries and the VIE in China: Value-Added Telecommunication Business Operation License for provision of internet information services, or the ICP License, and the Permit for Production and Operation of Radio and Television Programs, Record Filing Certificate for Operation of Class II Medical Devices for sales for medical skincare products, Registration Certificate for Operation of Class III Medical Devices for color contact lens sales, Qualification for Drug Information Services over the Internet, Record Filing for Online Sales for Medical Devices and the Permit for the Food Trade for our sale of health-care food and snacks as well as operating a café. In addition, we have completed the Foreign Trade Business Operator

Registration and the Consignor/Consignee Registration for Export and Import of Goods to carry out import of goods to facilitate the operation of our portfolio brands and to implement our sales of products to overseas markets. We have filed the franchise agreement in effect with the Department of Commerce of Guangdong Province for the launch of our franchise business model for our products under the Perfect Dairy brand. Given the uncertainties of interpretation and implementation of relevant laws and regulations and the enforcement practice by relevant government authorities, we may be required to obtain additional licenses, permits, filings or approvals for the functions and services of our business in the future, and may not be able to maintain or renew our current licenses, permits, filings or approvals. For more detailed information, see “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—If the content we produce and distribute through online social and content platforms, or content available on our website, is deemed to violate PRC laws or regulations, our business and results of operations may be materially and adversely affected.”

The PRC governmental authorities have promulgated PRC laws and regulations relating to cybersecurity review and overseas listings. In connection with our previous issuance of securities to foreign investors, under current PRC laws, regulations and regulatory rules, as of the date of this annual report, we, our PRC subsidiaries and the VIE, (i) are not required to obtain permissions from the CSRC, as advised by our PRC legal counsel, (ii) have not been required by competent PRC governmental authorities to go through cybersecurity review by the CAC, and a phone consultation dated July 19, 2022 conducted by our PRC legal counsel with the China Cybersecurity Review Technology and Certification Center further confirmed that the requirement for cybersecurity review before certain public offerings on a foreign stock exchange under the Revised Measures for Cybersecurity Review would not apply to previous issuances of securities to foreign investors that occurred before the adoption of the Revised Measures for Cybersecurity Review, and (iii) have not received or were denied such requisite permissions by any PRC authority. However, if the governmental authorities subsequently disagree with our conclusion that such approvals were not required, or if applicable laws, regulations or interpretations change in a way that requires us to obtain such approvals in the future, we may be unable to obtain such necessary approvals in a timely manner, or at all, and such approvals may be rescinded even if obtained. Any such circumstance could subject us to penalties, including fines, suspension of business and revocation of required licenses, significantly limit or completely hinder our ability to continue to offer securities to investors and cause the value of such securities to significantly decline or be worthless. Furthermore, in connection with any future offering and listing in an overseas market, under current PRC laws, regulations and regulatory rules, we, our PRC subsidiaries and the VIE may be required to obtain permissions from the China Securities Regulatory Commission, or the CSRC, and may be required to go through cybersecurity review by the Cyberspace Administration of China, or the CAC. If we fail to obtain the relevant approval or complete other review or filing procedures for any future offshore offering or listing, we may face sanctions by the CSRC or other PRC regulatory authorities, which may include fines and penalties on our operations in China, limitations on our operating privileges in China, restrictions on or prohibition of the payments or remittance of dividends by our subsidiaries in China, restrictions on or delays to our future financing transactions offshore, or other actions that could have a material and adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ADSs. For more detailed information, see “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—The approval of and filing with the CSRC or other PRC government authorities may be required in connection with our offshore offerings under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval or complete such filing” and “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—We collect, store, process and use a variety of customer data and information for analysis of the changing consumer preferences and fashion trends, which subjects us to laws and regulations related to privacy, information security and data protection. Any failure to comply with these law and regulations could materially and adversely harm our business, financial condition and results of operations.”

The Holding Foreign Companies Accountable Act

Pursuant to the Holding Foreign Companies Accountable Act, if the Securities and Exchange Commission, or the SEC, determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspections by the Public Company Accounting Oversight Board (United States), or the PCAOB, for two consecutive years, the SEC will prohibit our shares or the ADSs from being traded on a national securities exchange or in the over-the-counter trading market in the United States. On December 16, 2021, the PCAOB issued a report to notify the SEC of its determination that the PCAOB was unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong, including our auditor. In May 2022, the SEC conclusively listed us as a Commission-Identified Issuer under the HFCAA following the filing of the annual report

on Form 20-F for the fiscal year ended December 31, 2021. On December 15, 2022, the PCAOB issued a report that vacated its December 16, 2021 determination and removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. For this reason, we do not expect to be identified as a Commission-Identified Issuer under the HFCAA after we file this annual report on Form 20-F. Each year, the PCAOB will determine whether it can inspect and investigate completely audit firms in mainland China and Hong Kong, among other jurisdictions. If PCAOB determines in the future that it no longer has full access to inspect and investigate completely accounting firms in mainland China and Hong Kong and we continue to use an accounting firm headquartered in one of these jurisdictions to issue an audit report on our financial statements filed with the SEC, we would be identified as a Commission-Identified Issuer following the filing of the annual report on Form 20-F for the relevant fiscal year. There can be no assurance that we would not be identified as a Commission-Identified Issuer for any future fiscal year, and if we were so identified for two consecutive years, we would become subject to the prohibition on trading under the HFCAA. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—The PCAOB had historically been unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections of our auditor in the past has deprived our investors with the benefits of such inspections.” and “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—Our ADSs may be prohibited from trading in the United States under the HFCAA in the future if the PCAOB is unable to inspect or investigate completely auditors located in China. The delisting of the ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment.”

Cash and Asset Flows through Our Organization

Yatsen Holding Limited is a holding company with no operations of its own. We conduct our operations in China primarily through our subsidiaries and the VIE in China. As a result, although other means are available for us to obtain financing at the holding company level, Yatsen Holding Limited’s ability to pay dividends to the shareholders and to service any debt it may incur may depend upon dividends paid by our PRC subsidiaries and license and service fees paid by the VIE in China. If any of our subsidiaries incurs debt on its own behalf in the future, the instruments governing such debt may restrict its ability to pay dividends to Yatsen Holding Limited. In addition, our PRC subsidiaries are permitted to pay dividends to Yatsen Holding Limited only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Further, our PRC subsidiaries and the VIE are required to make appropriations to certain statutory reserve funds or may make appropriations to certain discretionary funds, which are not distributable as cash dividends except in the event of a solvent liquidation of the companies. For more details, see “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Holding Company Structure.” Our subsidiaries’ ability to distribute dividends is based upon their distributable earnings.

We have established stringent controls and procedures for cash flows within our organization. Each transfer of cash between our Cayman Islands holding company and a subsidiary, the VIE or its subsidiaries is subject to internal approval. The cash inflows of the Cayman Islands holding company were primarily generated from the proceeds we received from our initial public offering of ADSs and other financing activities. For the years ended December 31, 2020, 2021 and 2022, the Cayman Islands holding company provided capital contributions of RMB625.0 million, RMB25.9 million and nil, respectively, to our subsidiaries. For the years ended December 31, 2020, 2021 and 2022, the VIE received net debt financing of nil, RMB93.0 million and nil from our WFOE, respectively. For the years ended December 31, 2020, 2021 and 2022, our WFOE received RMB313.7 million, RMB236.4 million and RMB217.8 million (US\$31.6 million), respectively, from the VIE, which represented purchase of inventories, logistics services, promotion services and others. For the years ended December 31, 2020, 2021 and 2022, no assets other than cash were transferred between the Cayman Islands holding company and a subsidiary, the VIE or its subsidiaries, no subsidiaries paid dividends or made other distributions to the holding company, and no dividends or distributions were paid or made to U.S. investors. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business. See “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Dividend Policy.” However, If our PRC subsidiaries declare and distribute profits to us, such payments will be subject to withholding tax, which will increase our tax liability and reduce the amount of cash available to our company. For more information on related risks, please see “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material and adverse effect on our ability to

conduct our business.” For PRC and United States federal income tax considerations of an investment in our ADSs, see “Item 10. Additional Information—E. Taxation.”

The VIE may transfer cash to our WFOE by paying service fees according to the contractual arrangements. For the years ended December 31, 2020, 2021 and 2022, no service fees were paid by the VIE to our WFOE. For details of the financial position, cash flows and results of operations of the VIE, see “Item 3. Key Information—Permissions or Filings Required from the PRC Authorities for Our Operation and Offshore Offerings—Financial Information Related to the VIE.” We plan to determine the amount of service fee with the VIE and its shareholders through bona fide negotiation, and settle fees under the contractual arrangements accordingly in the future.

Under the current laws of the Cayman Islands, Yatsen Holding Limited is not subject to tax on income or capital gains. Upon payments of dividends to our shareholders, no Cayman Islands withholding tax will be imposed. For purposes of illustration, the following discussion reflects the hypothetical taxes that might be required to be paid in mainland China and Hong Kong, assuming that: (i) we have taxable earnings in the VIE, and (ii) we determine to pay a dividend in the future:

	Tax Calculation⁽¹⁾
Hypothetical pre-tax earnings in the VIE ⁽¹⁾	100.00
Tax on earnings at statutory rate of 25% at Guangzhou Yatsen Global Co., Ltd. Level	(25.00)
Amount to be distributed as dividend from Guangzhou Yatsen Global Co., Ltd. to Yatsen HK Limited ⁽²⁾	75.00
Withholding tax at tax treaty rate of 5%	(3.75)
Amount to be distributed as dividend at the Yatsen HK Limited level and net distribution to Yatsen Holding Limited ⁽³⁾	71.25

Notes:

* The table above has been prepared under the assumption that all profits of the VIE will be distributed as fees to our WFOE under tax neutral contractual arrangements. If, in the future, the accumulated earnings of the VIE exceed the service fees paid to our WFOE (or if the current and contemplated fee structure between the intercompany entities is determined to be non-substantive and disallowed by Chinese tax authorities), the VIE could make a non-deductible transfer to our WFOE for the amounts of the stranded cash in the VIE. This would result in such transfer being non-deductible expenses for the VIE but still taxable income for our WFOE. Our management believes that there is only a remote possibility that this scenario would happen.

Should all tax planning strategies fail, the VIE could, as a matter of last resort, make a non-deductible transfer to our WFOE for amounts of stranded cash in the VIE. This would result in the double taxation of earnings: once at the VIE level (non-deductible expense) and again at the WFOE level (for presumptive earnings on the transfer). This has the impact of reducing the amount available above from 71.25% to approximately 53% of pre-tax income, respectively. Our management believes that such scenario is unlikely to occur.

- (1) For purposes of this example, the tax calculation has been simplified. The hypothetical book pre-tax earnings amount, not considering timing differences, is assumed to equal taxable income in China.
- (2) PRC Enterprise Income Tax Law imposes a withholding income tax of 10% on dividends distributed by a Foreign Invested Enterprise to its immediate holding company outside of mainland China. A lower withholding income tax rate of 5% is applied if the Foreign Invested Enterprise's immediate holding company is registered in Hong Kong or other jurisdictions that have a tax treaty arrangement with mainland China, subject to a qualification review at the time of the distribution. There is no incremental tax at the Yatsen HK Limited level for any dividend distribution to Yatsen Holding Limited.
- (3) If a 10% withholding income tax rate is imposed, the withholding tax will be 7.5 and the amount to be distributed as dividend at the Yatsen HK Limited level and net distribution to Yatsen Holding Limited will be 67.5.

In addition, our PRC subsidiaries, the VIE and its subsidiaries generate their revenue primarily in Renminbi, which is not freely convertible into other currencies. As a result, any restriction on currency exchange may limit the ability of our PRC subsidiaries to pay dividends to us. For more details, see Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business, and “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using the proceeds from our securities offering to make loans or additional capital contributions to our PRC subsidiaries and the VIE in China, which could materially and adversely affect our liquidity and our ability to fund and expand our business.”

Financial Information Related to the VIE

The following tables present the condensed consolidating schedule of financial position for Yatsen Holding Limited, its subsidiaries, the VIE and other entities as of the dates presented.

Selected Condensed Consolidated Statements of Income Information

	For the Year Ended December 31, 2022					
	Yatsen Holding Limited	Other Subsidiaries	Primary Beneficiary of VIE (WFOE and its subsidiaries)	VIE and VIE's subsidiaries	Eliminating Adjustments	Consolidated Totals
	(RMB in thousands)					
Third-party revenues	-	1,336,588	2,046,288	323,246	-	3,706,122
Inter-company revenues ⁽¹⁾	-	12,187	440,931	-	(453,118)	-
Third-party costs and expenses	(19,329)	(1,198,946)	(3,274,416)	(142,329)	-	(4,635,020)
Inter-company costs and expenses	-	(278,810)	2,654	(175,110)	451,266	-
Income (loss) from subsidiaries and VIE	(812,151)	(675,698)	16,624	-	1,471,225	-
Income (loss) from non-operations	16,109	(10,905)	94,249	10,817	-	110,270
Income (loss) before income tax expenses	(815,371)	(815,584)	(673,670)	16,624	1,469,373	(818,628)
Income tax (expenses) benefits	-	(2,173)	(532)	-	-	(2,705)
Net income (loss)	(815,371)	(817,757)	(674,202)	16,624	1,469,373	(821,333)
Less: net income (loss) attributable to non-controlling interests and redeemable non-controlling interests	-	(5,606)	(356)	-	-	(5,962)
Net income (loss) attributable to Yatsen Holding Limited's shareholders	(815,371)	(812,151)	(673,846)	16,624	1,469,373	(815,371)
Net income (loss) attributable to ordinary shareholders of Yatsen Holding Limited	(815,371)	(812,151)	(673,846)	16,624	1,469,373	(815,371)
	For the year ended December 31, 2021					
	Yatsen Holding Limited	Other Subsidiaries	Primary Beneficiary of VIE (WFOE and its subsidiaries)	VIE and VIE's subsidiaries	Eliminating Adjustments	Consolidated Totals
	(RMB in thousands)					
Third-party revenues	-	951,001	4,367,137	521,835	-	5,839,973
Inter-company revenues ⁽¹⁾	-	11,972	413,617	-	(425,589)	-
Third-party costs and expenses	(28,484)	(1,040,549)	(6,091,570)	(303,614)	-	(7,464,217)
Inter-company costs and expenses	-	(176,817)	-	(248,772)	425,589	-
Income (loss) from subsidiaries and VIE	(1,527,645)	(1,336,728)	(27,886)	-	2,892,259	-
Income (loss) from non-operations	15,395	54,538	3,611	2,741	-	76,285
Income (loss) before income tax expenses	(1,540,734)	(1,536,583)	(1,335,091)	(27,810)	2,892,259	(1,547,959)
Income tax (expenses) benefits	-	2,634	(1,637)	(76)	-	921
Net income (loss)	(1,540,734)	(1,533,949)	(1,336,728)	(27,886)	2,892,259	(1,547,038)
Less: net income (loss) attributable to non-controlling interests and redeemable non-controlling interests	-	(6,304)	-	-	-	(6,304)
Net income (loss) attributable to Yatsen Holding Limited's shareholders	(1,540,734)	(1,527,645)	(1,336,728)	(27,886)	2,892,259	(1,540,734)
Net income (loss) attributable to ordinary shareholders of Yatsen Holding Limited	(1,540,734)	(1,527,645)	(1,336,728)	(27,886)	2,892,259	(1,540,734)

For the Year Ended December 31, 2020

	Yatsen Holding Limited	Other Subsidiaries	Primary Beneficiary of VIE (WFOE and its subsidiaries)	VIE and VIE's Subsidiaries	Eliminating Adjustments	Consolidated Totals
	(RMB in thousands)					
Third-party revenues	-	427,553	3,909,547	896,070	-	5,233,170
Inter-company revenues ⁽¹⁾	-	1,347	415,052	11,665	(428,064)	-
Third-party costs and expenses	(9,871)	(527,874)	(6,602,866)	(775,230)	-	(7,915,841)
Inter-company costs and expenses		(106,912)	(11,943)	(309,209)	428,064	-
Income (loss) from subsidiaries and VIE	(2,683,245)	(2,483,979)	(176,187)	-	5,343,411	-
Income (loss) from non-operations	5,309	6,091	(10,686)	512	-	1,226
Income (loss) before income tax expenses	(2,687,807)	(2,683,774)	(2,477,083)	(176,192)	5,343,411	(2,681,445)
Income tax (expenses) benefits	--	(79)	(6,896)	5	-	(6,970)
Net income (loss)	(2,687,807)	(2,683,853)	(2,483,979)	(176,187)	5,343,411	(2,688,415)
Less: net income (loss) attributable to non-controlling interests	-	(608)	-	-	-	(608)
Net income (loss) attributable to Yatsen Holding Limited's shareholders	(2,687,807)	(2,683,245)	(2,483,979)	(176,187)	5,343,411	(2,687,807)
Accretion to Preferred Shares	(242,209)	-	-	-	-	(242,209)
Deemed dividends due to modification of Preferred Shares	(1,054,220)	-	-	-	-	(1,054,220)
Net income (loss) attributable to ordinary shareholders of Yatsen Holding Limited	(3,984,236)	(2,683,245)	(2,483,979)	(176,187)	5,343,411	(3,984,236)

Selected Condensed Consolidated Balance Sheets Information

As of December 31, 2022						
	Yatsen Holding Limited	Other Subsidiaries	Primary Beneficiary of VIE (WFOE and its subsidiaries)	VIE and VIE's Subsidiaries	Eliminating adjustments	Consolidated Totals
	(RMB in thousands)					
Cash and cash equivalents	115,480	1,047,733	340,808	8,924	-	1,512,945
Restricted cash	41,383	-	-	-	-	41,383
Short-term investments	345,171	627,679	100,017	-	-	1,072,867
Accounts receivable	-	81,472	117,324	2,047	-	200,843
Inventories, net	-	184,721	237,486	1,080	-	423,287
Prepayments and other current assets	483	103,236	179,383	9,723	-	292,825
Amounts due from related parties	-	2,188	3,466	-	-	5,654
Amounts due from Group companies ⁽²⁾	5,550,398	6,802	589,473	-	(6,146,673)	-
Investments	-	116,811	224,128	161,640	-	502,579
Investments in subsidiaries and VIE ⁽³⁾	-	1,601,560	-	-	(1,601,560)	-
Property and equipment, net	-	5,757	64,117	5,745	-	75,619
Goodwill	-	853,887	3,258	-	-	857,145
Intangible assets, net	-	662,850	26,817	2	-	689,669
Deferred tax assets	-	1,951	-	-	-	1,951
Right-of-use assets, net	-	14,102	118,828	74	-	133,004
Other non-current assets	-	1,707	51,178	-	-	52,885
Total assets	6,052,915	5,312,456	2,056,283	189,235	(7,748,233)	5,862,656
Accounts payable	-	35,955	75,079	8,813	-	119,847
Advances from customers	-	8,278	2,482	5,892	-	16,652
Accrued expenses and other liabilities	6,689	116,059	183,887	16,624	-	323,259
Amounts due to related parties	-	7,165	20,077	-	-	27,242
Income tax payables	-	7,162	13,735	929	-	21,826
Lease liabilities due within one year	-	4,068	75,440	78	-	79,586
Amounts due to Group companies ⁽²⁾	13,084	5,935,642	2,558	195,389	(6,146,673)	-
Deferred tax liabilities	-	113,441	-	-	-	113,441
Deficit investments in subsidiaries and VIE ⁽³⁾	1,268,420	-	38,490	-	(1,306,910)	-
Deferred income	45,280	-	-	-	-	45,280
Lease liabilities	-	10,008	42,989	-	-	52,997
Total liabilities	1,333,473	6,237,778	454,737	227,725	(7,453,583)	800,130
Redeemable non-controlling interests	-	339,924	-	-	-	339,924
Total shareholders' equity (deficit)	4,719,442	(1,265,246)	1,601,546	(38,490)	(294,650)	4,722,602
Total liabilities, redeemable non-controlling interests and shareholders' equity (deficit)	6,052,915	5,312,456	2,056,283	189,235	(7,748,233)	5,862,656

As of December 31, 2021						
	Yatsen Holding Limited	Other Subsidiaries	Primary Beneficiary of VIE (WFOE and its subsidiaries)	VIE and VIE's Subsidiaries	Eliminating adjustments	Consolidated Totals
	(RMB in thousands)					
Cash and cash equivalents	33,320	2,728,438	348,711	27,539	-	3,138,008
Accounts receivable	-	81,947	265,781	8,109	-	355,837
Inventories, net	-	212,391	482,364	1,006	-	695,761
Prepayments and other current assets	2,494	87,734	258,438	17,525	-	366,191
Amounts due from related parties	-	-	60	-	-	60
Amounts due from Group companies ⁽²⁾	6,157,680	14,098	665,483	-	(6,837,261)	-
Investments	-	106,081	125,437	118,862	-	350,380
Investments in subsidiaries and VIE ⁽³⁾	-	1,937,743	-	-	(1,937,743)	-
Property and equipment, net	-	5,700	228,508	11,106	-	245,314
Goodwill	-	866,163	3,258	-	-	869,421
Intangible assets, net	-	723,681	22,132	38	-	745,851
Deferred tax assets	-	2,000	-	-	-	2,000
Right-of-use assets, net	-	19,268	403,555	143	-	422,966
Other non-current assets	-	6,588	73,632	-	-	80,220
Total assets	6,193,494	6,791,832	2,877,359	184,328	(8,775,004)	7,272,009
Accounts payable	-	43,998	185,052	11,765	-	240,815
Advances from customers	-	5,049	1,369	14,262	-	20,680
Accrued expenses and other liabilities	19,766	70,010	262,028	18,727	-	370,531
Amounts due to related parties	-	217	13,750	-	-	13,967
Income tax payables	-	1,614	14,128	1,005	-	16,747
Lease liabilities due within one year	-	5,423	209,346	74	-	214,843
Amounts due to Group companies ⁽²⁾	-	6,637,728	5,616	193,917	(6,837,261)	-
Deferred tax liabilities	-	124,450	-	-	-	124,450
Deficit of investments in subsidiaries and VIE ⁽³⁾	458,360	-	55,500	-	(513,860)	-
Deferred income	56,180	-	-	-	-	56,180
Lease liabilities	-	13,740	192,485	78	-	206,303
Total liabilities	534,306	6,902,229	939,274	239,828	(7,351,121)	1,264,516
Redeemable non-controlling interests	-	338,587	-	-	-	338,587
Total shareholders' (deficit) equity	5,659,188	(448,984)	1,938,085	(5,500)	(1,423,883)	5,668,906
Total liabilities, redeemable non-controlling interests and shareholders' equity (deficit)	6,193,494	6,791,832	2,877,359	184,328	(8,775,004)	7,272,009

Movements of investments in subsidiaries and VIE / (deficit of investments in subsidiaries and VIE) in Yatsen Holding Limited's separate financial statements are as follows:

	RMB (in thousands)
As of January 1, 2020	683,002
Capital contribution to subsidiaries	624,978
Share-based compensation costs incurred on behalf of subsidiaries	1,900,588
Payments made by subsidiaries on behalf of the Company	(40,464)
Share of loss of subsidiaries and VIE	(2,683,245)
Share of changes in accumulated other comprehensive income of subsidiaries	100,187
Foreign currency translation	(58,464)
As of December 31, 2020	526,582
Capital contribution to subsidiaries	25,856
Share-based compensation costs incurred on behalf of subsidiaries	530,440
Share of loss of subsidiaries and VIE	(1,527,645)
Share of changes in accumulated other comprehensive income of subsidiaries	12,679
Foreign currency translation	(26,272)
As of December 31, 2021	(458,360)
Capital contribution to subsidiaries	-
Share-based compensation costs incurred on behalf of subsidiaries	340,860
Share of loss of subsidiaries and VIE	(812,151)
Share of changes in accumulated other comprehensive income of subsidiaries	(429,657)
Foreign currency translation	90,888
As of December 31, 2022	(1,268,420)

Selected Condensed Consolidated Cash Flows Information

For the Year Ended December 31, 2022						
	Yatsen Holding Limited	Other Subsidiaries	Primary Beneficiary of VIE (WFOE and its subsidiaries)	VIE and VIE's Subsidiaries	Eliminating adjustments	Consolidated Totals
	(RMB in thousands)					
Net cash provided by (used in) Operating Activities ⁽⁴⁾	(25,271)	221,798	(77,625)	17,306	-	136,208
Capital contribution to Group companies	-	-	-	-	-	-
Advances to Group companies	(1,396,460)	-	(154,158)	-	1,550,618	-
Receival of advances repayment from Group companies	2,539,576	-	474,286	-	(3,013,862)	-
Purchases of short-term investments	(342,380)	(1,879,422)	(200,000)	-	-	(2,421,802)
Maturities of short-term investments	-	1,359,564	100,000	-	-	1,459,564
Purchases of intangible assets	-	(351)	(8,199)	-	-	(8,550)
Purchases of property and equipment	-	(2,553)	(47,948)	(277)	-	(50,778)
Acquisition of businesses, net of cash and cash equivalents acquired	-	(2,107)	-	-	-	(2,107)
Investments on equity investments	-	(1,842)	(104,000)	(30,000)	-	(135,842)
Payment on behalf of Group companies	-	-	-	-	-	-
Other investing activities	-	-	4,099	-	-	4,099
Net cash provided by (used in) Investing Activities	800,736	(526,711)	64,080	(30,277)	(1,463,244)	(1,155,416)
Capital contribution from Group companies	-	-	-	-	-	-
Proceeds from advances from Group companies	-	1,550,618	-	-	(1,550,618)	-
Repayment of advances from Group companies	-	(3,013,862)	-	-	3,013,862	-
Issuance costs of issuance of Ordinary Shares in IPO	(1,706)	-	-	-	-	(1,706)
Proceeds from issuance of Preferred Shares, net of issuance costs	-	-	-	-	-	-
Repayment of a shareholder receivable resulting from Reorganization	-	-	-	-	-	-
Repurchases of Ordinary Shares	(654,650)	-	-	-	-	(654,650)
Repurchases of Preferred Shares	-	-	-	-	-	-
Other financing activities	1,906	-	5,644	(5,644)	-	1,906
Net cash provided by (used in) Financing Activities	(654,450)	(1,463,244)	5,644	(5,644)	1,463,244	(654,450)

For the Year Ended December 31, 2021						
	Yatsen Holding Limited	Other Subsidiaries	Primary Beneficiary of VIE (WFOE and its subsidiaries)	VIE and VIE's Subsidiaries	Eliminating adjustments	Consolidated Totals
	(RMB in thousands)					
Net cash provided by (used in) Operating Activities ⁽⁴⁾	45,330	(218,176)	(864,773)	17,178		(1,020,441)
Capital contribution to Group companies	(25,856)	(1,466,874)	(7,450)	-	1,500,180	-
Advances to Group companies	(2,060,287)	-	(391,564)	-	2,451,851	-
Receival of advances repayment from Group companies	1,165,010	-	149,664	-	(1,314,674)	-
Purchases of intangible assets	-	(10,648)	(14,590)	(66)	-	(25,304)
Purchases of property and equipment	-	(4,321)	(135,942)	(1,170)	-	(141,433)
Acquisition of businesses, net of cash and cash equivalents acquired	-	(992,408)	2,756	-	-	(989,652)
Investments on equity investments	-	(97,326)	(105,499)	(120,000)	-	(322,825)
Other investing activities	-	(5,043)	-	-	-	(5,043)
Net cash provided by (used in) Investing Activities	(921,133)	(2,576,620)	(502,625)	(121,236)	2,637,357	(1,484,257)
Capital contribution from Group companies	-	25,856	1,466,874	7,450	(1,500,180)	-
Proceeds from advances from Group companies	-	2,322,187	-	129,664	(2,451,851)	-
Repayment of advances limn Group companies	-	(1,278,010)	-	(36,664)	1,314,674	-
Other financing activities	(2,202)	596	(100)	-	-	(1,706)
Net cash provided by (used in) Financing Activities	(2,202)	1,070,629	1,466,774	100,450	(2,637,357)	(1,706)

For the Year Ended December 31, 2020						
	Yatsen Holding Limited	Other Subsidiaries	Primary Beneficiary of VIE (WFOE and its subsidiaries)	VIE and VIE's Subsidiaries	Eliminating adjustments	Consolidated Totals
	(RMB in thousands)					
Net cash provided by (used in) Operating Activities ⁽⁴⁾	(20,890)	(180,998)	(829,310)	47,830	-	(983,368)
Capital contribution to Group companies	(624,978)	(1,409,694)	-	-	2,034,672	-
Advances to Group companies	(5,487,408)	-	(422,213)	-	5,909,621	-
Receival of advances repayment from Group companies	840	-	306,913	-	(307,753)	-
Payment on behalf of Group companies	-	-	(74,662)	-	74,662	-
Purchases of intangible assets	-	(150,833)	(7,861)	(316)	-	(159,010)
Purchases of property and equipment	-	(556)	(208,227)	(16,786)	-	(225,569)
Pre-paid consideration for an acquisition	-	(71,476)	-	-	(24,500)	(95,976)
Investments on equity investments	-	(5,345)	(30,207)	-	-	(35,552)
Other investing activities	(3,196)	-	10,471	-	-	7,275
Net cash provided by (used in) Investing Activities	(6,114,742)	(1,637,904)	(425,786)	(17,102)	7,686,702	(508,832)
Capital contribution from Group companies	-	624,978	1,409,694		(2,034,672)	-
Proceeds from advances from Group companies	-	5,605,708	-	303,913	(5,909,621)	-
Repayment of advances limn Group companies	-	(3,840)	-	(303,913)	307,753	-
Proceeds from issuance of Preferred Shares, net of issuance costs	3,909,059	-	-	-	(40,465)	3,868,594
Proceeds from issuance of Ordinary Shares, net of issuance costs	4,389,910	-	-	-	(9,697)	4,380,213
Repurchases of Ordinary Shares	(491,167)	-	-	-	-	(491,167)
Repurchases of Preferred Shares	(1,076,771)	-	-	-	-	(7,076,771)
Other financing activities	-	2,593	10	(2,603)	-	-
Net cash provided by (used in) Financing Activities	6,731,031	6,229,439	1,409,704	(2,603)	(7,686,702)	6,680,869

Notes:

* The payment by Primary Beneficiary of VIE (WFOE and its subsidiaries) on behalf of Group companies was reclassified on consolidation level in accordance with nature.

** As of December 31, 2020, 2021 and 2022, amounts due to non-VIE subsidiaries included nil, RMB93.0 million and RMB93.0 million for net debt financing from Group companies to the consolidated VIE not yet returned.

*** Pursuant to the Exclusive Business Cooperation Agreement entered into in July 2019 between the Primary Beneficiary of VIE (WFOE and its subsidiaries) and the VIE, the VIE engages the Primary Beneficiary of VIE (WFOE and its subsidiaries) as the exclusive service provider of technical support, consulting services and other services to the VIE. In return, the VIE agrees to pay the Primary Beneficiary of VIE (WFOE and its subsidiaries) a service fee in an amount based on one of the below methods determined by the Primary Beneficiary of VIE (WFOE and its subsidiaries): a certain percentage of revenue of the VIE, a fixed licensing fee for the use of certain software, and/or other payment methods determined by the Primary Beneficiary of VIE (WFOE and its subsidiaries) from time to time according to the nature of services provided. The Primary Beneficiary of VIE (WFOE and its subsidiaries) may adjust the amount of service fee based on factors such as the complexity, time spent and the commercial value of the services.

For the years ended December 31, 2020, 2021 and 2022, the Primary Beneficiary of VIE (WFOE and its subsidiaries) decided not to charge any service fee from the VIE in relation to the Exclusive Business Cooperation Agreement, and no service fees were paid by the VIE to the Primary Beneficiary of VIE (WFOE and its subsidiaries) during the respective periods.

Besides the Exclusive Business Cooperation Agreement, all intercompany transactions between (i) Primary Beneficiary of VIE (WFOE and its subsidiaries) and (ii) VIE and VIE's subsidiaries, which are set forth in the footnotes below, were conducted in accordance with the relevant agreements for the years ended December 31, 2020, 2021 and 2022. The relevant intercompany payables and cash flows resulting from such contractual arrangements are also set forth in the footnotes below.

- (1) Represents the elimination of the intercompany transaction at the consolidation level.

The intercompany transaction being eliminated mainly represents goods and services purchased by VIE and VIE's subsidiaries from Primary Beneficiary of VIE (WFOE and its subsidiaries), the details of which are set forth below:

		For the Year Ended December 31,			Basis for determination of the transaction pricing
		2020	2021	2022	
		(RMB in thousands)			
(a)	Cosmetic Products	274,967	208,203	118,764	Cost plus method
(b)	Logistics, promotions and other services	32,951	34,219	44,347	Referencing to market price
	Total	307,918	242,422	163,111	

- (2) Represents the elimination of intercompany balances among Yatsen Holding Limited, other subsidiaries, primary beneficiary of VIE (WFOE and its subsidiaries), and VIE and VIE's subsidiaries, which related to advances borrowed, payable for product and services in the normal course of business.

As of December 31, 2020, 2021 and 2022, the intercompany balances between (i) Primary Beneficiary of VIE (WFOE and its subsidiaries) and (ii) VIE and VIE's subsidiaries mainly represent: (a) VIE and VIE's subsidiaries' payables due to Primary Beneficiary of VIE (WFOE and its subsidiaries) arising from purchases of products and services in the amount of RMB49,839 thousand, RMB84,301 thousand and RMB98,780 thousand, respectively; and (b) VIE and VIE's subsidiaries' payables due to Primary Beneficiary of VIE (WFOE and its subsidiaries) arising from advances borrowed amounting to nil, RMB93,000 thousand and RMB93,000 thousand, respectively.

- (3) Represents the elimination of the investment among Yatsen Holding Limited, other subsidiaries, primary beneficiary of VIE (WFOE and its subsidiaries), and VIE and VIE's subsidiaries.
- (4) For the years ended December 31, 2020, 2021 and 2022, cash paid by the VIE to Primary Beneficiary of VIE (WFOE and its subsidiaries) were RMB313,678 thousand, RMB236,389 thousand and RMB217,839 thousand, respectively, which represented purchase of inventories, logistics services, promotion services and other services, the details of which are set forth below:

		For the Year Ended December 31,		
		2020	2021	2022
		(RMB in thousands)		
(a)	Cosmetic Products	262,078	201,199	141,417
(b)	Logistics, promotions and other services	51,600	35,190	76,422
	Total	313,678	236,389	217,839

Selected Consolidated Financial Data

The following selected consolidated statements of operations and selected consolidated statements of comprehensive income (loss) for the years ended December 31, 2020, 2021 and 2022, selected consolidated balance sheets data as of December 31, 2021 and 2022, and selected consolidated cash flow data for the years ended December 31, 2020, 2021 and 2022 have been derived from our audited consolidated financial statements, which are included

elsewhere in this annual report. Our selected consolidated statements of operations and comprehensive loss data and selected consolidated statements of cash flow data presented below for the years ended December 31, 2018 and 2019 and our selected consolidated balance sheet data as of December 31, 2018, 2019 and 2020 have been derived from our consolidated financial statements which are not included in this annual report. Our consolidated financial statements are prepared and presented in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP. Our historical results are not necessarily indicative of results expected for future periods. You should read this Selected Consolidated Financial Data section together with our consolidated financial statements and the related notes in conjunction with “Item 5. Operating and Financial Review and Prospects” included elsewhere in this annual report.

The following table presents our selected consolidated statements of operations and selected consolidated statements of comprehensive income (loss) for the years ended December 31, 2018, 2019, 2020, 2021 and 2022:

	For the Year Ended December 31,					
	2018	2019	2020	2021	2022	
	RMB	RMB	RMB	RMB	RMB	
(in thousands, except for share amounts and per share data)						
Selected Consolidated Statements of Operations and Selected Consolidated Statements of Comprehensive Income (Loss):						
Total net revenues	635,316	3,031,167	5,233,170	5,839,973	3,706,122	537,337
Total cost of revenues	(232,073)	(1,103,509)	(1,869,145)	(1,941,177)	(1,187,370)	(172,152)
Gross profit	403,243	1,927,658	3,364,025	3,898,796	2,518,752	365,185
Operating expenses(1):						
Fulfilment expenses	(81,270)	(300,122)	(425,052)	(434,018)	(269,886)	(39,130)
Selling and marketing expenses(2)	(309,331)	(1,251,270)	(3,412,159)	(4,005,589)	(2,330,480)	(337,888)
General and administrative expenses	(43,315)	(209,326)	(2,142,973)	(941,347)	(720,409)	(104,449)
Research and development expenses	(2,641)	(23,179)	(66,512)	(142,086)	(126,875)	(18,395)
Total operating expenses	(436,557)	(1,783,897)	(6,046,696)	(5,523,040)	(3,447,650)	(499,862)
(Loss)/income from operations	(33,314)	143,761	(2,682,671)	(1,624,244)	(928,898)	(134,677)
(Loss)/income before income tax expenses						
Income tax (expenses) benefits	(4,010)	(71,976)	(6,970)	921	(2,705)	(392)
Net (loss)/income	(40,124)	75,359	(2,688,415)	(1,547,038)	(821,333)	(119,081)
Less: Net loss attributable to non-controlling interests						
	-	-	(608)	(6,304)	(5,962)	(864)
Net (loss)/income attributable to our shareholders						
Accretion to preferred shares	(3,465)	(59,200)	(242,209)	-	-	-
Deemed dividends due to modification of preferred shares	(3,521)	(61,239)	(1,054,220)	-	-	-
Net loss attributable to our ordinary shareholders	(47,110)	(45,080)	(3,984,236)	(1,540,734)	(815,371)	(118,217)
Net (loss)/income	(40,124)	75,359	(2,688,415)	(1,547,038)	(821,333)	(119,081)
Other comprehensive income/(loss)						
Foreign currency translation adjustment, net of nil tax	240	13,822	(111,697)	(158,515)	181,585	26,327
Total comprehensive (loss)/income	(39,884)	89,181	(2,800,112)	(1,705,553)	(639,748)	(92,754)
Net loss per ordinary share						
Net loss per ordinary share-basic	(0.17)	(0.10)	(4.78)	(0.61)	(0.34)	(0.05)
Net loss per ordinary share-diluted	(0.17)	(0.10)	(4.78)	(0.61)	(0.34)	(0.05)
Shares used in computing net income/(loss) per share						
Ordinary shares-basic	271,261,594	450,499,736	833,714,126	2,526,833,201	2,372,728,777	2,372,728,777
Ordinary shares-diluted	271,261,594	450,499,736	833,714,126	2,526,833,201	2,372,728,777	2,372,728,777

Notes:

(1) Share-based compensation expenses were allocated as follows:

For the Year Ended December 31,						
2018	2019	2020	2021	2022		
RMB	RMB	RMB	RMB	RMB	US\$	
(in thousands)						
Fulfilment expenses	-	-	(2,947)	(13,122)	(4,267)	(619)
Selling and marketing expenses	-	-	(54,332)	(80,558)	(62,231)	(9,023)
General and administrative expenses	(14,031)	(74,995)	(1,841,409)	(418,823)	(248,400)	(36,015)
Research and development expenses	-	-	(1,900)	(17,937)	(25,962)	(3,764)

(2) Amortization of intangible assets resulting from assets and business acquisitions were allocated as follows:

For the Year Ended December 31,					
2018	2019	2020	2021	2022	
RMB	RMB	RMB	RMB	RMB	US\$
(in thousands)					
Selling and marketing expenses	-	(370)	(2,630)	(41,573)	(48,700) (7,061)

The following table presents our selected consolidated balance sheets data as of December 31, 2018, 2019, 2020, 2021 and 2022:

For the Year Ended December 31,						
2018	2019	2020	2021	2022		
RMB	RMB	RMB	RMB	RMB	US\$	
(in thousands)						
Selected Consolidated Balance Sheets Data:						
Cash, cash equivalents, and restricted cash	25,062	676,579	5,733,392	3,138,008	1,512,945	219,356
Short-term investment	-	10,000	-	-	1,072,867	155,551
Accounts receivable	64,748	265,302	419,317	355,837	200,843	29,119
Inventories, net	87,494	504,049	616,808	695,761	423,287	61,371
Prepayments and other current assets	22,756	115,231	304,641	366,191	292,825	42,456
Amounts due from related parties	87,898	664	14,370	60	5,654	820
Total current assets	287,958	1,571,825	7,088,528	4,555,857	3,508,421	508,673
Property and equipment, net	3,810	109,410	285,297	245,314	75,619	10,964
Right-of-use assets, net	19,617	263,346	536,710	422,966	133,004	19,284
Total assets	328,221	2,010,317	8,307,738	7,272,009	5,862,656	850,006
Accounts payable	90,222	400,542	466,705	240,815	119,847	17,376
Accrued expenses and other liabilities	77,901	191,065	411,944	370,531	323,259	46,868
Total current liabilities	187,265	763,343	1,130,677	877,583	588,412	85,311
Total non-current liabilities	11,544	172,787	313,467	386,933	211,718	30,696
Total liabilities	198,809	936,130	1,444,144	1,264,516	800,130	116,007
Total mezzanine equity	187,887	1,129,987	-	338,587	339,924	49,284
Total shareholders' equity/(deficit)	(58,475)	(55,800)	6,863,594	5,668,906	4,722,602	684,715
Total liabilities, mezzanine equity and shareholders' equity/(deficit)	328,221	2,010,317	8,307,738	7,272,009	5,862,656	850,006

The following table presents our selected consolidated cash flow data for the years ended December 31, 2018, 2019, 2020, 2021 and 2022:

For the Year Ended December 31,						
2018	2019	2020	2021	2022		
RMB	RMB	RMB	RMB	RMB	US\$	
(in thousands)						
Selected Consolidated Cash Flow Data						
Net cash (used in)/provided by operating activities	(96,207)	(6,179)	(983,368)	(1,020,441)	136,208	19,749
Net cash used in investing activities	(7,877)	(148,172)	(508,832)	(1,484,257)	(1,155,416)	(167,519)
Net cash provided by/(used in) financing activities	123,678	795,231	6,680,869	(1,706)	(654,450)	(94,886)
Effect of exchange rate changes on cash and cash equivalents and restricted cash	790	10,637	(131,856)	(88,980)	89,978	13,044
Net increase/(decrease) in cash and cash equivalents and restricted cash	20,384	651,517	5,056,813	(2,595,384)	(1,583,680)	(229,612)
Cash and cash equivalents and restricted cash at the beginning of the year	4,678	25,062	676,579	5,733,392	3,138,008	454,968
Cash and cash equivalents and restricted cash at the end of the year	25,062	676,579	5,733,392	3,138,008	1,554,328	225,356

A. [Reserved]

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Summary of Risk Factors

Investing in our ADSs involves significant risks. You should carefully consider all of the information in this annual report before making an investment in our ADSs. Below please find a summary of the principal risks we face, organized under relevant headings. These risks are discussed more fully in the section titled “Item 3. Key Information—D. Risk Factors.”

Risks Relating to Our Business and Industry

Risks and uncertainties related to our business and industry include, but are not limited to, the following:

- We operate in a dynamic industry and have a limited operating history. Our historical results of operations and financial performance may not be indicative of future performance;
- The beauty industry is highly competitive. If we are unable to compete effectively, we may lose our market share and our business, results of operations and financial condition may be materially and adversely affected;
- Our success is dependent on the continued popularity of our products and our ability to anticipate and respond to changes in industry trends and consumer preferences and behavior in a timely manner;
- Our new product introductions may not be as successful as we anticipate, which could have a material adverse effect on our business, prospects, financial condition and results of operations;
- Our business depends, in part, on the quality, effectiveness and safety of our products;
- We may not be able to successfully implement our growth strategy;
- We may be unable to manage our growth effectively or efficiently;
- We have incurred net loss in the past, and we may not be able to achieve or maintain profitability in the future;
- We rely on third-party e-commerce platforms to sell our products online. If such platform’s services or operations are interrupted or if our cooperation with such platforms terminates, deteriorates or becomes more costly, our business and results of operations may be materially and adversely affected;
- Our operating results could be materially harmed if we are unable to accurately forecast consumer demand for our products or adequately manage our inventory;
- Our business and prospects depend on our ability to build our brands and reputation, which could be harmed by negative publicity with respect to us, our products and operations, our management, brand ambassadors, KOLs, or other business partners; and
- Our operations have been, and may continue to be affected by the COVID-19 pandemic.

Risks Relating to Our Corporate Structure

Risks and uncertainties related to our corporate structure include, but are not limited to, the following:

- We are a Cayman Islands holding company with no equity ownership in the VIE and we conduct our operations in China primarily through (i) our subsidiaries in China and (ii) the VIE with which we have maintained contractual arrangements. Holders of our ADSs hold equity interest in Yatsen Holding Limited, our Cayman Islands holding company, and do not have direct or indirect equity interest in the VIE. If the PRC government determines that the contractual agreements constituting part of the VIE structure do not comply with PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations. If any of these developments result in our inability to assert contractual control over the VIE, which contributed to 8.7% of our revenues in 2022, our ADSs may decline in value or become worthless. Our holding company, the VIE, and investors of our company face uncertainty about potential future actions by the PRC government that could affect the enforceability of the contractual arrangements with the VIE and, consequently, significantly affect the financial performance of the VIE and our company as a whole;
- We rely on contractual arrangements with the VIE and its shareholders for our operations in China, which may not be as effective in providing operational control as direct ownership;
- Any failure by the VIE or its shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business; and
- The shareholders of the VIE may have potential conflicts of interest with us, which may materially and adversely affect our business.

Risks Relating to Doing Business in China

We are also subject to risks and uncertainties relating to doing business in China in general, including, but not limited to, the following:

- Changes in China's economic, political or social conditions or government policies could have a material adverse effect on our business and operations;
- Risks and uncertainties arising from the legal system in China, including risks and uncertainties regarding the enforcement of laws and quickly evolving rules and regulations in China, could result in a material adverse change in our operations and the value of our ADSs;
- The PRC government has significant oversight and discretion over the conduct of our business, and may influence our operations as the government deems appropriate to advance regulatory and societal goals and policy positions, which could result in a material adverse change in our operation and/or the value of our ADSs. The PRC government's significant authority in regulating our operations and its oversight and control over offerings conducted overseas by, and foreign investment in, China-based issuers could significantly limit or completely hinder our ability to offer or continue to offer securities to investors. Implementation of industry-wide regulations in this nature may cause the value of such securities to significantly decline or be worthless;
- The PCAOB had historically been unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections of our auditor in the past has deprived our investors with the benefits of such inspections;
- Our ADSs may be prohibited from trading in the United States under the Holding Foreign Companies Accountable Act, or the HFCAA, in the future if the PCAOB is unable to inspect or investigate completely auditors located in China. The delisting of the ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment; and
- The approval of and filing with the CSRC or other PRC government authorities may be required in connection with our offshore offerings under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval or complete such filing.

Risks Relating to Our ADSs

In addition to the risks described above, we are subject to general risks relating to our ADSs, including, but not limited to, the following:

- The trading price of the ADSs is likely to be volatile, which could result in substantial losses to investors;
- If securities or industry analysts cease to publish research or reports about our business, or if they adversely change their recommendations regarding the ADSs, the market price for the ADSs and trading volume could decline; and
- Our dual-class voting structure may render the ADSs representing our Class A ordinary shares ineligible for inclusion in certain stock market indices, and thus adversely affect the trading price and liquidity of the ADSs.

Risks Relating to Our Business and Industry

We operate in a dynamic industry and have a limited operating history. Our historical results of operations and financial performance may not be indicative of future performance.

We started operation in 2016. Our total net revenues increased by 11.6% from RMB5.23 billion in 2020 to RMB5.84 billion in 2021 and decreased by 36.5% from RMB5.84 billion in 2021 to RMB3.71 billion (US\$537.3 million) in 2022. As a company with a relatively limited operating history, our historical growth may not be indicative of our future performance. We may not be successful in executing our growth strategy, and even if we achieve our strategic plan, we may not be able to sustain profitability. In future periods, our revenue could decline or grow more slowly than we expect. We may also incur significant losses in the future for a number of reasons, including as a result of the materialization of the following risks and the other risks described in this annual report, and we may encounter unforeseen difficulties, complications, delays and other unknown factors:

- we may be unsuccessful in predicting and capturing industry trends and consumer preferences;
- we may be unable to introduce new products that appeal to consumers;
- we may be unsuccessful in protecting or enhancing the recognition and reputation of our brands;
- we may be unsuccessful in competing for market share with our existing or new competitors;
- the ability of our third-party suppliers, manufacturers and logistics providers to produce and deliver our products in a timely way and in accordance with ever changing customer expectations could be disrupted;
- we may fail to adjust our sales and marketing strategies fast enough to stay current with consumers' behavioral changes in using internet and mobile devices;
- we may not be able to maintain and improve our customer experience;
- we may experience service interruptions, data corruption, cyber-based attacks or network security breaches which may result in the disruption of our operating systems or the loss of confidential information of our consumers;
- we may be unable to retain key members of our senior management team or attract and retain other qualified personnel;
- we may fail to successfully implement our new business initiatives, especially expansion into new offerings or new business lines in which we have limited or no prior experience, including sustaining continued expansion of *Perfect Diary*, *Little Ondine*, *Abby's Choice*, *Galénic*, the mainland China business of *DR.WU*, *Eve Lom*, *Pink Bear* and *EANTiM* as well as any new brand we may launch or acquire in the future;

- we may fail to successfully maintain our offline experience store network; and
- we may be affected by international trade tension and any adverse economic conditions in China or internationally.

We cannot be sure that we will be successful in addressing these and other risks and challenges we may face in the future. Any of these occurrences could have a material and adverse impact on our business, results of operations and financial condition. Our customer base may decline as a result of such risks. Any of these risks could cause our net sales growth to decline and may adversely affect our margins and profitability. Failure to continue our net sales growth or improve margins could have a material adverse effect on our business, financial condition, and results of operations. You should not rely on our historical rate of net sales growth as an indication of our future performance.

The beauty industry is highly competitive. If we are unable to compete effectively, we may lose our market share and our business, results of operations and financial condition may be materially and adversely affected.

We face vigorous competition from both domestic and international players in China in the beauty industry, including large multinational consumer products companies that own or operate multiple beauty brands. Competition in the beauty industry is intense and based on multiple factors, including the ability to launch new products, pricing of products, quality of products and packaging, brand awareness, perceived value and quality, innovation, offline sales capabilities, customers' functional and emotional satisfaction, promotional activities, advertising, editorials, e-commerce and mobile-commerce initiatives and other activities. We must compete with a high volume of new product introductions and a large number of existing products sold by diverse companies across several different distribution channels.

Many domestic and multinational consumer goods companies have greater financial, technical or marketing resources, longer operating histories, greater brand recognition or larger customer bases than we do and may be able to respond more effectively to changing business and economic conditions than we can. Despite our differentiated business model, existing and new players in the industry may also transform their business model and directly compete with us. They may also roll out products targeting young generations at a customer-friendly price or adopt a price-cutting strategy for their current products to directly compete with us. Given the established sales network these large consumer goods companies maintain and the greater brand power they have, we cannot ensure that our existing customers will not allocate more wallet share to their products or cease to purchase products from us completely. Further, our competitors may attempt to gain market share by offering products at prices at or below the prices at which our products are typically offered. Competitive pricing may require us to reduce our prices, which would decrease our profitability or result in lost sales. Our competitors, many of whom have greater resources than we do, may be better able to withstand these price reductions and loss of sales.

It is difficult for us to predict the timing and scale of our competitors' activities in these areas or whether new competitors will emerge in the beauty industry. In addition, further technological breakthroughs, including new and enhanced technologies which increase competition in the online retail market, new product offerings by competitors and the strength and success of our competitors' marketing programs may impede our growth and the implementation of our business strategy.

Our ability to compete also depends on the continued strength of our brand and products, our ability to predict and capture industry trends and consumer preferences, the success of our marketing, innovation and execution strategies, the continued diversification of our product offerings, the successful management of new product introductions and innovations, strong operational execution, including in order fulfilment and supply chain management, and our success in entering new markets and expanding our business in existing geographies. If we are unable to continue to compete effectively, we may lose our market share and our business, results of operations and financial condition may be materially and adversely affected.

Our success is dependent on the continued popularity of our products and our ability to anticipate and respond to changes in industry trends and consumer preferences and behavior in a timely manner.

The success of our business and operations depends on our ability to continuously offer quality products that are attractive to consumers. The beauty industry is driven in part by fashion and beauty trends and consumer

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

Our new product introductions may not be as successful as we anticipate, which could have a material adverse effect on our business, prospects, financial condition and results of operations.

The fast evolving fashion and beauty trends and consumer preferences have shortened the life cycles of beauty products and required us to continually work to develop, produce and market new products, maintain and enhance the recognition of our brands and shorten our product development and supply chain cycles. Our continued success depends on our ability to develop and launch products in a timely and cost-effective manner in response to beauty industry trends, consumer preferences for beauty products and consumer attitudes toward our industry and brand. If we do not successfully and consistently develop new products that appeal to our customers our net revenues and margins could suffer.

We have an established process for the development, evaluation and validation of our new product concepts. Nonetheless, each new product launch involves risks, as well as the possibility of unexpected consequences. For example, the acceptance of new product launches and sales to our customers may not be as high as we anticipate, due to a lack of acceptance of the products themselves or their price, or limited effectiveness of our marketing strategies. Introduction of new products targeted at expanding our product reach beyond our current customer base may not be as successful as we anticipate due to insufficient data insights on and understanding about the preferences, trends and behaviors of such new customer group. Our ability to launch new products may be limited by delays or difficulties affecting the ability of our suppliers or manufacturers to timely manufacture new products. In addition, we may experience a decrease in sales of certain existing products as a result of newly launched products. Also, product innovation may place a strain on our employees and our financial resources, including incurring expenses in connection with product innovation and development, marketing and advertising that are not subsequently supported by a sufficient level of sales. Further, sales of new products may be affected by the efficacy of our inventory management and quality of delivery and order fulfillment services provided by our logistics providers, and we may experience product shortages and delayed or defective or improper product delivery. Any of these occurrences could delay or impede our ability to achieve our sales objectives, which could have a material adverse effect on our business, financial condition and results of operations.

As part of our ongoing business strategy, we expect we will continue to introduce new products in the color cosmetics and skincare categories, while expanding our product launches into adjacent categories in which we may have little to no prior operating experience. The success of product launches in adjacent product categories could be hampered by our relative inexperience operating in such categories, the strength of our competitors or any of the other risks referred to above. Furthermore, any expansion into new product categories may subject us to additional operational and financial constraints which could inhibit our ability to successfully accomplish such expansion. If we fail to continue to roll out commercially successful products in our traditional categories or in adjacent categories, our business, financial condition and results of operations may be materially and adversely affected.

Our business depends, in part, on the quality, effectiveness and safety of our products.

Any loss of confidence on the part of consumers in the ingredients used in our products, whether related to product contamination or product safety or quality failures, actual or perceived, or inclusion of prohibited or restricted ingredients or improper mixture of ingredients, could tarnish the image of our brands and could cause consumers to choose other products. Allegations of contamination or other adverse effects on product safety or suitability for use by a particular consumer, even if untrue, may require us to expend significant time and resources responding to such allegations and could, from time to time, result in suspension of sales or a recall of a product from any or all of the markets in which the affected product was distributed. Any such issues or recalls could negatively affect our profitability and brand image.

If our products are found to be, or perceived to be, defective or unsafe, or if they otherwise fail to meet our consumers' expectations, our relationships with consumers could suffer, the appeal of our brand could be diminished, we may need to recall some of our products and/or become subject to regulatory action, and we could lose sales or market share or become subject to boycotts or liability claims. In addition, safety or other defects in our competitors' products could reduce consumer demand for our own products if consumers view them to be similar. Any of these outcomes could result in a material adverse effect on our business, financial condition and results of operations.

We may not be able to successfully implement our growth strategy.

Our future growth, profitability and cash flows depend upon our ability to successfully implement our business strategy, which, in turn, is dependent upon a number of factors, including our ability to:

- build a strong portfolio of brands;
- further penetrate our targeted markets by attracting new consumers and retaining and further engaging our existing customers;
- capture the industry trends and develop and launch new products and expand into relevant adjacencies in answer to such trends;
- integrate offline and online shopping experience to provide a seamless omni-channel environment for our customers;
- continue to use innovation to drive sales, improve technological and operational efficiencies and improve profit margin;
- enhance our technology and data capabilities, especially in AI and big data analytics fields, so as to enhance our ability to predict and follow customers' preferences, trends and behaviors;
- effectively manage the quality and efficiency of our ODM/OEM and packaging supply partners and logistics and other third-party service providers' performance;
- continue to broaden and diversify our online and offline distribution channels;
- pursue strategic investments and collaborations to complement our existing capabilities and expand our brand portfolio and geographic reach; and
- leverage our high performance team culture to drive margins.

There can be no assurance that we can successfully achieve any or all of the above initiatives in the manner or time period that we expect. Further, achieving these objectives will require investments which may result in short-term costs without generating any current net sales and therefore may be dilutive to our earnings. We cannot provide any assurance that we will realize, in full or in part, the anticipated benefits we expect our strategy will achieve. The failure to realize those benefits could have a material adverse effect on our business, financial condition and results of operations.

We may be unable to manage our growth effectively or efficiently.

Managing our growth requires significant attention from our management team and allocation of financial, supply chain, distribution and other resources. To manage growth effectively, we must continue to enhance our operational, financial and management systems, including our warehouse management and inventory control; maintain and improve our internal controls and disclosure controls and procedures; maintain and improve our information technology systems and procedures; and train and manage our employee base. We may not be able to achieve enhancements in any one or more of these areas, and any failure to do so could significantly harm our business, financial condition and results of operations.

We have incurred net loss in the past, and we may not be able to achieve or maintain profitability in the future.

We incurred net loss of RMB2.69 billion in 2020, incurred net loss of RMB1.55 billion in 2021 and incurred net loss of RMB821.3 million (US\$119.1 million) in 2022. We also had negative cash flows from operating activities of RMB983.4 million, negative cash flows from operating activities of RMB1.02 billion, and positive cash flows from operating activities of RMB136.2 million (US\$19.7 million) for the fiscal years ended December 31, 2020, 2021 and 2022, respectively. We cannot assure you that we will be able to generate net profits or positive cash flow from operating activities in the future. Our ability to maintain profitability will depend in large part on our ability to maintain or increase our operating margin, either by growing our revenues at a rate faster than our costs and operating expenses increase, or by reducing our costs and operating expenses as a percentage of our net revenues. We also expect to continue to make significant future expenditures related to the continuous development and expansion of our business, including:

- investments in our product development team and research and development team and in the development of new products;
- investments in sales and marketing, enlarging our customer base and promoting market awareness of our brands and products;
- investments in expansion or maintenance of our online and offline distribution channels in a measured manner, including the buildout of our offline experience store footprint;
- investment in enhancing data and information technology and improving operating efficiency, including improving the efficiency in supply chain management, warehouse management and inventory control; and
- incurring costs associated with general administration, including legal, accounting and other expenses related to being a public company.

As a result of these significant expenses, we will have to generate sufficient revenue to remain profitable in future periods. We may not generate sufficient revenue for a number of reasons, including potential lack of demand for our products, increasing competition, challenging macro-economic environment, the ramifications of the COVID-19 pandemic, as well as other risks discussed elsewhere in this annual report. If we fail to sustain or increase profitability, our business and results of operations could be adversely affected.

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

Currently, we rely on third-party e-commerce platforms such as Tmall, JD.com and Vipshop, among others, for online sales of our products and derive a material portion of our online sales revenue through and from such platforms. In 2020, 2021 and 2022, a majority of our net revenues were generated through our store on third-party e-commerce

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

We introduced company channels on Weixin in the second half of 2018 to further diversify our distribution channels. We may be subject to the relatively new E-Commerce Law as a result of our company channels on Weixin. Failure to comply with such regulations may have a material impact on our business, financial conditions and results of operations. See "Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Online Trading and E-Commerce."

Our operating results could be materially harmed if we are unable to accurately forecast consumer demand for our products or adequately manage our inventory.

Our business requires us to manage a large volume of inventory effectively. We depend on our forecasts of demand for, and popularity of, various products to make purchase decisions and to manage our inventory of stock-keeping units. Demand for products, however, can change significantly between the time inventory, components, ingredients or raw materials are ordered and the date of sale. Demand may be affected by seasonality, new product launches, rapid changes in product cycles and pricing, product defects, promotions, changes in consumer spending patterns, changes in consumer tastes with respect to our products and other factors, and our consumers may not purchase products in the quantities that we expect. It may be difficult to accurately forecast demand and determine appropriate levels of product or componentry. We generally do not have the right to return unsold products to our ODM/OEM and packaging supply partners. If we fail to manage our inventory effectively or negotiate favorable credit terms with third-party manufacturers and suppliers, we may be subject to a heightened risk of inventory obsolescence, a decline in inventory values, and significant inventory write-downs or write-offs in the case of overestimation of consumer demand, or increased costs to secure necessary production and delivery delays in the case of underestimation of consumer demand. An inability to meet consumer demand and delays in the delivery of our products to our customers could result in reputational harm and damaged customer relationships. In addition, if we are required to lower sale prices in order to reduce inventory level or to pay higher prices to our manufacturers and suppliers, our profit margins might be negatively affected. Any of the above may materially and adversely affect our business, financial condition and results of operations.

Our business and prospects depend on our ability to build our brands and reputation, which could be harmed by negative publicity with respect to us, our products and operations, our management, brand ambassadors, KOLs, or other business partners.

We believe that maintaining and enhancing the reputation of our brands is of significant importance to the success of our business and that our financial success is directly dependent on consumer perception of our brands. Well-recognized brands are important to enhancing our attractiveness to consumers. Since we operate in a highly competitive market, brand maintenance and enhancement directly affect our ability to maintain our market position. As a young company, our brand awareness among consumers may not be as strong as the more established beauty brands, and maintaining and enhancing the recognition and reputation of our brand is critical to our business and future growth.

Our ability to maintain our reputation and brand is affected by many factors, some of which are beyond our control. These factors include our ability to provide a satisfactory consumer experience, which in turn depends on our ability to bring innovative products to the market at competitive prices that respond to consumer demands and preferences, our ability and that of our manufacturing and service partners to comply with ethical and social standards, such as those concerning animal testing, and various and evolving rules and standards related to product quality and

safety, labor and environmental protection, our ability to produce safe and high-quality products, our ability to provide satisfactory order fulfillment services, and our ability to provide responsive and superior customer services. Failure to succeed in any of these areas could damage our customer experience, our reputation and brand image and our ability to retain and attract customers. The success of our brand may also suffer if our marketing plans or product initiatives do not have the desired impact on our brand's image or its ability to attract consumers. In the past three years, we have invested substantial efforts in promoting our brands. See also "We have incurred significant costs for a variety of sales and marketing efforts, including mass advertising and heavy promotions to attract customers through multiple channels. If we are unable to conduct our sales and marketing efforts in a cost-effective and efficient manner, our results of operations and financial conditions may be materially and adversely affected." We cannot assure you, however, that these activities are and will be successful or that we can achieve the brand promotion effect we expect. If we are unable to preserve our reputation, enhance our brand recognition or increase positive awareness of our products, it may be difficult for us to maintain and grow our consumer base, and our business, financial condition and results of operations may be materially and adversely affected.

In addition, any failure by our third-party manufacturers or raw material suppliers to comply with ethical, social, product, labor and environmental laws, regulations or standards, or any of their engagement in politically or socially controversial conduct, such as animal testing, could negatively impact our reputations and lead to various adverse consequences, including decreased sales and consumer boycotts. Also, we may face customer complaints or negative publicity about us, our products, our management, our business partners, our brand ambassadors or the KOLs we collaborate with from time to time, which may adversely affect our brand, reputation and business and diminish the appeal of our brand to consumers. Certain of such negative publicity may come from malicious harassment or unfair acts by third parties or our competitors, which are beyond our control. See also "—Negative publicity about our brand ambassadors or KOLs may adversely affect our reputation, our business and our results of operations."

Damage to our reputation or the reputations of our business partners or loss of consumer confidence for any of these or other reasons could have a material adverse effect on our results of operations and financial condition, as well as require additional resources to rebuild our brand and reputation.

Our operations have been, and may continue to be affected by the COVID-19 pandemic.

The COVID-19 pandemic has created unique global and industry-wide challenges, including challenges to many aspects of our business. Substantially all of our revenues and workforce are concentrated in China. Our financial position, results of operations and cash flows are affected by the trajectory of COVID-19, including its impact on the beauty industry and the Chinese economy in general. The spread of COVID-19 and the emergence of the new mutated variants such as Delta and Omicron variants has resulted in the temporary closure of many corporate offices, retail stores, and manufacturing facilities across China and travel restrictions as well as quarantine measures since 2020. Consequently, social and economic activities throughout China were curtailed from time to time, and opportunities for discretionary consumption, especially in offline sales channels, were adversely impacted during the period.

Since the second half of 2020 and up to the end of 2022, many of the preventive measures to counter the spread of COVID-19 imposed by local governments have been relaxed and re-imposed from time to time as the pandemic eased temporarily and the new variants emerged. As a result, opportunities for discretionary consumption was limited and the results of our operations fluctuated during the period. In particular, the release of the pent-up demand due to the amelioration of COVID-19 from the second half of 2020 to the first half of 2021 led to us recording a higher total net revenue in the first half of 2021 compared to that in 2020 and 2019, respectively. However, the spread of the new variants of COVID-19 such as Delta and Omicron variants resulted in the overall weakening consumer sentiment and purchasing activities and reduced foot traffic at our offline retail stores, which together adversely impacted our sales through our offline retail stores since the second half of 2021 and negatively impacted our total net revenues in the second half of 2021 and through 2022. Overall, our total net revenues for the full year of 2021 increased by 11.6% to RMB5.84 billion from RMB5.23 billion in the prior year, and our total net revenues for the full year of 2022 decreased by 36.5% to RMB3.71 billion (US\$537.3 million) from RMB5.84 billion in 2021. In addition, our online sales volume over the same period fluctuated due to the unavailability of, or delays in, delivery services during such period. In terms of our supply and inventory management, while our ODM/OEM and packaging supply partners and other service partners had to operate at reduced capacity during such period, we were able to maintain sufficient levels of inventory and fulfillment capacity through our self-operated warehouses.

China began to modify its zero-COVID policy at the end of 2022, and most of the travel restrictions and quarantine requirements were lifted in December. There were surges of cases in many cities during this time which caused disruption to our and our suppliers and logistics providers' operations, and there remains uncertainty as to the future impact of the virus, especially in light of this change in policy. The extent to which the pandemic impacts our results of operations going forward will depend on future developments which are highly uncertain and unpredictable, including the frequency, duration and extent of outbreaks of COVID-19, the appearance of new variants with different characteristics, the effectiveness of efforts to contain or treat cases, and future actions that may be taken in response to these developments. China may experience lower domestic consumption, higher unemployment, severe disruptions to exporting of goods to other countries and greater economic uncertainty, which may impact our business in a materially negative way as consumer sentiment may continue to remain low. Consequently, the COVID-19 pandemic may continue to materially and adversely affect our business, financial condition and results of operations in the current and future years.

If we are unable to provide superior customer experiences, our business and reputation may be materially and adversely affected.

The success of our business hinges on our ability to provide superior customer experience, which in turn depends on a variety of factors. These factors include our ability to bring innovative products to the market at competitive prices that respond to consumer demands and preferences, our ability to fit in the lifestyle of our customers and deeply engage with our customers and our ability to maintain the quality of our products and services, provide timely and reliable delivery and responsive and superior before- and after-sales service. In addition to other efforts we have made in maintaining a superior customer experience as discussed elsewhere in this annual report, such as our relentless efforts in guaranteeing product quality and offering products responsive to industry trends and customers' preferences, we also invest substantially to provide quality and responsive customer service.

As of December 31, 2022, we had approximately 334 beauty advisors. Although we provide standardized employee conduct training and beauty product training for all our beauty advisors and maintain a detailed employee handbook regulating employee conduct, there is no assurance that our beauty advisors will provide consistently satisfactory customer service to our customers. Any negative customer service experience with our beauty advisors either offline in our physical stores or online through our customer communities or one-on-one chats may discourage customers from purchasing our products and adversely affect our reputation and brand image.

We also operate one customer service center in Guangzhou which provides service daily from 8:30 a.m. to midnight, handling all kinds of customer queries and complaints regarding our products and services. As of December 31, 2022, we had a group of customer service representatives at our customer service center, consisting of our own employees and representatives from third-party service providers. If our customer service representatives fail to provide satisfactory service, or if waiting times are too long due to the high volume of calls from customers at peak times, our brand and customer loyalty may be adversely affected. There is no assurance that we will be able to maintain a low turnover rate of existing employees and provide sufficient training to new employees to meet our standards of customer service or that an influx of less experienced personnel will not dilute the quality of our customer service. In addition, any negative publicity or poor feedback regarding our customer service may harm our brand and reputation and in turn cause us to lose customers and market share.

The market for beauty products in China is continuously evolving and may not grow as quickly as expected, or at all, which could negatively affect our business and prospects.

Our business and prospects depend on the continuous development and growth of the market for beauty products in China. The growth and development of the market for beauty products is impacted by numerous factors and subject to uncertainties that are beyond our control, such as the macroeconomic environment, per capita spending, consumers' interest in beauty, consumers' purchasing frequency, demand for beauty products from consumers in lower tier cities, regulatory changes, technological innovations, cultural influences and changes in tastes and preferences. We cannot assure you that the market will continue to grow as rapidly as it has in the past, in ways that are consistent with other markets, such as that of the United States, or at all. If the market for beauty products in China does not grow as quickly as expected or at all, or if we fail to benefit from such growth by successfully implementing our business strategies, our business and prospects may be negatively affected.

Changes to the pricing of our products could adversely affect our results of operations.

We aim to bring to consumers affordable high-quality beauty products and experiences. The pricing of our products is based on multiple factors, including, without limitation, the pricing of the components, ingredients and raw materials, costs of product development, anticipated sales volume, manufacturing costs and logistics service expenditures. Benefiting from our deep engagement with our customers and our data analytic technologies, we are in a good position to analyze consumers' preferences and demands, evaluate the market acceptance and potential sales volume of our new products to be launched, which enables us to price our products at a competitive rate. Nevertheless, we cannot ascertain that we will adopt a competitive pricing strategy for our products at all times. If we price our products too low, our profit margin will suffer. If we price our products higher than consumers' expected price, we may not achieve the sales volume we expect, in which case revenues from the corresponding products may be negatively affected.

Even if we properly price our products at their launch time, we may need to offer substantial discounts, especially during the major shopping festivals such as "618," "Singles' Day" and "Double Twelve," to promote our brand awareness and to drive sales volume, or cut down the price as our products advance in their life cycles to maintain such products' attractiveness to consumers. We may also need to reduce the prices to sell excess inventory in the event that we fail to accurately forecast demands. Any such price cuts may not lead to the sales volume we expect and may negatively impact the demand for our other newly launched or higher-end products, in which case our revenues could be negatively impacted. Furthermore, some customers may purchase our products in bulk when we offer substantially discounted or promotional prices and then re-sell them through their proprietary or third-party channels. The market and pricing for our products may be interrupted by the secondary sale pricing strategies adopted by such resellers and the possible negative shopping experience they provide to consumers, which may negatively impact our brand image and our business.

KOLs play an important role in promoting our products and driving traffic to our online and experience stores. If we fail to attract new KOLs or retain our existing ones, our sales volume and our business may be negatively impacted.

We cooperate with popular KOLs to promote our brand awareness and drive traffic to our online and experience stores. We collaborated with KOLs of varying popularity with different follower bases to promote our products and drive traffic to our online and experience stores. If we are unable to attract new popular KOLs or retain existing ones to partner with us in promoting our brands and products, especially those with a large number of followers that we rely on to promote our brands and products, our ability to influence the purchase decisions of our targeted consumers may be impaired. In addition, we occasionally cooperate with some of the KOLs based on oral agreements or in other informal manners to accommodate our fast-paced sales and marketing activities, which may expose us to higher risk of disputes with these KOLs over the terms and conditions of the cooperation. In case disputes arise out of our cooperation with KOLs based on oral or informal agreements, we may be left in a weaker position to prove our case compared to cooperation based on formal written agreements entered into.

Negative publicity about our brand ambassadors or KOLs may adversely affect our reputation, our business and our results of operations.

Our brand and reputation may be perceived to be connected with the reputation of the KOLs we collaborate with and our brand ambassadors. Therefore, our brand image and reputation could be hurt by negative publicity about the KOLs we collaborate with or our brand ambassadors. Negative publicity about them could occur in many circumstances that are beyond our control. For example, the KOLs we collaborate with may post unlawful, false, offensive or controversial content on their social media pages, notwithstanding any terms of use of the social media platforms and our guidelines, which may result in negative comments and complaints or even cause their accounts to be closed by social media platforms. Although we have requested the KOLs we collaborate with and our brand ambassadors to observe certain behavioral covenants and to refrain from conduct that is detrimental to our reputation and brand image, we cannot ensure that they will strictly follow the requirements. In addition, they may also receive negative publicity if they are involved in any illegal activities, scandals or rumors. Any such negative publicity, regardless of veracity, could hurt our reputation and may result in costs incurred to offset such reputation damage and have a negative impact on our business, results of operations and financial condition.

We have incurred significant costs for a variety of sales and marketing efforts, including mass advertising and heavy promotions to attract customers through multiple channels. If we are unable to conduct our sales and marketing efforts in a cost-effective and efficient manner, our results of operations and financial conditions may be materially and adversely affected.

As a relatively young company, we have invested a large amount of financial and other resources in sales and marketing activities, including expanding our marketing and sales teams, retaining KOLs and purchasing advertisements. We intend to continue to invest in promoting our brand awareness and acquiring customers. In the fiscal years ended December 31, 2020, 2021 and 2022, we incurred RMB3.41 billion, RMB4.01 billion and RMB2.33 billion (US\$337.9 million) in selling and marketing expenses, accounting for 65.2%, 68.6% and 62.9% of our total net revenues, respectively. Our marketing and branding activities may not be well received, successful or cost-effective, which may lead to significantly higher marketing expenses in the future. We may also not be able to continue our existing marketing and branding activities, or successfully identify and utilize the new trends in marketing strategies, channels and approaches that appeal to or fit in the lifestyle of our targeted customers. We may also fail to adjust our sales and marketing strategies fast enough to stay current with consumers' behavioral changes in using internet and mobile devices. Failure to refine our existing marketing strategies or introduce new effective marketing strategies in a cost-effective manner could negatively impact our business, results of operations and financial condition. In addition, failure to comply with relevant provisions of Advertising Law of the PRC, promulgated by the Standing Committee of the National People's Congress, or the SCNPC in 1994 and amended on October 26, 2018 and further amended on April 29, 2021, Regulations on the Supervision and Administration of Cosmetics, or the Supervision Regulations, promulgated by the State Council on June 16, 2020 and became effective as of January 1, 2021, and other relevant laws and regulations will result in the restriction, inhibition or delay of our ability to sell products. See "Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Cosmetic Products, Regulations Relating to Food Business, Regulations Relating to Product Quality and Consumers Protection, and Regulations Relating to Advertising."

We rely on certain ODM/OEM and packaging supply partners to produce our products. The loss of one or more of these ODM/OEM and packaging supply partners, business challenges at one or more of these ODM/OEM and packaging supply partners, or any failure on their part to produce products that are consistent with our standards or in accordance with contractual or regulatory requirements could harm our brand, cause consumer dissatisfaction, and result in material adverse impact on our business and results of operations.

We currently rely on certain ODM/OEM and packaging supply partners based in China to produce most of our products, while we also collaborate with top-class suppliers overseas to support the production of our global premium and luxury beauty brands. In some cases, we retain only a single contract manufacturer for the production of some of our products. Our top five ODM/OEM and packaging supply partners collectively accounted for a considerable purchase amount from all OEM/ODMs in 2020, 2021 and 2022, respectively. Our reliance on a limited number of ODM/OEM and packaging supply partners for each of our products exposes us to a number of risks, since we may not have alternative or replacement ODM/OEM and packaging supply partners beyond these key parties.

We usually enter into framework engagement contracts with our ODM/OEM and packaging supply partners and then place orders to the ODM/OEM and packaging supply partners when manufacturing needs arise. We may experience operational difficulties with our ODM/OEM and packaging supply partners, including reductions in the availability of production capacity of our ODM/OEM and packaging supply partners due to reasons such as competing orders or sudden increases in demand, failure to comply with product specifications, insufficient quality control, unauthorized disclosure of sensitive information such as product formulation, failure to meet quality control standards and production deadlines, delays in delivery of products to our warehouses, increases in manufacturing costs and longer lead time. Our ODM/OEM and packaging supply partners may experience disruptions in their manufacturing operations due to equipment breakdowns, labor strikes or shortages, natural disasters, component, ingredient or raw material shortages, fire, cost increases, violation of environmental, health or safety laws and regulations and national and industrial standards in terms of product safety, health epidemics, or other problems. For example, in the second and third quarter of 2022, strict policies to contain the spread of COVID-19 were implemented in certain areas in response to COVID-19, which affected the operations of some of our ODM/OEM and packaging supply partners and in turn affected our business. We may be unable to pass potential cost increases associated with operational difficulties to our customers. In the event of interruption from any of our ODM/OEM and packaging supply partners, we may not be able to increase capacity from other sources or develop alternate or secondary sources without incurring material

additional costs and substantial delays. In addition, as we cooperate with these third party ODM/OEM and packaging supply partners on a non-exclusive basis, we cannot ensure that such contract manufacturers will not prioritize orders of other principals, including our competitors, in the case of supply shortages. We may also have disputes with our ODM/OEM and packaging supply partners, which may result in litigation expenses, divert our management's attention and cause supply shortages to us. Further, we may not be able to renew contracts with our ODM/OEM and packaging supply partners for our existing products on acceptable terms, or at all, or identify ODM/OEM and packaging supply partners who are capable of producing our existing and new products we target to launch in the future. Our competitors could enter into restrictive or exclusive arrangements with our ODM/OEM and packaging supply partners that could impair or eliminate our access to such manufacturing capacity. It may take a significant amount of time to identify ODM/OEM and packaging supply partners that have the capability and resources to produce our products to our specifications in sufficient volume. Identifying suitable ODM/OEM and packaging supply partners is an extensive process that requires us to become satisfied with their quality control, technical capabilities, responsiveness and service, financial stability, regulatory compliance, and labor and other practices. Accordingly, a partial or complete loss of any of our significant contract manufacturers, or a significant adverse change in our relationship with any of our ODM/OEM and packaging supply partners, could have an adverse effect on our business, financial condition and operating results.

Any failure of such partners to perform with regards to quantity, quality, timely supply of products or other obligations under our agreements may have a material negative impact on our business and results of operations. Furthermore, we also work with these third-party manufacturers to formulate certain of our products. We cannot assure you that they do not ever and will not deviate from their covenants. Any leakage, plagiarism or disclosure of the formulas for manufacturing our products could be detrimental to our business prospects and results of operations. In the event they violate confidentiality agreements with other parties when developing formulas for us, we could be negatively affected.

We have entered into a joint venture arrangement with Cosmax to build a cosmetics manufacturing and R&D hub in Guangzhou. The joint venture had secured a land site of 60,593 square meters in March 2020. The manufacturing hub is currently under construction and production in the new hub is currently expected to begin in 2023. Our collaboration with Cosmax and our investment in establishing the manufacturing facility in Guangzhou as a minority shareholder are subject to a number of risks, many of which are beyond our control, including but not limited to the potential failure of the manufacturing base currently under construction to start operations on time due to delays in construction and other reasons beyond our control, our limited influence over Cosmax, our lack of control over the board of directors of the joint venture and limited ability in monitoring and controlling the actions of the joint venture, potential dispute between us and Cosmax over corporate governance matters, and risks associated with possible deviations from the requirements under, or the non-performance of, the joint venture agreement by Cosmax. If any of the risks materialize, our business, results of operations and financial condition may be adversely affected.

We and our ODM/OEM and packaging supply partners are susceptible to supply shortages and interruptions, long lead times, and price fluctuations for raw materials and ingredients, any of which could disrupt our supply chain and have a material adverse impact on our results of operations.

Our product portfolio includes various product categories and product lines. Mass production of our products requires timely and adequate supply of various types of raw materials, components and ingredients. Some of the components, ingredients and raw materials used to produce our products are sourced from third-party suppliers through our ODM/OEM and packaging supply partners, and some of these components, ingredients and raw materials are sourced from a limited number of suppliers or a single supplier or certain foreign suppliers. Therefore, we are subject to risks of shortages or discontinuation in supply, long lead times, cost increases and quality control issues with our suppliers, as well as unfavorable international trade policies, heightened tariffs and fluctuation in currency exchanges. See also “—Fluctuations in exchange rates could have a material and adverse effect on the value of your investment and our results of operations” and “—Changes in international trade policies and rising political tensions, particularly between the U.S. and China, may adversely impact our business and operating results.” In addition, some of our suppliers may have more established relationships with our competitors and the ODM/OEM and packaging supply partners that our competitors utilize, and as a result of these relationships, we cannot assure that such suppliers will not choose to limit or terminate their relationships with us or our ODM/OEM and packaging supply partners or prioritize our competitors' orders in the case of supply shortages.

In the event of a component, ingredient or raw material shortage or supply interruption from suppliers, we and our ODM/OEM and packaging supply partners will need to identify alternative sources of supply, which can be time-consuming, difficult to locate, and costly. We and our ODM/OEM and packaging supply partners may not be able to source these components, ingredients or raw materials on terms that are acceptable, or at all, which may result in delays in deliveries of our products by our manufacturers or increased costs and undermine our ability to fill customer orders in a timely manner. This could cause delays in shipment of our products, harm our customers' experience on our products, and adversely affect our reputation and results of operations.

Moreover, the market prices for certain raw materials, components and ingredients have been volatile. If we experience significant increases in the market price for components, ingredients or raw materials for our products, we may not be able to recover these costs through increasing sales price to our customers, in which case our results of operations and financial condition may be adversely affected.

Our business is subject to complex and evolving product safety laws, regulations and standards. If we fail to comply with these laws, regulations and safety standards or our products otherwise have defects, we may be required to recall products and may face penalties and product liability claims, either of which could result in unexpected costs and damage our reputation.

The manufacturing, distribution, packaging, importation and exportation of beauty products and their components, ingredients and raw materials are subject to complex product safety-related laws, regulations and national and industrial standards. See "Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Cosmetic Products." To maintain compliance and promote product safety, we have established a team dedicated to product quality inspection, product sampling and quality issues resolution and cooperate with the world's leading testing centers to continually oversee the quality and safety of our products. In addition, we closely work with our counsel on the development in laws, regulations and standards applicable to our business. However, as these laws, regulations and standards are relatively new and their interpretation and implementation have been constantly evolving, we cannot assure that the competent authorities will always hold the same view as our counsel team does in terms of the compliance of our business operations.

We currently outsource our product manufacturing to third party ODM/OEM and packaging supply partners, and in many cases rely on them to procure raw materials, components and ingredients. Thus, we do not have sufficient control over the raw material procurement and manufacturing process and cannot be sure that all of the suppliers of raw materials, components and ingredients chosen by our contract manufacturers would have met our standards and expectations and been selected by us had we done the procurement ourselves, neither could we guarantee that no contaminations, defects or other safety issues would happen with respect to the raw materials, components and ingredients or during the manufacturing process. We have required our ODM/OEM and packaging supply partners to deliver reports evidencing the safety of the products and imposed compliance covenants on the ODM/OEM and packaging supply partners. However, we cannot be sure that these measures are or will be effective in preventing all defects or safety issues or otherwise maintaining full compliance of our products with product safety related laws, regulations and standards. Our exposure to product liability risk may increase as our manufacturing and sales volume increases. The situation is further complicated by the fact that a product may be safe for the general population when used as directed but could cause an adverse reaction for a person who has a health condition or allergies, or who is taking a prescription medication. While we include what we believe are adequate instructions and warnings, previously unknown adverse reactions could occur. If we discover that any of our products are causing adverse reactions, we could suffer adverse publicity or administrative sanctions. If any batch of our products contain contaminants, fail to meet national safety standards or otherwise has defects or safety issues, we may need to suspend the sale or, in severe cases, order recalls of such batch or all of the products in question. Any failure or perceived failure to comply with laws, regulations or standards with respect to product safety, or any sale suspension or product recall may lead to government investigations, penalties and lawsuits and may result in adverse publicity, potential significant costs in connection with the suspension of sales or recall, and could have a material and adverse effect on our business, financial condition and results of operations.

We rely on third-party service providers for logistics services. If these service providers fail to provide reliable services, our business and reputation may be adversely affected.

We rely on third-party couriers and logistics providers for order fulfilment and delivery services, including, among others, collection of products, warehousing services, shipping products to our customers, our experience stores and our designated warehouses and handling product returns. While these arrangements allow us to focus on our main business, they reduce our direct control over the logistics services provided to our customers. Logistics in our primary locations or transit to final destinations may be disrupted for a variety of reasons, including events that are beyond our control or the control of these service providers, such as inclement weather, natural and man-made disasters, health epidemics, information technology system failures, transportation disruptions, labor unrest, commercial disputes, military actions or economic, business, labor, environmental, public health, or political issues. In addition, if our third-party logistics service providers fail to comply with applicable rules and regulations in China, our delivery services may be materially and adversely affected. If any of our service providers' operations or services are disrupted or terminated, we may not be able to find alternative service providers with quality and on commercial terms to our satisfaction in a timely and reliable manner, or at all. Furthermore, delivery personnel of contracted third-party logistics service providers act on our behalf and interact with our customers personally. We need to effectively manage these third-party logistics service providers to ensure the quality of customer services. If our products are not delivered in proper condition or in a timely manner or there is any other failure to provide high-quality delivery services to our customers, our products may be compromised, customer experience may be impaired and, as a result, our business and reputation could suffer. Further, if our logistics providers raise their fee rate, we may incur additional costs and may not be able to pass such costs to our customers.

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

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

Failure to successfully manage our fulfilment infrastructure expansion or any interruption in the operation of the warehouse facilities for an extended period may negatively affect our business and results of operations.

We believe that our fulfilment infrastructure, consisting of strategically located warehouses, is essential to our supply chain management. Most of the warehouses we use are operated by third-party vendors over which we have limited control. We provide our operating standards under our operating agreements with third-party vendors and typically renew these agreements on an annual basis. Our ability to process and fulfill orders accurately and provide high quality customer service depends on the smooth operation of the warehouse facilities. Any decrease in the quality of service offered by these third-party vendors will adversely affect our reputation and business operations. The warehouse facilities may be vulnerable to damage caused by fire, flood, power outage, telecommunications failure, break-ins, earthquake, health epidemics, human error and other events. If any of the warehouse facilities were rendered incapable of operations, then we may be unable to fulfill our orders on a timely basis, which could result in canceled sales and a loss of customer loyalty and have a material adverse impact on our business, financial condition and results of operations. For example, business operations at warehouse facilities could be disrupted if any of the employees working therein are suspected of being infected with COVID-19, since it could require the employees to be quarantined and/or the facilities to be disinfected. We do not carry business interruption insurance, and the occurrence of any of the foregoing risks could have a material adverse effect on our business, prospects, financial condition and results of operations.

The operation of our experience stores has required a substantial investment and commitment of resources and are subject to numerous risks and uncertainties.

Our experience stores have required substantial investment in equipment and leasehold improvements, information systems, inventory and personnel, often times even prior to generating any sales in these stores. We also have entered into substantial operating lease commitments for store space. A decline in sales or the closure or poor performance of individual or multiple stores could result in significant lease termination costs, write-offs of equipment and leasehold improvements and severance costs.

The success of our experience store operations depends in part on our ability to manage the financial and operational aspects of our experience stores operation strategy, our ability to properly assess the potential profitability and payback period of potential new experience store locations, our ability to hire and train skilled store operating personnel, especially management personnel, our ability to immerse such personnel in our culture, and our ability to guarantee timely supply of inventory for experience stores. We cannot assure you that we will succeed in all of these areas. In addition, many factors unique to offline retail operations, some of which are beyond our control, pose risks and uncertainties to the success of our experience store operations. These risks and uncertainties include, but are not limited to, macro-economic factors that could have an adverse effect on general retail activity, health epidemics, the overall customer traffic in and around the location of our experience stores, the opening of stores of competitors in the same area or location of our experience stores, the opening of a new store of ours in the same city as our existing experience stores, our failure in identifying appropriate locations for opening up new experience stores and accurately predicting customer traffic at such new stores, our inability to attract high customer traffic to our experience stores, our inability to manage costs associated with store construction and operation, more challenging environments in managing offline retail operations, costs associated with unanticipated fluctuations in the value of retail inventory, and our inability to obtain and renew leases in quality retail locations at a reasonable cost. If we are unable to open experience stores at convenient locations in such cities that have large number of customers of our online product sales and offer similar competitive price at our experience stores as our online stores, our ability to retain these customers, foster strong brand loyalty and further enlarge our customer base may be negatively impacted. Meanwhile, if we are unable to generate sufficient sales from these stores, we may fail to recover the advanced costs and investments in connection with such experience store and our business and profitability may suffer. The substantial management time and resources which our future experience store operation strategy may require could also result in disruption to our existing business operations, which may decrease our net revenue and profitability.

Failure to maintain or renew our current leases or locate desirable alternatives for our facilities could materially and adversely affect our business.

We primarily lease properties for our offices, experience stores and warehouse. We usually prefer to enter into long-term lease agreements with real estate owners for a period of around three years. To the extent we need to terminate the lease and relocate prior to the expiration of the lease term, we may face termination fees or be liable for breach of contracts. Meanwhile, for those locations that we want to continue our presence, we may not be able to successfully extend or renew such leases upon expiration of the current term on commercially reasonable terms, or at all. Certain leases we entered into with relevant real estate owners contain covenants relating to periodical turnover commitments or certain minimum operation results commitments. We cannot assure you that we will be able to fulfill such covenants at all times. Our failure to comply with relevant covenants may result in the real estate owners' unilateral right to terminate the relevant leases and may therefore be forced to relocate our affected operations. Any of these occurrences could disrupt our operations and result in significant relocation expenses, which could, adversely affect our business, financial condition and results of operations. Further, we compete with other businesses for premises at certain locations or of desirable sizes. As a result, even though we could maintain, extend or renew our leases, rental payments may significantly increase as a result of the high demand for the leased properties. Further, we may not be able to locate desirable alternative sites for our facilities as our business continues to grow and failure in relocating our affected operations could adversely affect our business and operations.

Expansion into international markets will expose us to significant risks.

Building on our success in China, we have started to expand globally, starting in Southeast Asia, where we have already established operations. We have also acquired *Galénic* and *Eve Lom* which have business operations, personnel and physical assets in Europe, U.S. and other geographies. Expansion into international markets requires

significant resources and management attention and subjects us to regulatory, economic, and political risks in addition to those we already face in China. There are significant risks and costs inherent in doing business in international markets, including:

- difficulty in establishing and managing international operations and the increased operations, travel, infrastructure, including establishment of local delivery service and customer service operations, and legal compliance costs associated with locations in different countries or regions;
- the ability to retain and effectively manage senior management and key personnel of our acquired businesses against the backdrop of the intense international competition for high quality management personnel;
- the need to adjust pricing and margins to effectively compete in international markets;
- the need to adapt and localize products for specific countries and the potential differences in customer preferences, including obtaining rights to third-party intellectual property used in each country;
- increased competition from local providers of similar products and services;
- the ability to protect and enforce intellectual property rights abroad;
- the need to offer content and customer support in various languages;
- difficulties in understanding and complying with local laws, regulations, and observation of religious and cultural customs and conventions in other jurisdictions;
- compliance with anti-bribery laws, such as the U.S. Foreign Corrupt Practices Act, by us, our employees, and our business partners;
- complexity and other risks associated with current and future legal requirements in other countries, including legal requirements related to consumer protection, consumer product safety, and data privacy frameworks, such as the E.U. General Data Protection Regulation;
- varying levels of internet technology adoption and infrastructure, and increased or varying network and hosting service provider costs;
- tariffs and other non-tariff barriers, such as quotas and local content rules, as well as tax consequences;
- fluctuations in currency exchange rates and the requirements of currency control regulations; and
- political or social unrest or economic instability in a specific country or region in which we operate.

We have limited experience with international regulatory environments and market practices and may not be able to penetrate or successfully operate in the markets we choose to enter. In addition, we may incur significant expenses as a result of our international expansion, and we may not be successful in such expansion. Our products and services may not be accepted as fast as we expect, or at all, by consumers in new markets due to our limited brand recognition in certain parts of the world, or if our third-party manufacturers or raw materials suppliers are alleged to be not in compliance with ethical, social, product, labor and environmental standards of such markets, such as those related to animal testing, which are usually more stringent than those of China. We may also face challenges to acceptance of our beauty-related content in new markets. Our failure to successfully manage these risks could harm our international operations and have an adverse effect on our business, financial condition and results of operations.

An economic downturn may adversely affect consumer discretionary spending and demand for our products and services.

Our beauty products may be considered discretionary items for consumers. Factors affecting the level of consumer spending for such discretionary items include general economic conditions and other factors, such as

consumer confidence in future economic conditions, consumer sentiment, the availability and cost of consumer credit, levels of unemployment, and tax rates. Unfavorable economic conditions may lead consumers to delay or reduce purchases of our products and consumer demand for our products may not grow as we expect. Our sensitivity to economic cycles and any related fluctuation in consumer demand for our products and services may have an adverse effect on our results of operations and financial condition.

We collect, store, process and use a variety of customer data and information for analysis of the changing consumer preferences and fashion trends, and we are required to comply with PRC and other applicable laws relating to privacy, personal information, data security and cybersecurity. The improper use or disclosure of data could have a material and adverse effect on our business and prospects.

We collect, store, process and use a variety of customer data and information for analysis of the changing consumer preferences and fashion trends to guide our product development and to improve our products and customer experience. We face risks inherent in handling and protecting customer data and information. In particular, we face a number of challenges relating to data from transactions and other activities on our platforms, including:

- Protecting the data in and hosted on our system, including against attacks on our system by outside parties or fraudulent behavior or improper use by our employees and third parties;
- addressing concerns related to personal information, data protection, cybersecurity and other factors; and
- complying with applicable laws, rules and regulations relating to the collection, use, storage, processing, transfer, provision, disclosure, deletion and security of data, including any requests from regulatory and government authorities relating to these data.

In general, we expect that data security and data protection compliance will receive greater attention and focus from regulators, both domestically and globally, as well as attract continued or greater public scrutiny and attention going forward, which could increase our compliance costs and subject us to heightened risks and challenges associated with data security and protection. If we are unable to manage these risks, we could become subject to penalties, including fines, suspension of business and revocation of required licenses, and our reputation and results of operations could be materially and adversely affected.

The PRC regulatory and enforcement regime with regard to data security and data protection is evolving and may be subject to different interpretations or significant changes. Moreover, different PRC regulatory bodies, including the SCNPC, the Ministry of Industry and Information Technology, or the MIIT, the CAC, the Ministry of Public Security and the State Administration for Market Regulation, have enforced data privacy and protections laws and regulations with varying standards and applications. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Internet Information Security and Privacy Protection.” The following are examples of certain recent PRC regulatory activities in this area:

Data Security

- In June 2021, the SCNPC promulgated the Data Security Law, which took effect in September, 2021. The Data Security Law, among other things, provides for national security review procedure for data processing activities that affect or may affect national security. In July 2021, the state council promulgated the Security Protection Regulations for Critical Information Infrastructure, which became effective on September 1, 2021. Pursuant to this regulation, critical information infrastructure means key network facilities or information systems of critical industries or sectors, such as public communication and information service, energy, transportation, water conservation, finance, public services, e-government affairs and national defense science, the damage, malfunction or data leakage of which may endanger national security, people’s livelihoods and the public interest. In December 2021, the CAC, together with other authorities, jointly promulgated the Revised Measures for Cybersecurity Review, which became effective on February 15, 2022 and replaces its predecessor regulation. Pursuant to the Revised Measures for Cybersecurity Review, critical information infrastructure operators that procure internet products and services must be subject to the cybersecurity review if their activities affect or may affect national security. The Revised Measures for Cybersecurity Review further stipulates that network platform operators that hold personal information of over one million users shall apply with the Cybersecurity Review Office for

a cybersecurity review before any public offering at a foreign stock exchange. As of the date of this annual report, no detailed rules or implementation rules have been issued by any authority and we have not been informed that we are a critical information infrastructure operator by any government authorities. Furthermore, the exact scope of “critical information infrastructure operators” under the current regulatory regime remains unclear, and the PRC government authorities may have wide discretion in the interpretation and enforcement of the applicable laws. Therefore, it is uncertain whether we would be deemed to be a critical information infrastructure operator under PRC law. If we are deemed to be a critical information infrastructure operator under the PRC cybersecurity laws and regulations, we may be subject to obligations in addition to what we have fulfilled under the PRC cybersecurity laws and regulations.

- In November 2021, the CAC released the Regulations on the Network Data Security (Draft for Comments), or the Draft Regulations. The Draft Regulations provide that data processors refer to individuals or organizations that, during their data processing activities such as data collection, storage, utilization, transmission, publication and deletion, have autonomy over the purpose and the manner of data processing. In accordance with the Draft Regulations, data processors shall apply for a cybersecurity review for certain activities, including, among other things, (i) the listing abroad of data processors that process the personal information of more than one million users and (ii) any data processing activity that affects or may affect national security. However, there have been no clarifications from the relevant authorities as of the date of this annual report as to the standards for determining whether an activity is one that “affects or may affect national security.” In addition, the Draft Regulations requires that data processors that process “important data” or are listed overseas must conduct an annual data security assessment by itself or commission a data security service provider to do so, and submit the assessment report of the preceding year to the municipal cybersecurity department by the end of January each year. As of the date of this annual report, the Draft Regulations was released for public comment only, and their respective provisions and anticipated adoption or effective date may be subject to change with substantial uncertainty. However, if such regulations were to be adopted in their current form, we would be subject to additional regulatory obligations with respect to data security and may face challenges in addressing their requirements and amending our internal data processing policies and practices to ensure compliance therewith.

Personal Information and Privacy

- In August 2021, the SCNPC promulgated the Personal Information Protection Law, which integrates the scattered rules with respect to personal information rights and privacy protection and took effect on November 1, 2021. We only collect basic user personal information that is necessary to provide the corresponding services. We update our privacy policies from time to time to meet the latest regulatory requirements of the CAC and other authorities and adopt technical measures to protect personal information and ensure cybersecurity in a systematic way. Nonetheless, the Personal Information Protection Law elevates the protection requirements for personal information processing, and many specific requirements of this law remain to be clarified by the CAC, other regulatory authorities, and courts in practice. We may be required to make further adjustments to our business practices to comply with the personal information protection laws and regulations.

Many of the data-related legislations are relatively new and certain concepts thereunder remain subject to interpretation by the regulators. If any data that we possess belongs to data categories that are subject to heightened scrutiny, we may be required to adopt stricter measures for protection and management of such data. The Revised Measures for Cybersecurity Review and the Draft Regulations remain unclear on whether the relevant requirements will be applicable to companies that are already listed in the United States, such as us. We cannot predict the impact of the Revised Measures for Cybersecurity Review and the Draft Regulations, if any, at this stage, and we will closely monitor and assess any development in the rule-making process. If the Revised Measures for Cybersecurity Review and the enacted version of the Draft Regulations mandate clearance of cybersecurity review and other specific actions to be taken by issuers like us, we face uncertainties as to whether these additional procedures can be completed by us timely, or at all, which may subject us to government enforcement actions and investigations, fines, penalties, suspension of our non-compliant operations, or removal of our online stores from the relevant e-commerce platforms,

and materially and adversely affect our business and results of operations and significantly limit or completely hinder our ability to continue to offer securities to investors, or cause the value of such securities to significantly decline.

Based on our internal data compliance assessment conducted with the assistance of our PRC legal counsel, as of the date of this annual report, our business operations are compliant with the regulations that have been issued by the CAC in all material respects. There have not been any material changes in our business operations concerning data security and personal information protection since then. We have been taking, and will continue to take, reasonable measures to comply with laws and regulations relating to privacy, personal information, data security and cybersecurity. Pursuant to PRC laws and regulations regarding data security and personal information protection, and in response to the current supervisory tendency from the CAC, we have taken certain internal and external measures to ensure compliance with the legal obligation required by the supervisory authorities and to ensure data security concerning customers. With respect to external management, on the one hand, we have timely updated our personal information processing rules, and we have disclosed the updated personal information processing rules to our customers and obtained their consent to such update; on the other hand, we have executed data processing agreements with external logistic companies to clarify each party's rights and obligations when assigning personal information processing tasks to such logistic companies. With respect to internal management, we have established an integrated data compliance management structure and enacted a series of data compliance policies such as the data security management policy (including the requirements for data compliance audit), the data classification and grading policy, the personal information protection impact assessment policy, the data storage and management policy, information security incidents and emergency response measures. We have also utilized a series of compliance tools to ensure proper implementation of the aforementioned policies. However, as the PRC governmental authorities have wide discretion in interpretation and implementation of the Revised Measures for Cybersecurity Review and related cybersecurity laws and regulations, it is uncertain whether the efforts undertaken by us so far will be sufficient to ensure full compliance with all applicable cybersecurity laws and regulations in the future. In addition, substantial uncertainties exist with respect to the enactment timetable, final content, interpretation and implementation of such regulations, and we are not certain whether the Draft Regulations, if enacted in their current form, or any future laws, rules or regulations of a similar nature will apply to us. As of the date of this annual report, we have not been involved in any formal investigations on cybersecurity review made by the CAC on such basis. Based on the foregoing, our PRC legal counsel does not expect that, as of the date of this annual report, the current applicable PRC laws on data security and personal information protection would have a material adverse impact on our business.

In general, compliance with the existing PRC laws and regulations, as well as additional laws and regulations that PRC regulatory bodies may enact in the future, related to data security and personal information protection, may be costly and result in additional expenses to us, and subject us to negative publicity, which could harm our reputation and business operations. There are also uncertainties with respect to how such laws and regulations will be implemented and interpreted in practice.

In addition, regulatory authorities around the world have adopted or are considering a number of legislative and regulatory proposals concerning data protection. These legislative and regulatory proposals, if adopted, and the uncertain interpretations and application thereof could, in addition to the possibility of fines, result in an order requiring that we change our data practices and policies, which could have an adverse effect on our business and results of operations. The European Union General Data Protection Regulation ("GDPR"), which came into effect on May 25, 2018, includes operational requirements for companies that receive or process personal data of residents of the European Economic Area. The GDPR establishes new requirements applicable to the processing of personal data, affords new data protection rights to individuals and imposes penalties for serious data breaches. Individuals also have a right to compensation under the GDPR for financial or non-financial losses. Although we do not conduct any business in the European Economic Area, in the event that residents of the European Economic Area access our website or our mobile platform and input protected information, we may become subject to provisions of the GDPR.

Any security and privacy breach may lead to leak and unauthorized disclosure of data and information we aggregate, which may hurt our brand image, our business and results of operations.

We store and analyze customer and operations data, and security breaches expose us to a risk of loss of such data, litigation and potential liability. Our data is encrypted and saved on cloud-based servers, segregated from the internet, protected by access control, and further backed up in long-distance servers, so as to minimize the possibility of data loss or breach.

Despite the security measures we have implemented, we may experience cyber-attacks of varying degrees, including attempts to hack into our cloud or our intranet and steal customer and business information or obtain economic benefit from us. Our security measures may also be breached due to employee error, malfeasance or otherwise. Additionally, outside parties may attempt to fraudulently induce our employees to disclose sensitive information in order to gain access to our data, or may otherwise obtain access to such data. Any such breach or unauthorized access could result in significant legal and financial exposure, damage to our reputation and a loss of confidence in the security of our information system that could deter our customers from engaging with us, and have an adverse effect on our business and results of operations. Because the techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, our customers' and business partners' perception of the effectiveness of our security measures could be harmed, we could lose customers and business partners, may not be able to maintain the level of engagement with customers and business partners and we may be exposed to significant legal and financial risks, including legal claims and regulatory fines and penalties. Any of these actions could have a material and adverse effect on our business and results of operations.

If our proprietary data analytics algorithms for consumer preference prediction and content recommendation flawed or ineffective, our trend prediction and customer acquisition abilities could be harmed.

We rely on our proprietary data analytics algorithms to analyze customer data, to predict consumer preferences, and to recommend beauty-related content that may be of interest to our customers. Although we have invested substantially in the development and continued improvement of our algorithm, we cannot assure that our algorithm does not and will not carry any flaw or defect that could compromise our data analysis results. Particularly, some of these flaws or defects may not become evident until the algorithm is put to actual usage or after its continued failure to accurately predict customers' preferences or industry trends. Even if the algorithm is properly designed, its performance may be affected by the quality and volume of customer data we aggregated. For example, in case we enter into a new product category, we may not have sufficient data related to consumers' purchase behavior or consumers' views about products in this category, which could limit the ability of our algorithm to effectively analyze and predict consumer preferences at least at the early stage of such newly launched product category.

In addition, we expect to experience significant growth in the amount of data we need to process as we continue to develop our business and enlarge our customer base. As the amount of data and variables we process increases, the calculations that our algorithms must process become increasingly complex and the likelihood of any defect or error increases. To the extent our proprietary algorithms fail to deliver accurate analysis results or experience significant errors or defects, our ability to predict customers' preferences and industry trend and to develop products with wide market acceptance could be impaired.

User misconduct on and misuse of the online consumer communities we organize may adversely impact our brand and reputation, and may subject us to liabilities.

In addition to interactions with our customers at our experience stores, we organize customer communities on Weixin, through which we establish closer relationships with, and develop better understanding of, our customers through deep engagement with them. Such communities also allow customers to share shopping experience and freely communicate with each other. However, we don't have full control over how and what our customers will communicate, and our communities could be misused by some of our customers. For example, some of our customers may use our communities as a platform to distribute content that could be deemed as spam by other customers, such as marketing materials for his or her own businesses or businesses he or she is employed to promote, which could impair our customers' experience. In addition, once invited into our online communities, our customers can add each other as contacts and communicate and interact privately. We have no control over our customers' behaviors off our online communities and cannot rule out the possibility that some of them may engage in immoral, disrespectful, fraudulent or illegal activities. To the extent such behaviors or activities are associated with our communities, the public perception of our reputation and brand image could be harmed and prospective customers may be deterred from joining our online communities, which could have a material and adverse effect on our business and reputation.

We are dependent on information technology, and if we are unable to protect against service interruptions, data corruption, cyber-based attacks or network security breaches, our operations could be disrupted.

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

If we fail to maintain and upgrade our information technology systems, it may have a material adverse effect on our business, financial condition and results of operations.

As we grow our business, we expect to continue to invest in and implement, upgrades to our information technology systems and procedures. Without these improvements, our operations might suffer from unanticipated system disruptions, slow data processing, unreliable service levels, impaired quality or delays in reporting accurate information, any of which could negatively affect our reputation and ability to attract and retain customers. However, such upgrades may subject us to inherent costs and risks associated with changes to these systems, including potential disruption of our internal control structure, additional administration and operating expenses, failure to acquire or retain sufficiently skilled personnel to implement and operate the new systems, demands on management time and other risks and costs of delays or difficulties in transitioning to or integrating new systems into our current systems. In addition, the upgrade and improvement of our information technology systems and infrastructure may require us to commit substantial financial, operational and technical resources, with no assurance our business will increase. If we fail to respond to technological change or to adequately maintain and upgrade our systems and infrastructure in response to changing business needs in a timely, effective and cost-efficient fashion, our business could be adversely affected.

Real or perceived inaccuracies in our operating metrics may harm our reputation and negatively affect our business.

We regularly review our operating metrics in relation to our customers to evaluate growth trends, measure our performance, and make strategic decisions. These metrics are calculated using our internal data as well as third-party platform's data, have not been validated by an independent third party, and may not be indicative of our future operation results. Our operating metrics may differ from estimates published by third parties or from similarly titled metrics used by other companies due to differences in methodology. If we discover material inaccuracies in the operating metrics we use, or if they are perceived to be inaccurate, our reputation may be harmed and our evaluation methods and results may be impaired, which could negatively affect our business.

The payment methods that we accept subject us to third-party payment-related risks and other risks.

We accept payments from our customers using a variety of methods, including online payments with credit cards and debit cards issued by major banks and payment through third-party online payment platforms such as Weixin Pay and Alipay. We also rely on third parties to provide payment processing services. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower our profit margins. We may also be subject to fraud and other illegal activities in connection

with the various payment methods we offer, including online payment options. We may also be subject to various rules, regulations, and requirements, regulatory or otherwise, governing electronic fund transfers and online payment, which could change or be reinterpreted to make it difficult or impossible for us to comply with. If we fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments from our customers, process electronic fund transfers, or facilitate other types of online payments, and our business, financial condition, and results of operations could be materially and adversely affected.

Our ability to enrich our content offerings could be substantially impaired if we fail to cooperate with third-party content providers or fail to attract or retain high quality in-house writers and editors.

We currently generate content primarily through our in-house editorial team. We also collaborate with third-party professional content providers to extend the breadth and depth of our content offerings. The demand and competition for skilled and experienced writers and editors are intense. We may not be able to compete effectively for talents, neither can we guarantee we will not lose existing editors or writers. We may also incur increased compensation expenditures as we upscale our editorial team or increase compensation and benefits to retain our skilled writers and editors. In addition, if we fail to maintain our cooperation with third-party professional content providers upon terms commercially acceptable to us, we may lose a portion of high-quality content offerings. Any of these occurrences may adversely affect our ability to produce high-quality content in an effective manner, resulting in deterioration of user experience and harm to our brand, and our financial condition and results of operations may be materially and adversely affected as a result.

If the content we produce and distribute through online social and content platforms, or content available on our website, is deemed to violate PRC laws or regulations, our business and results of operations may be materially and adversely affected.

We produce and distribute professionally generated beauty and wellness related content on third party online social and content platforms such as Douyin, RED, Weixin, Kuaishou, and Bilibili to promote beauty related knowledge, to improve our brand awareness and to generate consumers interest in our products. Under PRC laws, we are required to monitor content we produce and distribute for items that are factually incorrect, socially destabilizing, obscene or defamatory, and promptly take actions with respect to such content items. Sometimes, it is arguable as to whether a piece of information is factually incorrect or involved other types of illegality, and it may be difficult to determine the type of content that may result in liability to us. Our burden to administer the content, and costs associated therewith, may be exacerbated if we develop our own app with user discussion panel or other interactive functions or features in the future, or introduce such interactive features and functions to our website and Weixin mini-program. If we are found to be liable, we may be subject to fines, revocation of our relevant licenses and other administrative and civil actions, which may interrupt our business. We have implemented measures to review content in light of the relevant laws and regulations before any of them is published. However, such procedures may not prevent all illegal or inappropriate contents from being distributed, especially content created during living streaming by KOLs we collaborate with.

If our cash from operations is not sufficient to meet our current or future operating needs and expenditures, our business, financial condition and results of operations may be materially and adversely affected.

For the fiscal years ended December 31, 2020, 2021 and 2022, we had negative cash flows from operating activities of RMB983.4 million, negative cash flows from operating activities of RMB1.02 billion and positive cash flows from operating activities of RMB136.2 million (US\$19.7 million), respectively. We may require additional cash resources due to changed business conditions or other future developments, including any marketing initiatives, investments or acquisitions we may decide to pursue. To the extent we are unable to generate sufficient cash flow, we may be forced to cancel, reduce or delay these activities. Our ability to generate cash to meet our operating needs and expenditures will depend on our future performance and financial condition, which will be affected by financial, business, economic, legislative, regulatory and other factors, including potential changes in costs, pricing, the success of product innovation and marketing, competitive pressure and consumer preferences. If our cash flows and capital resources are insufficient to fund our cash needs, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations. Alternatively, if our sources of funding are insufficient to satisfy our cash requirements, we may seek to obtain credit facilities or sell equity or debt securities. The sale of equity securities would result in dilution of our existing shareholders, including

holders of our ADSs. The incurrence of indebtedness would result in debt service obligations and operating and financing covenants that could restrict our operations. Furthermore, it is uncertain whether financing will be available in amounts or on terms acceptable to us, if at all, which could materially and adversely affect our business, financial condition and results of operations.

We may be subject to infringement claims of intellectual property rights or other rights of third parties, which may be expensive to defend and may disrupt our business and operations.

Our commercial success depends in part on our ability to operate without infringing, misappropriating or otherwise violating the trademarks, patents, copyrights, trade secrets and other proprietary rights of others. We have adopted and implemented internal procedures and licensing practices to prevent unauthorized use of such intellectual properties or the infringement by us of other rights of third parties. However, we cannot be certain that these measures can be effective in completely preventing all possible infringement, misappropriation and other violations of third-party's intellectual property rights or other rights during the course of our business. As we face increasing competition and as litigation becomes a more common way to resolve disputes in China, we face a higher risk of being the subject of intellectual property infringement claims.

We cannot be certain that our operations or any aspects of our business do not or will not infringe upon or otherwise violate patents, copyrights or other intellectual property rights held by third parties. This is especially the case as our sales and marketing activities may use photos or video clips that contain portraits of individuals and shows performed by others such as recorded product promotion live-streaming held by our cooperating KOLs. We cannot rule out the possibility that some of these use cases are not properly authorized by the relevant performers and/or proprietary right holders, which may expose us to potential liabilities for infringement of portrait rights or rights to network dissemination of information under Chinese laws. In addition, although we enter into license agreements with third party proprietary right holders, we cannot rule out the possibility that some uses of such licensed rights might exceed the authorized scope or permitted license time period specified in such license agreements. There could also be existing intellectual property of which we are not aware that our operations and business may inadvertently infringe upon. Further, our internal procedures and licensing practices may not be effective in completely preventing the unauthorized use of copyrighted materials or the infringement of other rights of third parties by us and/or our employees. We have received and may continue to receive claims by third parties that we and/or our employees have infringed or otherwise violated their software copyright. We license and use software and other technologies from third parties in our ordinary course of business. These third-party software or technology licenses may not continue to be available to us on acceptable terms or at all, and may expose us to potential infringement liability. Any such liability, or our inability to use any of these third-party software or technologies on acceptable terms or at all, could harm our reputation, result in increased operating costs, and/or disruptions to our business that may materially and adversely affect our operating and financial results.

We may from time to time in the future be subject to legal proceedings and claims relating to the intellectual property rights of others. Also, although we have not been subject to claims or lawsuits outside China, we cannot assure you that we will not become subject to intellectual property laws in other jurisdictions, such as the United States. If a claim of infringement brought against us in China, the United States or another jurisdiction is successful, we may be required to pay substantial penalties or other damages and fines, enter into license agreements which may not be available on commercially reasonable terms or at all or be subject to injunctions or court orders. Even if allegations or claims lack merit, defending against them could be both costly and time consuming and could significantly divert the efforts and resources of our management and other personnel. Competitors and other third parties may claim as well that our officers or employees or our ODM/OEM and packaging supply partners have infringed, misappropriated or otherwise violated their product formulas, confidential information, trade secrets or other proprietary information or technology in the course of their employment with us or in their designing and manufacturing products for us, as the case may be. Although we take steps to prevent the unauthorized use or disclosure of such third-party information, intellectual property or technology by our officers, employees or ODM/OEM and packaging supply partners, we cannot guarantee that our internal intellectual property policy, any other policies or contractual provisions that we have implemented or may implement will be effective. If a claim of infringement, misappropriation or violation is brought against us or one of our officers or employees, we may suffer reputational harm and may be required to pay substantial damages, subject to injunction or court orders or be required to suspend sales of our products or to remit to the plaintiff the revenues we derive from the sales, any of which could adversely affect our business, financial condition and results of operations.

If we are unable to protect our intellectual property, the value of our brands and other intangible assets may be diminished, and our business may be adversely affected.

We rely on a combination of trademark, copyright, trade secret, patent and other laws protecting proprietary rights, nondisclosure and confidentiality agreements and other practices, to protect our brands and proprietary information, know-hows, technologies and processes. Our principal intellectual property assets include the registered trademarks for our brands, the design and invention patents and copyrights for our products and logos. Our copyrights, trademarks and design and invention patents are valuable assets that support our brands and consumers' perception of our products. Although we have existing and pending trademark and patent registrations in China, there can be no assurance that all of them will be issued or registered. Historically, some of our trademark applications on certain key categories were rejected, which result in difficulties in our ability to protect our use of brand name or logo on products of such categories, and may subject us to possible intellectual property disputes with third parties over such uses. Third parties may also oppose our trademark or patent applications domestically or abroad, or otherwise challenge our use of the trademarks or patents. In the event that our trademarks or patents are successfully challenged, we could be forced to rebrand our products or to refrain from using certain designs, which could result in the loss of brand recognition, impair the attractiveness of our products and could require us to devote resources to advertising and marketing new brands and product designs.

Despite our efforts to protect our intellectual property rights and proprietary information, unauthorized parties may attempt to copy or otherwise obtain and use our intellectual properties or know-hows. Monitoring for infringement or other unauthorized use of our intellectual property rights and know-hows is difficult and costly, and such monitoring may not be effective. From time to time, we may have to resort to courts or administrative proceedings to enforce our intellectual property rights, which may result in substantial cost and diversion of resources. The PRC has historically afforded less protection to a company's intellectual property than the United States and, therefore, companies such as ours operating in the PRC face an increased risk of intellectual property piracy.

Our employees or business partners or other parties with whom we maintain business relationship may engage in misconduct or other improper activities, which may disrupt our business, hurt our reputation and results of operations.

Our employees or business partners, including third-party manufacturers and logistics service providers, may be subject to regulatory penalties or punishments or other legal proceedings because of their wrongdoings or regulatory compliance failures, which may disrupt our business. For example, we currently rely on third-party manufacturers to produce our products. Although we usually require them to provide compliance representations and covenants, we cannot assure that they will not engage in any noncompliant practices such as environmental or product safety requirement violations. If they engage in any noncompliance or face regulatory sanctions or operation suspensions, our business may as a result be disrupted and our reputation may be harmed.

We are exposed to the risk of fraud or other misconduct by our employees or third parties partners with whom we have business arrangements. Misconduct by employees or third-party partners could include inadvertent or intentional failures to comply with the laws and regulations to which we are subject or with our policies, provide accurate information to regulatory authorities, comply with ethical, social, product, labor and environmental standards, comply with fraud and abuse laws and regulations, report financial information or data accurately, or disclose unauthorized activities to us. We have no control over the off-work time and behaviors of our employees and the operations of our third-party partners. Any legal liabilities of, or regulatory actions against, our employees, especially key employees, or business partners may affect our business activities and reputation and, in turn, our results of operations.

We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of internet-related business and companies, including limitations on our ability to own key assets.

We leverage the internet for many of our sales, consumer acquisitions and engagement and daily operations. Foreign ownership of and the licensing and permit requirements pertaining to companies operating in the internet industry are subject to government scrutiny. These internet-related laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainties. As a result, in certain circumstances it may be difficult to determine what actions or omissions may be deemed to be in violation of applicable laws and regulations. Issues, risks and uncertainties relating to PRC government regulation of such industries include, but are not limited to, the following:

- We operate our business and hold licenses through the VIE and its affiliates due to restrictions on foreign investment in businesses providing value-added telecommunication services.
- Uncertainties relating to the regulation of the internet business in China, including evolving licensing practices, give rise to the risk that some of our permits, licenses or operations may be subject to challenge, which may be disruptive to our business, subject us to sanctions or require us to increase capital, compromise the enforceability of relevant contractual arrangements, or have other adverse effects on us. The numerous and often vague restrictions on the collection and usage of customer data and on content distributed online in China may subject us to potential liability.
- Although we have not received notice of violation or faced administrative actions in connection with our operation of business via the VIE and its affiliates, we cannot assure that the PRC government will not find such practice noncompliant with PRC laws and regulations or the interpretation thereof, in which case we could be subject to severe penalties or be forced to relinquish our interests in those operations.

Due to the increasing popularity and use of the internet and other online services, with respect to online sales, advertising, customer acquisition, data acquisition and usage, or otherwise related to internet industries a number of laws and regulations have been adopted and it is possible that more and will be adopted in the future. The adoption of additional laws or regulations, the application to our business of laws and regulations from jurisdictions whose laws do not currently apply to our business, or the application to our business of existing laws and regulations that are traditionally not applicable to digital forms of services, may heighten requirements for us to conduct our operations, which could, in turn, increase our cost of doing business, disrupt our operations and impede the development or growth of the internet industry generally.

We cannot assure you that subsequent laws and regulations or interpretation of existing ones would not render our operations noncompliant or that we would always be in full compliance with applicable laws and regulations. In the event that we must remedy any violations, we may be required to modify our business models in a manner that undermines the experience of our customers. We may also become subject to fines or other penalties and, if we determine that the requirements to operate in compliance are overly burdensome, we may elect to terminate the non-compliant operations. In each case, our business, financial condition and results of operations may be materially and adversely affected.

If we fail to obtain and maintain the requisite licenses, permits, registrations and filings applicable to our business, or fail to obtain additional licenses, permits, registrations or filings that become necessary as a result of new enactment or promulgation of government policies, laws or regulations or the expansion of our business, our business and results of operations may be materially and adversely affected.

Internet and beauty industry and certain business models and practices such as the operation of franchise business and export oriented e-commerce business in China are highly regulated, and requires multiple licenses, permits, filings and approvals to conduct and develop business. Currently, we have obtained the following valid licenses through our subsidiaries and the VIE: value-added telecommunication business operation license for provision of internet information services, or the ICP License, and the Permit for Production and Operation of Radio and Television Programs, Record Filing Certificate for Operation of Class II Medical Devices for sales for medical skincare products, Registration Certificate for Operation of Class III Medical Devices for color contact lens sales, Qualification for Drug Information Services over the Internet, Record Filing for online sales for Medical Devices and the Permit for the Food Trade for our sale of health-care food and snacks as well as operating a café. In addition, we have completed the foreign trade business operator registration and the consignor/consignee registration for export and import of goods to carry out import of goods to facilitate the operation of our portfolio brands and to implement our sales of products to overseas markets. We have filed the franchise agreement in effect with the Department of Commerce of Guangdong Province for the launch of our franchise business model for our products under the *Perfect Dairy* brand. However, as a fast-growing company with limited operating history that is continuously exploring more approaches to conduct sales and marketing cost-effectively and capture points of growth, we have not obtained all the licenses, registrations and filings necessary or advisable for certain of our operations, especially the newly launched ones. We enable our customers to share and replay video clips on our Weixin mini-program, which may require us to obtain a License for Online Transmission of Audiovisual Programs. We currently have not obtained a License for Online Transmission of Audiovisual Programs, which may subject us to warnings, orders of correction, pecuniary penalties or other administrative proceedings. As of the date of this annual report, we have not received any notice of warning or been subject to any administrative penalties or other disciplinary actions from the relevant governmental authorities for lack of licenses, permits, registrations or filings. However, we cannot assure you that we will not be subject to any administrative action that may materially and adversely affect our business, financial condition and results of operations.

In addition, certain licenses, permits or registrations we hold are subject to periodic renewal. If we fail to maintain or renew one or more of our licenses and certificates when their current term expires, or obtain such renewals on a timely manner, our operations could be disrupted. In addition, under relevant PRC laws and regulations, the VIE as license holders are required to update certain licenses if any change to their respective name, registered capital or legal representative during the validity period of such license. If we fail to properly renew and maintain all such requisite licenses on time, we may face penalties and in extreme circumstances, order to suspend or terminate our website and online business.

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

Our acquisition activities and other strategic transactions may present managerial, integration, operational and financial risks, which may prevent us from realizing the full intended benefit of the acquisitions we undertake.

We have in the past and may continue to seek acquisitions that we believe strengthen our competitive position in our key segments and geographies or accelerate our ability to grow into adjacent product categories and channels and emerging markets or which otherwise fit our strategies. The cost of identifying and consummating investments and acquisitions could be high and there can be no assurance that we will be able to identify suitable acquisition candidates, be the successful bidder or consummate acquisitions on favorable terms, or have the funds to acquire desirable acquisitions. Such acquisitions and investments may also require approval from the relevant PRC governmental authorities, which may result in high compliance costs and add uncertainty to the transaction despite the commercial efforts made.

In addition, investments and acquisitions could result in distraction of management from current operations, greater than expected liabilities and expenses, unidentified issues not discovered in our due diligence, the use of substantial amounts of cash, potentially dilutive issuances of equity securities, significant amortization expenses related to goodwill or intangible assets and exposure to potential unknown liabilities of the acquired business. If the goodwill or intangible assets become impaired, we may be required to record a significant charge to our results of operations.

Further, the assumptions we use to evaluate acquisition opportunities may not prove to be accurate and our investments or acquisitions may not yield the results we expect. Even if our assumption is accurate, the integration of acquired businesses into ours may be costly and disruptive to our existing business operations. The integration process involves certain risks and uncertainties, some of which are outside our control, and there can be no assurance that we will be able to realize the anticipated benefits, synergies, cost savings or efficiencies. In the event that our investments and acquisitions are not successful, our results of operations and financial condition may be materially and adversely affected.

Our quarterly operating results may fluctuate due to seasonality and other factors, which makes our results of operations difficult to predict and may cause our quarterly results of operations to fall short of expectations.

Our quarterly operating results have fluctuated in the past and may continue to fluctuate depending upon a number of factors, many of which are beyond our control. Our operating results tend to be seasonal. For instance, we generate a substantial portion of our net revenues in the second and the fourth calendar quarters as a result of higher sales volume during a series of shopping festivals across e-commerce platforms, such as “618,” “Singles’ Day” and “Double Twelve.” In addition, in order to prepare for such shopping festivals, we must order and keep in stock significantly more merchandise than we would carry at other times of the year. Our selling and marketing expenses as a percentage of net revenues is also typically lower in the second and fourth calendar quarters as a result of higher online traffic during such periods due to promotional activities by e-commerce platforms during shopping festivals such as “618” in the second calendar quarter, as well as “Singles’ Day” and “Double Twelve” in the fourth calendar quarter, which leads to greater sales volumes. However, as a result of the negative impact of COVID-19 and other macro headwinds in China’s cosmetics industry, our net revenues experienced negative growth. Overall, the historical seasonality of our business has been relatively mild due to our rapid growth but may increase further in the future. As a result of the seasonal fluctuations in our operating results, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Our quarterly and annual revenues and costs and expenses as a percentage of our revenues in a given period may be significantly different from our historical or projected rates and our operating results in future quarters may fall below expectations.

If we fail to implement and maintain an effective system of internal controls over financial reporting, we may be unable to accurately or timely report our results of operations or prevent fraud, and investor confidence and the market price of our ADSs may be materially and adversely affected.

In the course of auditing our consolidated financial statements as of and for the year ended December 31, 2021, we and our independent registered public accounting firm identified one material weakness in our internal control over financial reporting. As defined in the standards established by the PCAOB, a “material weakness” is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility

that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness identified is our lack of sufficient financial reporting and accounting personnel with appropriate knowledge and experience to (i) establish and implement key controls over period end closing and financial reporting and (ii) handle complex accounting issues and to properly prepare and review financial statements and related disclosures in accordance with U.S. GAAP and SEC reporting requirements. The material weakness, if not timely remediated, may lead to material misstatements in our consolidated financial statements in the future. Following the identification of the material weakness, we have taken measures to remediate the deficiency. Our management has concluded that our internal control over financial reporting was effective as of December 31, 2022 after the remediation. Our independent registered public accounting firm, after conducting its own independent testing, has issued a report that our internal controls over financial reporting was effective. For details on these initiatives, see “Item 15. Controls and Procedures—Management’s Annual Report on Internal Control over Financial Reporting.”

Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, requires that we establish and maintain internal control over financial reporting and disclosure controls and procedures. An effective internal control environment is necessary to enable us to produce reliable financial reports and is an important component of our efforts to prevent and detect financial reporting errors and fraud. Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, requires that we include a report from management on our internal control over financial reporting in our annual report on Form 20-F beginning with our annual report for the fiscal year ending December 31, 2021. In addition, as we have ceased to be an “emerging growth company” as such term is defined in the Jumpstart Our Business Startups Act, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. Our management may conclude that our internal control over financial reporting is not effective. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm, after conducting its own independent testing, may issue a report that is qualified if it is not satisfied with our internal controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us. In addition, as a public company, our reporting obligations may place a significant strain on our management, operational and financial resources and systems for the foreseeable future. We may be unable to timely complete our evaluation testing and any required remediation.

During the course of documenting and testing our internal control procedures, in order to satisfy the requirements of Section 404, we or our auditor may identify other deficiencies in our internal control over financial reporting that are deemed to be material weaknesses and render our internal control over financial reporting ineffective. In addition, if we fail to maintain the adequacy of our internal control over financial reporting, as these standards are modified, supplemented or amended from time to time, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. If we fail to achieve and maintain an effective internal control environment, we could suffer material misstatements in our financial statements or even be required to restate our financial statements, which would likely cause investors to lose confidence in our reported financial information. This could in turn limit our access to capital markets, harm our results of operations and lead to a decline in the trading price of our ADSs. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list, regulatory investigations and civil or criminal sanctions.

We have limited business insurance coverage which could expose us to significant costs and business disruption.

Insurance companies in China currently do not offer as extensive an array of insurance products as insurance companies do in more developed economies. We do not have business liability or disruption insurance to cover all of our operations. We have determined that the costs of insuring for these risks and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. Any uninsured occurrence may disrupt our business operations, require us to incur substantial costs and divert our resources, which could have an adverse effect on our results of operations and financial condition.

We have granted, and may continue to grant, share incentives, which may result in increased share-based compensation expenses and negatively impact our results of operations.

On September 5, 2018, our board of directors approved the establishment of the Share Option Plan, which plan was later amended and restated on July 26, 2019, March 25, 2020 and September 11, 2020 (the “2018 Share Option

Plan”). The 2018 Share Option Plan shall be valid and effective for ten years from September 11, 2020. The maximum number of shares that may be issued pursuant to all awards under the 2018 Share Option Plan shall be 249,234,508 shares. See “Item 6. Directors, Senior Management and Employees—B. Compensation of Directors and Executive Officers—Share Incentive Plan.” For the years ended December 31, 2020, 2021 and 2022, we recorded an aggregate of RMB1.90 billion, RMB530.4 million and RMB340.9 million (US\$49.4 million), respectively, in share-based compensation expenses. The share-based compensation expenses recorded in 2022 were lower as compared with those recorded in 2021, primarily due to a decrease in the number of personnel entitled to receive share-based compensation. The share-based compensation expenses recorded in 2021 were much lower as compared with those recorded in 2020, primarily due to a share-based compensation charge triggered by our initial public offering in November 2020.

On December 30, 2022, our board of directors and the compensation committee of our board have approved and authorized the adoption of the 2022 Share Incentive Plan, effective on January 1, 2023. The 2022 Share Incentive Plan will expire on the tenth anniversary of its effective date. Under the 2022 Share Incentive Plan, the maximum aggregate number of ordinary shares of our company available for issuance is 1.5% of the total number of issued and outstanding shares (on an as-converted fully-diluted basis) as of December 31, 2022, plus an annual increase by (i) (A) 1.5% of the total number of issued and outstanding shares (on an as-converted fully-diluted basis) as of the last day of the immediately preceding fiscal year for each of the first two fiscal years of our company beginning January 1, 2024, and (B) 1.0% of the total number of issued and outstanding shares (on an as-converted fully-diluted basis) as of the last day of the immediately preceding fiscal year for each subsequent fiscal year of our company during the term of the 2022 Share Incentive Plan, or (ii) such fewer number of shares as may be determined by our board of directors. See “Item 6. Directors, Senior Management and Employees—B. Compensation of Directors and Executive Officers—Share Incentive Plan.”

We believe the granting of share-based compensation is of significant importance to our ability to attract and retain key personnel and employees, and we will continue to grant share-based compensation to employees in the future. As a result, we will continue to incur share-based compensation expenses which may have an adverse impact on our results of operations.

Failure to fully comply with PRC labor-related laws may expose us to potential penalties.

Under the PRC Social Insurance Law and the Regulations on the Administration of on Housing Provident Fund, employees are required to participate in pension insurance, work-related injury insurance, medical insurance, unemployment insurance, maternity insurance, and housing provident funds. In this connection, employers are required, together with their employees or separately, to pay the contributions to social insurance and housing provident funds for their employees. The relevant government agencies may examine whether an employer has made adequate payments of the requisite statutory employee benefits, and employers who fail to make adequate payments may be subject to late payment fees, fines and/or other penalties. Certain of our PRC subsidiaries failed to make social insurance and housing fund contributions in full for their employees. If the relevant PRC authorities order us to make up for social insurance and housing fund contributions or impose fines and legal sanctions on us for our failure to make social insurance and housing fund contributions in full for our employees, our business, financial condition and results of operations may be adversely affected.

In addition, under the Labor Law and the Notice on Issuing the Measures for the Examination and Approval of Flexible Working Hours Arrangement and Comprehensive Working Hours Scheme Adopted by Enterprises, enterprises that are not in a position to implement standard working hours arrangement may adopt special working hours arrangement, including flexible working hours arrangement and comprehensive working hours arrangement. Entities adopting the aforementioned special working hours arrangement shall apply for approval with relevant governmental authorities, otherwise in case of labor disputes, the entities may be required to pay additional compensation to their employees. If the relevant PRC authorities find that our working hour practice constitutes a special working hours arrangement which requires governmental approval, we may be required to pay additional compensation to our employees in case of labor disputes. Also, if we fail to make corrections in time, we may be subject to fines which may adversely affect our business, financial condition and results of operations.

Furthermore, pursuant to the Labor Contract Law and the Interim Provisions on Labor Dispatch, responsibilities assigned to dispatched workers shall be temporary and ancillary in nature and the number of dispatched workers of any given employer shall not exceed 10% of the employer’s total labor force. See “Item 4. Information on the

Company—B. Business Overview—Regulations—Regulations Relating to Employment.” Certain of our PRC subsidiaries hired dispatched workers from dispatch agencies in the past and the number of dispatched workers exceeded 10% the total number of staff of the subsidiary historically. Although we aimed to not assign dispatched workers on significant tasks, there is no assurance that the assignments performed by them were always temporary and ancillary in nature. We hire dispatched workers as of the date of this annual report and have not received any notice of warning or been subject to any administrative penalties or other disciplinary actions from relevant PRC authorities. However, we cannot assure you that the relevant PRC authorities will not take administrative actions against such PRC subsidiaries of ours for their past practice. To the extent administrative actions are imposed, our business, financial condition and results of operations may be negatively impacted.

Meanwhile, as the PRC labor laws and regulations are evolving and there remain uncertainties with respect to their interpretation and implementation, we cannot assure you that we will be able to maintain full compliance at all times or that we will not be subject to labor disputes or government investigations. If we are deemed to have violated relevant labor laws and regulations at any time, we could be required to provide additional compensation to our employees or face administrative proceedings or civil actions and our business, financial condition and results of operations could be materially and adversely affected.

A severe and prolonged global economic recession and the slowdown in the Chinese economy may adversely affect our business and results of operations.

COVID-19 has had a severe and negative impact on the Chinese and global economy since early 2020, and the pandemic’s resurgences and consequential lockdowns created significant changes in 2022. Although most restrictions such as quarantine provisions were lifted starting in December 2022, it is still unclear how the economic recovery will unfold in 2023. Even before the outbreak of COVID-19, the global macroeconomic environment had been facing challenges. The growth of the Chinese economy has gradually slowed down in recent years and the trend may continue. There is considerable uncertainty over the long-term effects of the monetary and fiscal policies adopted by the central banks and financial authorities of some of the world’s leading economies, including the United States and China. The conflict in Ukraine and the imposition of broad economic sanctions on Russia could raise energy prices and disrupt global markets. There have been concerns over unrest and terrorist threats in the Middle East, Europe and Africa, which may increase market volatility across the globe. There have also been concerns on the relationship between China and other countries, including surrounding Asian countries, which may potentially lead to foreign investors closing down their businesses or withdrawing their investments in China and, thus, exiting the China market, and other economic effects. In particular, there is significant uncertainty about the future relationship between the United States and China with respect to trade policies, treaties, government regulations and tariffs. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Any severe or prolonged slowdown in the global or Chinese economy may have a negative impact on our business, results of operations and financial condition, and continued turbulence in the international markets may adversely affect our ability to access the capital markets to meet liquidity needs. Our customers may reduce or delay spending with us, while we may have difficulty expanding our customer base fast enough, or at all, to offset the impact of decreased spending by our existing customers. In addition, to the extent we offer credit to any customer and the customer experiences financial difficulties due to the economic slowdown, we could have difficulty collecting payment from the customer.

Disruptions in the financial markets and economic conditions could affect our ability to raise capital.

Global economies could suffer dramatic downturns as the result of a deterioration in the credit markets and related financial crisis as well as a variety of other factors including, extreme volatility in security prices, severely diminished liquidity and credit availability, ratings downgrades of certain investments and declining valuations of others. Certain governments have taken unprecedented actions in an attempt to address and rectify these extreme market and economic conditions by providing liquidity and stability to the financial markets. If these actions are not successful, the return of adverse economic conditions may cause a significant impact on our ability to raise capital, if needed, on a timely basis and on acceptable terms or at all.

Any catastrophe, including natural catastrophes, health epidemics and other outbreaks and extraordinary events, could disrupt our business operation.

In addition to the impact of COVID-19, our business could be materially and adversely affected by natural disasters, other health epidemics or other public safety concerns affecting the PRC, and particularly Guangdong. Natural disasters may give rise to server interruptions, breakdowns, system failures, technology platform failures, internet failures or otherwise operation interruptions of ours and our manufacturers, suppliers and service providers, which could cause the loss or corruption of data or malfunctions of software or hardware as well as adversely affect the ability of ours and our manufacturers, suppliers and service providers to conduct the daily operations and to manufacture and deliver our products. Our business could also be adversely affected if employees of ours or our manufacturers, suppliers and service providers are affected by health epidemics. In addition, our results of operations could be adversely affected to the extent that any health epidemic harms the Chinese economy in general.

Our headquarters are located in Guangzhou, where most of our management and the majority of our employees currently reside. Consequently, if any natural disasters, health epidemics or other public safety concerns were to affect Guangzhou or Guangdong as a whole, our operation may experience material disruptions, which may materially and adversely affect our business, financial condition and results of operations.

The continued and collaborative efforts of our senior management and key employees are crucial to our success, and our business may be harmed if we lose their services.

Our success depends on the continued and collaborative efforts of our senior management and key employees. If our senior management cannot work together effectively or efficiently, our business may be severely disrupted. If, however, one or more of our executives or other key personnel are unable or unwilling to continue to provide services to us, we may not be able to find suitable replacements easily or at all. Competition for management and key personnel is intense and the pool of qualified candidates is limited. We may not be able to retain the services of our executives or key personnel, or attract and retain experienced executives or key personnel in the future.

Our future success will also depend on our ability to attract and retain highly skilled technical, managerial, editorial, finance, marketing, sales and customer service employees. Qualified individuals are in high demand and competition for talents could cause us to offer higher compensation and other benefits to attract and retain them. Even if we were to offer higher compensation, we may not be able to successfully attract, assimilate or retain the personnel we need to succeed.

If any of our executive officers or employees joins a competitor or forms a competing business, they may divulge business secrets, know-how, customer lists and other valuable resources. Our senior management and key employees have entered into employment agreements and confidentiality and non-competition agreements with us. However, if any dispute arises between any of them and us, we may have to incur substantial costs and expenses in order to enforce such agreements in China or we may be unable to enforce such agreements at all. Any failure to attract or retain key management and personnel could severely disrupt our business and growth.

Fluctuations in exchange rates could have a material and adverse effect on the value of your investment and our results of operations.

The conversion of Renminbi into foreign currencies, including the U.S. dollar, is based on rates set by the People's Bank of China. The Renminbi has fluctuated against the U.S. dollar and other currencies, at times significantly and unpredictably. The value of Renminbi against the U.S. dollar and other currencies is affected by changes in China's political and economic conditions and by China's foreign exchange policies, among other things. We cannot assure you that Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar and other currencies in the future. It is difficult to predict how market forces or PRC or policies of governments of the PRC, U.S. or other countries may impact the exchange rate between Renminbi, U.S. dollar and other foreign currencies in the future.

Significant revaluation of the Renminbi may have a material and adverse effect on your investment. For example, to the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments

for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us.

Significant revaluation of the Renminbi may also have a material and adverse effect on our results of operations as a portion of the components, ingredients and raw materials used for the manufacturing of our products are sourced by our third-party manufacturers from foreign companies, the payment of which is denominated in foreign currencies. Therefore, any significant revaluation of Renminbi may result in the rise of production cost, which in turn may lead to the hike of our procurement price.

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. As of the date of this annual report, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to adequately hedge our exposure, or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency.

Changes in international trade policies and rising political tensions, particularly between the U.S. and China, may adversely impact our business and operating results.

There have been changes in international trade policies and rising political tensions, particularly between the U.S. and China, but also as a result of the conflict in Ukraine and sanctions on Russia. The U.S. government has made statements and taken certain actions that may lead to potential changes to U.S. and international trade policies towards China. While the “Phase One” agreement was signed between the United States and China on trade matters, it remains unclear what additional actions, if any, will be taken by the U.S. or other governments with respect to international trade, tax policy related to international commerce, or other trade matters. In addition, China has implemented, and may further implement, measures in response to new trade policies, treaties and tariffs initiated by the U.S. government. The situation is further complicated by the political tensions between the United States and China that escalated during the COVID-19 pandemic and in the wake of the PRC National People’s Congress’ decision on Hong Kong national security legislation, sanctions imposed by the U.S. Department of the Treasury on certain officials of the Hong Kong Special Administrative Region and the central government of the PRC and the executive orders issued by U.S. President in August 2020 that prohibit certain transactions with certain China-based companies and their respective subsidiaries. Against this backdrop, China has implemented, and may further implement, measures in response to the changing trade policies, treaties, tariffs and sanctions and restrictions against Chinese companies initiated by the U.S. government. For example, the Ministry of Commerce of China published new rules in January 2021 to counter restrictions imposed by foreign countries on Chinese citizens and companies. Rising trade and political tensions could reduce levels of trades, investments, technological exchanges and other economic activities between China and other countries, which would have an adverse effect on global economic conditions, the stability of global financial markets, and international trade policies. It could also adversely affect the financial and economic conditions in the jurisdictions in which we operate, as well as our overseas expansion, our financial condition, and results of operations.

While cross-border business currently may not be an area of our focus, a portion of materials, components and ingredients used for the manufacturing of our products are sourced by our third-party manufacturers from overseas. Any rising trade and political tensions or unfavorable government policies on international trade, such as capital controls or tariffs, may affect our procurement cost for products relying on materials, components and ingredients sourced from overseas, affect the price and demand for our products, impact the competitive position of our products or prevent us from selling products in certain countries. In particular, if any new tariffs, legislation and/or regulations are implemented, or if existing trade agreements are renegotiated or, especially, if the U.S. government takes retaliatory trade actions due to the recent U.S.-China trade and political tension, such changes could have an adverse effect on our business, financial condition and results of operations. In addition, our results of operations could be adversely affected if any such tensions or unfavorable government trade policies harm the Chinese economy or the global economy in general.

We may from time to time become a party to litigation, legal disputes, claims or administrative proceedings that may materially and adversely affect us.

We may from time to time become a party to various litigation, legal disputes, claims or administrative proceedings arising in the ordinary course of our business. For example, we and certain of our current and former directors or officers, our authorized U.S. representative, a shareholder, and our November 2020 IPO underwriters have been named as defendants in a putative shareholder class action, which has yet to be resolved. See “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings.” The outcome of any litigation, legal disputes, claims or administrative proceedings is hard to predict. If any verdict or award is rendered against us or if we decide to settle the disputes, we may be required to incur monetary damages or other liabilities. Even if we can successfully defend ourselves, we may have to incur substantial costs and spend substantial time and efforts in these lawsuits. Negative publicity relating to such litigation, legal disputes, claims or administrative proceedings may damage our reputation and adversely affect the image of our brand and services. Furthermore, any litigation, legal disputes, claims or administrative proceedings which are not of material importance may escalate due to the various factors involved, such as the facts and circumstances of the cases, the likelihood of winning or losing, the monetary amount at stake, and the parties concerned continue to evolve in the future, and such factors may result in these cases becoming of material importance to us. Consequently, any ongoing or future litigation, legal disputes, claims or administrative proceedings could materially and adversely affect our business, financial condition and results of operations.

Risks Relating to Our Corporate Structure

If the PRC government finds that the agreements that establish the structure for operating some of our operations in China do not comply with PRC regulations relating to the relevant industries, or if these regulations or the interpretation of existing regulations changes in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.

Foreign ownership in entities that provide internet and other related businesses, including the value-added telecommunication services, is subject to restrictions under current PRC laws and regulations, unless certain exceptions are available. We are an exempted company incorporated in the Cayman Islands and our PRC subsidiaries are considered foreign-invested enterprises. To ensure compliance with the PRC laws and regulations, we conduct our principal business in China through our WFOE, the VIE and its subsidiaries incorporated in China. We have entered into contractual arrangements with the VIE and its shareholders, through which we obtain effective control over the VIE and substantially all of the economic benefits arising from the VIE and are able to consolidate the financial results of the VIE in our results of operations.

Our PRC legal counsel, Zhong Lun Law Firm, has advised us that subject to the risks as disclosed in “—Risks Relating to Our Corporate Structure,” (i) the ownership structures of our WFOE and the VIE in China are not in violation of mandatory provisions of applicable PRC laws and regulations currently in effect; and (ii) the contractual arrangements among our WFOE, the VIE and its shareholders governed by PRC law are not in violation of mandatory provisions of applicable PRC laws or regulations currently in effect, and valid and binding upon each party to such arrangements and enforceable against each party thereto in accordance with their terms and applicable PRC laws and regulations currently in effect.

However, we are a Cayman Islands holding company with no equity ownership in the VIE and we conduct our operations in China through our subsidiaries and the VIE with which we have maintained contractual arrangements. Holders of our ADSs hold equity interest in Yatsen Holding Limited, our Cayman Islands holding company, and do not have direct or indirect equity interest in the VIE. If the PRC government deems that our contractual arrangements with the VIE do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change or are interpreted differently in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations. Our shares may decline in value if we are unable to assert our contractual control rights over the VIE, which contributed to 8.7% of our revenues in 2022. Our holding company in the Cayman Islands, the VIE, and investors of our company face uncertainty about potential future actions by the PRC government that could affect the enforceability of the contractual arrangements with the VIE and, consequently, significantly affect the financial performance of the VIE and our company as a group.

We have been further advised by our PRC legal counsel that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. Thus, the PRC governmental authorities may take a view contrary to the opinion of our PRC legal counsel. It is uncertain whether any new PRC laws or regulations relating to variable interest entity structure will be adopted or if adopted, what they would provide. If we or the VIE are found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals to operate our business, the relevant PRC governmental authorities would have broad discretion to take action in dealing with such violations or failures, including:

- revoking the business licenses and/or operating licenses of such entities;
- imposing fines on us;
- confiscating any of our income that they deem to be obtained through illegal operations;
- discontinuing or placing restrictions or onerous conditions on our operations;
- placing restrictions on our right to collect revenues;
- shutting down our servers or blocking our app/websites; or
- requiring us to restructure our ownership structure or operations.

The imposition of any of these penalties would result in a material and adverse effect on our ability to conduct our business. In addition, it is unclear what impact the PRC government actions would have on us and on our ability to consolidate the financial results of the VIE in our consolidated financial statements, if the PRC government authorities were to find our legal structure and contractual arrangements to be in violation of PRC laws and regulations. If the imposition of any of these government actions causes us to lose our right to direct the activities of the VIE or our right to receive substantially all the economic benefits and residual returns from the VIE and we are not able to restructure our ownership structure and operations in a satisfactory manner, we would no longer be able to consolidate the financial results of the VIE in our consolidated financial statements. Either of these results, or any other significant penalties that might be imposed on us in this event, would have a material adverse effect on our financial condition and results of operations.

Although we believe Yatsen Holding Limited, our PRC subsidiaries and the VIE comply with current PRC laws and regulations, we cannot assure you that the PRC government would agree that our contractual arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. The PRC government has broad discretion in determining rectifiable or punitive measures for non-compliance with or violations of PRC laws and regulations. If the PRC government determines that we or the VIE do not comply with applicable law, it could revoke the VIE's business and operating licenses, require the VIE to discontinue or restrict the VIE's operations, restrict the VIE's right to collect revenues, block the VIE's websites, require the VIE to restructure our operations, impose additional conditions or requirements with which the VIE may not be able to comply, impose restrictions on the VIE's business operations or on its customers, or take other regulatory or enforcement actions against the VIE that could be harmful to its business. Any of these or similar occurrences could significantly disrupt our or the VIE's business operations or restrict the VIE from conducting a substantial portion of its business operations, which could materially and adversely affect the VIE's business, financial condition and results of operations. If any of these occurrences results in our inability to direct the activities of any of the VIE that most significantly impact its economic performance, and/or our failure to receive the economic benefits from any of the VIE, we may not be able to consolidate such entity in our consolidated financial statements in accordance with U.S. GAAP.

We rely on contractual arrangements with the VIE and its shareholders for our operations in China, which may not be as effective in providing operational control as direct ownership.

We have to rely on the contractual arrangements with the VIE and its shareholders to operate the business in areas where foreign ownership is restricted, including provision of certain value-added telecommunication services. These contractual arrangements, however, may not be as effective as direct ownership in providing us with control over the VIE. For example, the VIE and its shareholders could breach their contractual arrangements with us by, among other things, failing to conduct the operations of the VIE in an acceptable manner or taking other actions that are detrimental to our interests.

If we had direct ownership of the VIE in China, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of the VIE, which in turn could implement changes, subject to any applicable fiduciary obligations, at the management and operational level. However, under the current contractual arrangements, we rely on the performance by the VIE and its shareholders of their obligations under the contracts to exercise control over the VIE. The shareholders of the VIE may not act in the best interests of our company or may not perform their obligations under these contracts. Such risks exist throughout the period in which we intend to operate a large portion of our business through the contractual arrangements with the VIE. If any dispute relating to these contracts remains unresolved, we will have to enforce our rights under these contracts through the operations of PRC law and arbitration, litigation and other legal proceedings and therefore will be subject to uncertainties in the PRC legal system. See “—Any failure by the VIE or its shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business.”

Any failure by the VIE or its shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business.

If the VIE or its shareholders fail to perform their respective obligations under the contractual arrangements, we may have to incur substantial costs and expend additional resources to enforce such arrangements. We may also have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and contractual remedies, which we cannot assure you will be sufficient or effective under PRC law. For example, if the shareholders of the VIE were to refuse to transfer their equity interests in the VIE to us or our designee if we exercise the purchase option pursuant to these contractual arrangements, or if they were otherwise to act in bad faith toward us, then we may have to take legal actions to compel them to perform their contractual obligations.

All the agreements under our contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal system in the PRC is not as developed as in some other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. See “—Risks Relating to Doing Business in China—Uncertainties with respect to the PRC legal system could adversely affect us.” Meanwhile, there are very few precedents and little formal guidance as to how contractual arrangements in the context of a consolidated variable interest entity should be interpreted or enforced under PRC law. There remain significant uncertainties regarding the ultimate outcome of such arbitration if legal action becomes necessary. In addition, under PRC law, rulings by arbitrators are final, parties cannot appeal the arbitration results in courts, and if the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would require additional expenses and delay. In the event we are unable to enforce these contractual arrangements, or if we suffer significant delay or other obstacles in the process of enforcing these contractual arrangements, we may not be able to exert effective control over the VIE, and our ability to conduct our business may be negatively affected.

The shareholders of the VIE may have potential conflicts of interest with us, which may materially and adversely affect our business.

The shareholders of the VIE, including Mr. Jinfeng Huang, our chief executive officer and controlling shareholder, may have actual or potential conflicts of interest with us. These shareholders may breach, or cause the VIE to breach, or refuse to renew, the existing contractual arrangements we have with them and the VIE, which would have a material and adverse effect on our ability to effectively control the VIE and receive economic benefits from it. For example, the shareholders may be able to cause our agreements with the VIE to be performed in a manner adverse to us by, among other things, failing to remit payments due under the contractual arrangements to us on a timely basis. We cannot assure you that when conflicts of interest arise any or all of these shareholders will act in the best interests of our company or such conflicts will be resolved in our favor.

Currently, we do not have any arrangements to address potential conflicts of interest between these shareholders and our company, except that we could exercise our purchase option under the exclusive option agreements with these shareholders to request them to transfer all of their equity interests in the VIE to a PRC entity or individual designated by us, to the extent permitted by PRC law. For individuals who are also our directors and officers, we rely on them to abide by the laws of the Cayman Islands, which provide that directors and officers owe a fiduciary duty to the company

that requires them to act in good faith and in what they believe to be the best interests of the company and not to use their position for personal gains. The shareholders of the VIE have executed powers of attorney to appoint our WFOE or a person designated by our WFOE to vote on their behalf and exercise voting rights as shareholders of the VIE. If we cannot resolve any conflict of interest or dispute between us and the shareholders of the VIE, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

Contractual arrangements we have entered into with the VIE may be subject to scrutiny by the PRC tax authorities. A finding that we owe additional taxes could negatively affect our financial condition and the value of your investment.

Under applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the contractual arrangements in relation to the VIE were not entered into on an arm's length basis in such a way as to result in an impermissible reduction in taxes under applicable PRC laws, rules and regulations, and adjust income of the VIE in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction of expense deductions recorded by the VIE for PRC tax purposes, which could in turn increase its tax liabilities without reducing our PRC subsidiaries' tax expenses. In addition, the PRC tax authorities may impose late payment fees and other penalties on the VIE for the adjusted but unpaid taxes according to the applicable regulations. Our financial position could be materially and adversely affected if the VIE's tax liabilities increase or if it is required to pay late payment fees and other penalties.

Our current corporate structure and business operations may be affected by the Foreign Investment Law.

On March 15, 2019, the National People's Congress promulgated the Foreign Investment Law, which took effect on January 1, 2020. Since it is relatively new, uncertainties exist in relation to its interpretation and implementation. The Foreign Investment Law does not explicitly classify whether variable interest entities that are controlled through contractual arrangements would be deemed as foreign invested enterprises if they are ultimately "controlled" by foreign investors. However, it has a catch-all provision under definition of "foreign investment" that includes investments made by foreign investors in China through other means as provided by laws, administrative regulations or the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions of the State Council to provide for contractual arrangements as a form of foreign investment, until when it remains uncertain whether our contractual arrangements will be deemed to be in violation of the market access requirements for foreign investment in the PRC and if yes, how our contractual arrangements should be dealt with.

The Foreign Investment Law grants national treatment to foreign-invested entities, except for those foreign-invested entities that operate in industries specified as either "restricted" or "prohibited" from foreign investment in the Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Version) jointly promulgated by Ministry of Commerce, or MOFCOM, and the National Development and Reform Commission and took effect in January 2022. The Foreign Investment Law provides that foreign-invested entities operating in "restricted" or "prohibited" industries will require market entry clearance and other approvals from relevant PRC government authorities. On December 26, 2019, the Supreme People's Court issued the Interpretations on Certain Issues Regarding the Applicable of Foreign Investment Law, or the FIL Interpretations, which came into effect on January 1, 2020. In accordance with the FIL Interpretations, any claim to invalidate an investment agreement will be supported by courts if such agreement is found to be entered into for purposes of making investments in the "prohibited industries" under the negative list or for purposes of investing in "restricted industries" while failing to satisfy the conditions set out in the Negative List. If our control over the VIE through contractual arrangements are deemed as foreign investment in the future, and any business of the VIE is "restricted" or "prohibited" from foreign investment under the "negative list" effective at the time, we may be deemed to be in violation of the Foreign Investment Law, the contractual arrangements that allow us to have control over the VIE may be deemed as invalid and illegal, and we may be required to unwind such contractual arrangements and/or restructure our business operations, any of which may have a material adverse effect on our business operation.

Furthermore, if future laws, administrative regulations or provisions mandate further actions to be taken by companies with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. Failure to take timely and appropriate measures to cope with

any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure and business operations.

We may lose the ability to use and enjoy assets held by the VIE that are critical to the operation of our business if the VIE declares bankruptcy or becomes subject to a dissolution or liquidation proceeding.

Although our wholly foreign-owned subsidiaries produce a significant majority of our revenues and hold a significant majority of our operational assets, the VIE holds certain assets that may be critical to the operation of our business. Main assets held by the VIE and its subsidiaries include the majority of the social platforms and content offering platforms we operate such as Weixin public accounts and mini-programs, which are registered and held by the VIE and its subsidiaries, and the ICP License and the permit to produce and distribute radio and television programs, which are critical to the online operation of our business. If the shareholders of the VIE breach the contractual arrangements and voluntarily liquidate the VIE or its subsidiaries, or if the VIE or its subsidiaries declare bankruptcy and all or part of their assets become subject to liens or rights of third-party creditors or are otherwise disposed of without our consent, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. In addition, if the VIE or its subsidiaries undergo an involuntary liquidation proceeding, third-party creditors may claim rights to some or all of their assets, thereby hindering our ability to operate our business, which could materially or adversely affect our business, financial condition and results of operations.

Risks Relating to Doing Business in China

Changes in China's economic, political or social conditions or government policies could have a material adverse effect on our business and operations.

A large portion of our assets and operations are located in China. Accordingly, our business, financial condition, results of operations and prospects may be influenced to a significant degree by economic, political and social conditions in China generally. The PRC economy differs from the economies of most developed countries in many respects, including the level of development, growth rate, level of government involvement and control of foreign exchange and allocation of resources. The PRC government exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies. In addition, the PRC government continues to play a significant role in regulating industry development by imposing relevant industrial policies.

While the PRC economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. In addition, the growth of the Chinese economy has slowed down in recent years, and the impact of COVID-19 on the Chinese and global economies since 2020 was severe. Any adverse changes in economic conditions in China, in the policies of the PRC government or in the laws and regulations in China could have a material adverse effect on the overall economic growth of China. Such developments could adversely affect our business and operating results, lead to reduction in demand for our solutions and services and adversely affect our competitive position. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall PRC economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. In addition, in the past the PRC government has implemented certain measures, including interest rate adjustment, to control the pace of economic growth. These measures may cause decreased economic activity in China, which may adversely affect our business and results of operations.

Uncertainties with respect to the PRC legal system could adversely affect us.

Our operations in China are governed by PRC laws and regulations. Our PRC subsidiaries are subject to laws and regulations applicable to foreign investment in China. The PRC legal system is a civil law system based on written statutes, where prior court decisions have limited precedential value. The PRC legal system is evolving rapidly, and the interpretations of many laws, regulations and rules may contain inconsistencies and enforcement of these laws, regulations and rules involves uncertainties.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, since PRC judicial and administrative authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to predict the outcome of a judicial or administrative proceeding than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into and could materially and adversely affect our business and results of operations.

Furthermore, the PRC legal system is based, in part, on government policies and internal rules, some of which are not published in a timely manner, or at all, but which may have retroactive effect. As a result, we may not always be aware of any potential violation of these policies and rules. Such unpredictability towards our contractual, property (including intellectual property) and procedural rights could adversely affect our business and impede our ability to continue our operations.

PRC government has significant oversight over the conduct of our business and it has recently indicated an intent to exert more oversight over offerings that are conducted overseas and/or foreign investment in China-based issuers. Any such action could significantly limit or completely hinder our ability to offer or continue to offer securities to investors and cause the value of such securities to significantly decline.

The PRC government's significant oversight and discretion over our business operation could result in a material adverse change in our operations and the value of our ADSs.

We conduct our business primarily in China. Our operations in China are governed by PRC laws and regulations. The PRC government has significant oversight and discretion over the conduct of our business, and may influence our operations as the government deems appropriate to advance regulatory and societal goals and policy positions, which could result in a material adverse change in our operation and/or the value of our ADSs. The PRC government has recently published new policies that significantly affected certain industries and we cannot rule out the possibility that it will in the future release regulations or policies that directly or indirectly affect our industry or require us to seek additional permission to continue our operations, which could also result in a material adverse change in our operation and/or the value of our ADSs. Therefore, investors of our company and our business face potential uncertainty from actions taken by the PRC government affecting our business.

The PCAOB had historically been unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections of our auditor in the past has deprived our investors with the benefits of such inspections.

Our auditor, the independent registered public accounting firm that issues the audit report included elsewhere in this annual report, as an auditor of companies that are traded publicly in the United States and a firm registered with the PCAOB, is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. The auditor is located in mainland China, a jurisdiction where the PCAOB was historically unable to conduct inspections and investigations completely before 2022. As a result, we and investors in the ADSs were deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China in the past has made it more difficult to evaluate the effectiveness of our independent registered public accounting firm's audit procedures or quality control procedures as compared to auditors outside of China that are subject to the PCAOB inspections. On December 15, 2022, the PCAOB issued a report that vacated its December 16, 2021 determination and removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. However, if the PCAOB determines in the future that it no longer has full access to inspect and investigate completely accounting firms in mainland China and Hong Kong, and we use an accounting firm headquartered in one of these jurisdictions to issue an audit report on our financial statements filed with the SEC, we and investors in our ADSs would be deprived of the benefits of such PCAOB inspections again, which could cause investors and potential investors in the ADSs to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

Our ADSs may be prohibited from trading in the United States under the Holding Foreign Companies Accountable Act, or the HFCAA, in the future if the PCAOB is unable to inspect or investigate completely auditors located in China. The delisting of our ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment.

Pursuant to the HFCAA, if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspections by the PCAOB for two consecutive years, the SEC will prohibit our shares or ADSs from being traded on a national securities exchange or in the over-the-counter trading market in the United States.

On December 16, 2021, the PCAOB issued a report to notify the SEC of its determination that the PCAOB was unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong and our auditor was subject to that determination. In May 2022, the SEC conclusively listed us as a Commission-Identified Issuer under the HFCAA following the filing of our annual report on Form 20-F for the fiscal year ended December 31, 2021. On December 15, 2022, the PCAOB removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. For this reason, we do not expect to be identified as a Commission-Identified Issuer under the HFCAA after we file this annual report on Form 20-F for the fiscal year ended December 31, 2022.

Each year, the PCAOB will determine whether it can inspect and investigate completely audit firms in mainland China and Hong Kong, among other jurisdictions. If the PCAOB determines in the future that it no longer has full access to inspect and investigate completely accounting firms in mainland China and Hong Kong and we use an accounting firm headquartered in one of these jurisdictions to issue an audit report on our financial statements filed with the SEC, we would be identified as a Commission-Identified Issuer following the filing of the annual report on Form 20-F for the relevant fiscal year. In accordance with the HFCAA, our securities would be prohibited from being traded on a national securities exchange or in the over-the-counter trading market in the United States if we are identified as a Commission-Identified Issuer for two consecutive years in the future. If our shares and ADSs are prohibited from trading in the United States, there is no certainty that we will be able to list on a non-U.S. exchange or that a market for our shares will develop outside of the United States. A prohibition of being able to trade in the United States would substantially impair your ability to sell or purchase our ADSs when you wish to do so, and the risk and uncertainty associated with delisting would have a negative impact on the price of our ADSs. Also, such a prohibition would significantly affect our ability to raise capital on terms acceptable to us, or at all, which would have a material adverse impact on our business, financial condition, and prospects.

The approval of and filing with the CSRC or other PRC government authorities may be required in connection with our offshore offerings under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval or complete such filing.

The Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, adopted by six PRC regulatory agencies in 2006 and amended in 2009, requires an overseas special purpose vehicle formed for listing purposes through acquisitions of PRC domestic companies and controlled by PRC persons or entities to obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange. The interpretation and application of the regulations remain unclear, and our offshore offerings may ultimately require approval of the CSRC. If the CSRC approval is required, it is uncertain whether we can or how long it will take us to obtain the approval and, even if we obtain such CSRC approval, the approval could be rescinded. Any failure to obtain or delay in obtaining the CSRC approval for any of our offshore offerings, or a rescission of such approval if obtained by us, would subject us to sanctions imposed by the CSRC or other PRC regulatory authorities, which could include fines and penalties on our operations in China, restrictions or limitations on our ability to pay dividends outside of China, and other forms of sanctions that may materially and adversely affect our business, financial condition, and results of operations.

On July 6, 2021, the relevant PRC government authorities issued Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law. These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies. Relatedly, on December 27, 2021, the NDRC

and the Ministry of Finance, or the MOF, jointly issued the Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Version), or the 2021 Negative List, which became effective on January 1, 2022. Pursuant to such Special Administrative Measures, if a domestic company engaging in the prohibited business stipulated in the 2021 Negative List seeks an overseas offering and listing, it shall obtain the approval from the competent governmental authorities. In addition, foreign investors of the company shall not be involved in the company's operation and management, and their shareholding percentage shall be subject, mutatis mutandis, to the relevant regulations on the domestic securities investments by foreign investors. As the 2021 Negative List is relatively new, there remain substantial uncertainties as to the interpretation and implementation of these new requirements, and it is unclear as to whether and to what extent listed companies like us will be subject to these new requirements. If we are required to comply with these requirements and fail to do so on a timely basis, if at all, our business operation, financial conditions and business prospect may be adversely and materially affected.

The regulatory environment in the PRC has been undergoing a number of changes and reforms in various areas recently, which set out the new regulatory requirements and filing procedures for Chinese companies seeking direct or indirect listing in overseas markets. On February 17, 2023, the CSRC promulgated Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies, or the Overseas Listing Trial Measures, and five relevant supporting guidelines, together referred to as the New Overseas Listing Rules, which became effective on March 31, 2023. Pursuant to the New Overseas Listing Rules, PRC domestic companies that directly or indirectly offer or list their securities in an overseas market, which include (i) any PRC company limited by shares, and (ii) any offshore company that conducts its business operations primarily in China and contemplates to offer or list its securities in an overseas market based on its onshore equities, assets or similar interests, are required to file with the CSRC within three business days after submitting their listing application documents to the relevant regulator in the place of intended listing. New Overseas Listing Rules establish a new filing-based regime to regulate both direct and indirect overseas offerings and listings by domestic companies. According to the New Overseas Listing Rules, an overseas offering and listing by a domestic company, whether directly or indirectly, shall be filed with the CSRC. Specifically, the examination and determination of an indirect offering and listing will be conducted on a substance-over-form basis, and an offering and listing shall be considered as an indirect overseas offering and listing by a domestic company if the issuer meets the following conditions: (i) the operating income, gross profit, total assets, or net assets of the domestic enterprise in the most recent fiscal year, any of which was more than 50% of the relevant line item in the issuer's audited consolidated financial statement for that year; and (ii) senior management personnel responsible for business operations and management are mostly PRC citizens or are ordinarily resident in the PRC, and the main place of business is in the PRC or carried out in the PRC. According to the New Overseas Listing Rules, the issuer or its affiliated domestic company, as the case may be, shall file with the CSRC for its initial public offering, follow-on offering and other equivalent offering activities. Particularly, the issuer shall submit the filing with respect to its initial public offering and listing within three business days after its initial filing of the listing application, and submit the filing with respect to its follow-on offering within three business days after completion of the follow-on offering. New Overseas Listing Rules also set forth certain regulatory red lines for overseas offerings and listings by domestic enterprises. Under the New Overseas Listing Rules, failure to comply with the filing requirements may result in the warning, orders of correction and fines of RMB1 million to RMB10 million to the relevant domestic companies, and fines on the controlling shareholder and other responsible persons. On the press conference held by the CSRC on February 17, 2023, the CSRC officer expressed that the enterprises that have been listed overseas like us shall be deemed as "the Stock Enterprises" and are not required to complete the overseas listing filing immediately until they conduct refinancing or are involved in other circumstances that require filing with the CSRC. However, as there are still uncertainties regarding the interpretation and implementation of such regulatory rules, we cannot assure you that we will always be categorized as the Stock Enterprise by the CSRC and be able to comply with new regulatory requirements under the New Overseas Listing Rules. In addition, any of our future proposed offering of securities in an overseas market or the listing of the listed securities, including but not limited to follow-on offerings and secondary listings, will be subject to the filing requirements with the CSRC under the New Overseas Listing Rules, and we cannot assure you that we will be able to comply with such filing requirements in a timely manner, or at all.

In addition, we cannot assure you that any new rules or regulations promulgated in the future will not impose additional requirements on us. If it is determined in the future that approval and filing from the CSRC or other regulatory authorities or other procedures, including the cybersecurity review under the enacted version of the Revised Measures for Cybersecurity Review and the Draft Regulations, are required for our offshore offerings, it is uncertain whether we can or how long it will take us to obtain such approval or complete such filing procedures and any such filing procedures and any approval or filing could be rescinded or rejected. Any failure to obtain or delay in obtaining

such approval or completing such filing procedures for our offshore offerings, or a rescission of any such approval or filing if obtained by us, would subject us to sanctions by the CSRC or other PRC regulatory authorities for failure to seek CSRC approval or filing or other government authorization for our offshore offerings. These regulatory authorities may impose fines and penalties on our operations in China, limit our ability to pay dividends outside of China, limit our operating privileges in China, delay or restrict the repatriation of the proceeds from our offshore offerings into China or take other actions that could materially and adversely affect our business, financial condition, results of operations, and prospects, as well as the trading price of our listed securities. The CSRC or other PRC regulatory authorities also may take actions requiring us, or making it advisable for us, to halt our offshore offerings before settlement and delivery of the shares offered. Consequently, if investors engage in market trading or other activities in anticipation of and prior to settlement and delivery, they do so at the risk that settlement and delivery may not occur. In addition, if the CSRC or other regulatory authorities later promulgate new rules or explanations requiring that we obtain their approvals or accomplish the required filing or other regulatory procedures for our prior offshore offerings, we may be unable to obtain a waiver of such approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties or negative publicity regarding such approval requirement may subject us to regulatory actions or other sanctions from the CSRC or other PRC government authorities, which could materially and adversely affect our business, prospects, financial condition, reputation, and the trading price of our listed securities.

Furthermore, if there are any other approvals, filings and/or other regulatory procedures required to be obtained from or completed with the CSRC or other PRC government authorities as required by any new laws and regulations for any of our future proposed offering of securities in an overseas market or the listing of the listed securities, we cannot assure you that we are able to obtain the required approval or complete the required filings or other regulatory procedures in a timely manner, or at all. Any failure to obtain the relevant approvals or complete the filings and other relevant regulatory procedures may subject us to regulatory actions or other sanctions from the CSRC or other PRC government authorities, which may have a material adverse effect on our business, financial condition or results of operations. Uncertainties and/or negative publicity regarding these PRC regulations could have a material adverse effect on the trading price of our listed securities.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing actions in China against us or our management named in the annual report based on foreign laws.

We are an exempted company incorporated under the laws of the Cayman Islands, however, we conduct a majority of our operations in China and a majority of our assets are located in China. In addition, all our senior executive officers reside within China for a significant portion of the time and all of them are PRC nationals. As a result, it may be difficult for you to effect service of process upon us or our management named in the annual report inside mainland China. It may also be difficult for you to enforce in U.S. courts of the judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors as most of them currently resides outside the United States. In addition, there is uncertainty as to whether the courts of the Cayman Islands or the PRC would recognize or enforce judgments of U.S. courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state.

The recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions. China does not have any treaties or other forms of written arrangement with the United States that provide for the reciprocal recognition and enforcement of foreign judgments. In addition, according to the PRC Civil Procedures Law, the PRC courts will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates the basic principles of PRC laws or national sovereignty, security or public interest. As a result, it is uncertain whether and on what basis a PRC court would enforce a judgment rendered by a court in the United States.

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 the application through our office automation system and the application 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 the VIE. 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.

If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders.

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside of the PRC with “de facto management body” within China is considered a “resident enterprise” and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control and overall management over the business, productions, personnel, accounts and properties of an enterprise. In 2009, the State Administration of Taxation, or the SAT, issued the Circular of the State Administration of Taxation on Issues Relating to Identification of PRC-Controlled Overseas Registered Enterprises as Resident Enterprises in Accordance with the De Facto Standards of Organizational Management, or SAT Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect SAT’s general position on how the “de facto management body” text should be applied in determining the tax resident status of all offshore enterprises. According to SAT Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in China; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in China; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in China; and (iv) at least 50% of voting board members or senior executives habitually reside in China.

We believe none of our entities outside of China is a PRC resident enterprise for PRC tax purposes. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body.” If the PRC tax authorities determine that our company or any of our subsidiaries outside of China is a PRC resident enterprise for enterprise income tax purposes, we could be subject to PRC tax at a rate of 25% on our worldwide income, which could materially reduce our net income, and we may be required to withhold a 10% withholding tax from dividends we pay to our shareholders that are non-resident enterprises, including the holders of our ADSs. In addition, non-resident enterprise shareholders (including our ADS holders) may be subject to PRC tax at a rate of 10% on gains realized on the sale or other disposition of ADSs or Class A ordinary shares, if such income is treated as sourced from within China. Furthermore, if we are deemed a PRC resident enterprise, dividends payable to our non-PRC individual shareholders (including our ADS holders) and any gain realized on the transfer of ADSs or Class A ordinary shares by such shareholders may be subject to PRC tax at a rate of 10% in the case of non-PRC enterprises or a rate of 20% in the case of non-PRC individuals unless a reduced rate is available under an applicable tax treaty. It is unclear whether non-PRC

shareholders of our company would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. Any such tax may reduce the returns on your investment in the ADSs or Class A ordinary shares.

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

We face uncertainties regarding the reporting on and consequences of previous private equity financing transactions involving the transfer and exchange of shares in our company by non-resident investors. In February 2015, the State Administration of Taxation, or SAT, issued the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises, or SAT Bulletin 7. Pursuant to SAT Bulletin 7, an “indirect transfer” of PRC assets, including a transfer of equity interests in an unlisted non-PRC holding company of a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of the underlying PRC assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. On October 17, 2017, the SAT issued the Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source, or SAT Bulletin 37, which came into effect on December 1, 2017. The SAT Bulletin 37 further clarifies the practice and procedure of the withholding of non-resident enterprise income tax.

We face uncertainties on the reporting and consequences of future private equity financing transactions, share exchanges or other transactions involving the transfer of shares in our company by investors that are non-PRC resident enterprises. The PRC tax authorities may pursue such non-resident enterprises with respect to a filing or the transferees with respect to withholding obligation, and request our PRC subsidiaries to assist in the filing. As a result, we and non-resident enterprises in such transactions may become at risk of being subject to filing obligations or being taxed and/or fined under SAT Bulletin 7 and SAT Bulletin 37, and may be required to expend valuable resources to comply with them or to establish that we and our non-resident enterprises should not be taxed under these regulations, which may have a material adverse effect on our financial condition and results of operations.

If our preferential tax treatments are revoked or become unavailable or if the calculation of our tax liability is successfully challenged by the PRC tax authorities, we may be required to pay tax, interest and penalties in excess of our tax provisions.

Some of our PRC subsidiaries enjoy local government subsidies. Any increase in the enterprise income tax rate applicable to our PRC subsidiaries in China, or any discontinuation, retroactive or future reduction or refund of any of the preferential tax treatments and local government subsidies currently enjoyed by our PRC subsidiaries in China, could adversely affect our business, financial condition and results of operations. In the ordinary course of our business, we are subject to complex income tax and other tax regulations, and significant judgment is required in the determination of a provision for income taxes. Although we believe our tax provisions are reasonable, if the PRC tax authorities successfully challenge our position and we are required to pay tax, interest and penalties in excess of our tax provisions, our financial condition and results of operations would be materially and adversely affected.

The M&A Rules and certain other PRC regulations may make it more difficult for us to pursue growth through acquisitions.

The M&A Rules adopted by six PRC regulatory agencies in 2006 and amended in 2009 and some other regulations and rules concerning mergers and acquisitions established complex procedures and requirements for some acquisitions of Chinese companies by foreign investors, including requirements in some instances that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. Moreover, the Revised Anti-Monopoly Law promulgated by the SCNPC which became effective on August 1, 2022 requires that transactions which are deemed concentrations and involve parties with specified turnover thresholds must be cleared by anti-monopoly enforcement authority of the State Council before they can be completed. In addition, the security review rules issued by the MOFCOM that became effective in September 2011 specify that mergers and acquisitions by foreign investors that raise “national defense and security” concerns and mergers and

acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise “national security” concerns are subject to strict review by the MOFCOM, and the rules prohibit any activities attempting to bypass a security review, including by structuring a transaction through a proxy or contractual control arrangement.

In the future, we may pursue potential strategic acquisitions that are complementary to our business and operations. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval or clearance from anti-monopoly enforcement authority of the State Council, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

Any failure to comply with PRC regulations regarding the registration requirements for employee stock incentive plans may subject our 2018 Incentive Plan and 2022 Incentive Plan participants or us to fines and other legal or administrative sanctions.

In February 2012, the State Administration of Foreign Exchange, or SAFE, promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company, replacing earlier rules promulgated in 2007. Pursuant to these rules, PRC citizens and non-PRC citizens who reside in China for a continuous period of not less than one year and participate in any stock incentive plan of an overseas publicly listed company are required to register with the State Foreign Exchange Administration of the PRC, or the SAFE, through a domestic qualified agent, which could be the PRC subsidiaries of such overseas-listed company, and complete certain other procedures, unless certain exceptions are available. In addition, an overseas-entrusted institution must be retained to handle matters in connection with the exercise or sale of stock options and the purchase or sale of shares and interests. We and our executive officers and other employees who are PRC citizens or non-PRC citizens living in China for a continuous period of not less than one year and have been granted options are subject to these regulations as our company has become an overseas-listed company. Failure to complete SAFE registrations may subject them to fines of up to RMB300,000 for entities and up to RMB50,000 for individuals and may also limit our ability to contribute additional capital into our PRC subsidiaries and our PRC subsidiaries’ ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional incentive plans for our directors, executive officers and employees under PRC law. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Stock Incentive Plans.”

In addition, the SAT, has issued certain circulars concerning employee share options and restricted shares. Under these circulars, our employees working in China who exercise share options or are granted restricted shares will be subject to PRC individual income tax. Our PRC subsidiaries have obligations to file documents related to employee share options or restricted shares with relevant tax authorities and to withhold individual income taxes for those employees who exercise their share options. If our employees fail to pay or we fail to withhold their income taxes according to relevant laws and regulations, we may face sanctions imposed by the tax authorities or other PRC government authorities. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Stock Incentive Plans.”

PRC regulations relating to offshore investment activities by PRC residents may limit our PRC subsidiaries’ ability to change their registered capital or distribute profits to us or otherwise expose us or our PRC resident beneficial owners to liability and penalties under PRC laws.

In July 2014, SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment Through Special Purpose Vehicles, or SAFE Circular 37. SAFE Circular 37 requires PRC residents (including PRC individuals and PRC corporate entities as well as foreign individuals that are deemed as PRC residents for foreign exchange administration purposes) to register with SAFE or its local branches in connection with their direct or indirect offshore investment activities. SAFE Circular 37 further requires amendment to the SAFE registrations in the event of any changes with respect to the basic information of the offshore special purpose vehicle, such as change of a PRC individual shareholder, name and operation term, or any significant changes with respect to the offshore special purpose vehicle, such as increase or decrease of capital contribution, share transfer or exchange, or mergers or divisions. SAFE Circular 37 is applicable to our shareholders or beneficial owners who are PRC residents and may be applicable to any offshore acquisitions that we make in the future. According to the Notice on Further Simplifying and Improving Policies for

the Foreign Exchange Administration of Direct Investment released on February 13, 2015 by the SAFE, local banks will examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, under SAFE Circular 37 from June 1, 2015.

If our shareholders or beneficial owners who are PRC residents or entities do not complete their registration with the local SAFE branches or qualified local banks, our PRC subsidiaries may be prohibited from distributing to us its profits and proceeds from any reduction in capital, share transfer or liquidation, and we may be restricted in our ability to contribute additional capital to our PRC subsidiaries. Moreover, failure to comply with the SAFE registration described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

All of our executive officers who we are aware of being subject to the SAFE regulations have completed the initial registrations as required by SAFE Circular 37. However, we may not be informed of the identities of all the PRC residents or entities holding direct or indirect interest in our company, nor can we compel our shareholders or beneficial owners to comply with SAFE registration requirements. We cannot assure you that all shareholders or beneficial owners of ours who are PRC residents or entities have complied with, and will in the future make, obtain or update any applicable registrations or approvals required by, SAFE regulations.

The failure or inability of such shareholders or beneficial owners to comply with SAFE regulations, or failure by us to amend the foreign exchange registrations of our PRC subsidiaries, could subject us or the non-complaint shareholders or beneficial owners to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our PRC subsidiaries' ability to make distributions or pay dividends to us or affect our ownership structure. As a result, our business operations and our ability to distribute profits to you could be materially and adversely affected.

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

We are a Cayman Islands holding company and we rely principally on dividends and other distributions on equity from our PRC subsidiaries for our cash requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders for services or any debt we may incur. If our PRC subsidiaries incur debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Under PRC laws and regulations, our PRC subsidiaries, which is a foreign-owned enterprise, may pay dividends only out of its respective accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, a foreign-owned enterprise is required to set aside at least 10% of its accumulated after-tax profits each year, if any, to fund a certain statutory reserve fund, until the aggregate amount of such fund reaches 50% of its registered capital. Such reserve funds cannot be distributed to us as dividends. At its discretion, a foreign-owned enterprise may allocate a portion of its after-tax profits based on PRC accounting standards to an enterprise expansion fund, or a staff welfare and bonus fund.

Our PRC subsidiaries generate essentially all of their revenue in Renminbi, which is not freely convertible into other currencies. As a result, any restriction on currency exchange may limit the ability of our PRC subsidiaries to use their Renminbi revenues to pay dividends to us.

The PRC government may continue to strengthen its capital controls, and more restrictions and substantial vetting process may be put forward by SAFE for cross-border transactions falling under both the current account and the capital account. Any limitation on the ability of our PRC subsidiaries to pay dividends or make other kinds of payments to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

In addition, the Enterprise Income Tax Law and its implementation rules provide that a withholding tax rate of up to 10% will be applicable to dividends payable by Chinese companies to non-PRC-resident enterprises unless otherwise exempted or reduced according to treaties or arrangements between the PRC central government and governments of other countries or regions where the non-PRC-resident enterprises are incorporated.

PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using the proceeds from our securities offering to make loans or additional capital contributions to our PRC subsidiaries and the VIE in China, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

We are an offshore holding company conducting our operations in China through our PRC subsidiaries and the VIE and its subsidiaries. We may make loans to our PRC subsidiaries and the VIE and its subsidiaries subject to the approval from or registration with governmental authorities and limitation on amount, or we may make additional capital contributions to our wholly foreign-owned subsidiaries in China. Any loans to our wholly foreign-owned subsidiaries in China, which are treated as foreign-invested enterprises, or FIEs, under PRC law, are subject to applicable foreign exchange loan registrations. If we provide funding to our wholly foreign-owned subsidiaries through shareholder loans, (a) in the event that the foreign debt management mechanism as provided in the Measures for Foreign Debts Registration and Administration and other relevant rules applies, the balance of such loans cannot exceed the difference between the total investment and the registered capital of the subsidiaries and we will need to register such loans with the SAFE or its local branches, or (b) in the event that the mechanism as provided in the Notice of the People's Bank of China on Matters concerning the Macro-Prudential Management of Full-Covered Cross-Border Financing, or PBOC Notice No. 9, applies, the balance of such loans will be subject to the risk-weighted approach and the net asset limits and we will need to file the loans with the SAFE in its information system pursuant to applicable requirements and guidelines issued by the SAFE or its local branches. Pursuant to PBOC Notice No. 9, upon expiry of the one-year transition period commencing on January 11, 2017, the PBOC and the SAFE would determine the cross-border financing administration mechanism for the FIEs after evaluating the overall results of implementing PBOC Notice No.9. As of the date of this annual report, neither the PBOC nor the SAFE has promulgated and made public any further rules, regulations, notices, or circulars in this regard. Currently, our wholly foreign-owned subsidiaries, Guangzhou Yatsen and Aoyan Shanghai Cosmetics Trading Co., Ltd., are subject to the foreign debt management mechanism as provided in the Measures for Foreign Debts Registration and Administration, which means loans extended by our offshore entities to our wholly foreign-owned subsidiaries in China to finance their activities may not exceed the difference between the amount of total investment as approved by the Ministry of Commerce or its local counterpart and the amount of registered capital of such foreign-invested company. However, it is uncertain what mechanism will be adopted by the PBOC and the SAFE in the future and what statutory limits will be imposed on loans provided by an offshore entity like our Company to its PRC subsidiaries.

In addition, an FIE shall use its capital pursuant to the principle of authenticity and self-use within its business scope. The capital of an FIE shall not be used for the following purposes: (i) directly or indirectly used for payment beyond the business scope of such FIE or the payment prohibited by relevant laws and regulations; (ii) directly or indirectly used for investment in securities or investments in financial management other than banks' principal-secured products unless otherwise provided by relevant laws and regulations; (iii) the granting of loans to non-affiliated enterprises, except where it is expressly permitted in the business license; and (iv) paying the expenses related to the purchase of real estate that is not for self-use (except for the foreign-invested real estate enterprises).

SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprises, or SAFE Circular 19, effective June 2015, in replacement of a former regulation. According to SAFE Circular 19, the flow and use of the RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company is regulated such that RMB capital may not be used for the issuance of RMB entrusted loans, the repayment of inter-enterprise loans or the repayment of banks loans that have been transferred to a third party. Although SAFE Circular 19 allows RMB capital converted from foreign currency-denominated registered capital of a foreign-invested enterprise to be used for equity investments within China, it also reiterates the principle that RMB converted from the foreign currency-denominated capital of a foreign-invested company may not be directly or indirectly used for purposes beyond its business scope. Thus, it is unclear whether SAFE will permit such capital to be used for equity investments in China in actual practice. SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account, or SAFE Circular 16, effective on June 9, 2016, which reiterates some of the rules set forth in SAFE Circular 19, but changes the prohibition against using RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company to issue RMB entrusted loans to a prohibition against using such capital to issue loans to non-associated enterprises. Violations of SAFE Circular 19 and SAFE Circular 16 could result in administrative penalties. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer any foreign currency

we hold to our PRC subsidiaries, which may adversely affect our liquidity and our ability to fund and expand our business in China. On October 23, 2019, the SAFE promulgated the Notice of the State Administration of Foreign Exchange on Further Promoting the Convenience of Cross-border Trade and Investment, or the SAFE Circular 28, which, among other things, allows all foreign-invested companies to use Renminbi converted from foreign currency-denominated capital for equity investments in China, as long as the equity investment is genuine, does not violate applicable laws, and complies with the negative list on foreign investment. However, since the relevant government authorities have the discretion over the interpretation and implementation of the SAFE Circular 28, it is unclear how SAFE and competent banks will carry this out in practice.

In light of the various requirements imposed by PRC regulations on loans to and direct investment in PRC entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, or at all, with respect to future loans by us to our PRC subsidiaries or the VIE or its subsidiaries or with respect to future capital contributions by us to our PRC subsidiaries, neither can we guarantee that we will be able to provide loans in such amount as needed by our PRC subsidiaries or the VIE in a timely manner. If we fail to complete such registrations or obtain such approvals or fund the amount needed by our PRC subsidiaries or the VIE in a timely manner, our ability to use the proceeds from our initial public offering and to capitalize or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

Governmental control of currency conversion may limit our ability to utilize our revenues effectively and affect the value of your investment.

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in Renminbi. Under our current corporate structure, our Cayman Islands holding company may rely on dividend payments from our PRC subsidiaries to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval of the SAFE, by complying with certain procedural requirements. Specifically, under the existing exchange restrictions, without prior approval of SAFE, cash generated from the operations of our PRC subsidiaries in China may be used to pay dividends to our company. However, approval from or registration with appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. As a result, we need to obtain SAFE approval to use cash generated from the operations of our PRC subsidiaries and consolidated variable interest entity to pay off their respective debt in a currency other than Renminbi owed to entities outside China, or to make other capital expenditure payments outside China in a currency other than Renminbi.

In light of the flood of capital outflows of China in 2016 due to the weakening Renminbi, the PRC government has imposed more restrictive foreign exchange policies and stepped up scrutiny of major outbound capital movement including overseas direct investment. More restrictions and substantial vetting process are put in place by SAFE to regulate cross-border transactions falling under the capital account. If any of our shareholders regulated by such policies fails to satisfy the applicable overseas direct investment filing or approval requirement timely or at all, it may be subject to penalties from the relevant PRC authorities. The PRC government may at its discretion further restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of the ADSs.

It may be difficult for overseas regulators to conduct investigation or collect evidence within China.

Shareholder claims or regulatory investigation that are common in jurisdictions outside China are difficult to pursue as a matter of law or practicality in China. For example, in China, there are significant legal and other obstacles to providing information needed for regulatory investigations or litigation initiated outside China. Although the authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such cooperation with the securities regulatory authorities in Hong Kong or other jurisdictions may not be efficient in the absence of mutual and practical cooperation mechanism. Furthermore, according to Article 177 of the PRC Securities Law, or Article 177,

which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigation or evidence collection activities within the territory of the PRC, and without the consent by the Chinese securities regulatory authorities and the other competent governmental agencies, no entity or individual may provide documents or materials related to securities business to any foreign party. While detailed interpretation of or implementation rules under Article 177 have yet to be promulgated, the inability for an overseas securities regulator to directly conduct investigation or evidence collection activities within China and the potential obstacles for information provision may further increase difficulties faced by you in protecting your interests. See also “—Risks Relating to Our ADSs—You may face difficulties in protecting your interests, and your ability to protect your rights through U.S. courts may be limited, because we are incorporated under Cayman Islands law” for risks associated with investing in us as a Cayman Islands company.

Recent litigation and negative publicity surrounding China-based companies listed in the U.S. may result in increased regulatory scrutiny of us and negatively impact the trading price of our ADSs.

We believe that litigation and negative publicity surrounding companies with operations in China that are listed in the U.S. have negatively impacted stock prices for such companies. Various equity-based research organizations have published reports on China-based companies after examining, among other things, their corporate governance practices, related party transactions, sales practices and financial statements that have led to special investigations and stock suspensions on national exchanges. Any similar scrutiny of us, regardless of its lack of merit, could result in a diversion of management resources and energy, potential costs to defend ourselves against rumors, decreases and volatility in the ADS trading price, and increased directors and officers insurance premiums, and could have a material adverse effect upon our business, results of operations and financial condition.

Risks Relating to Our ADSs

The trading price of the ADSs is likely to be volatile, which could result in substantial losses to investors.

Since our ADSs became listed on the New York Stock Exchange on November 19, 2020, the trading price of our ADSs has fluctuated significantly. The trading price of the ADSs is likely to be volatile and could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, including the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in the United States. In addition to market and industry factors, the price and trading volume for the ADSs may be highly volatile for factors specific to our own operations, including the following:

- actual or anticipated variations in our revenues, earnings, cash flow and changes or revisions of our expected results;
- fluctuations in operating metrics;
- announcements of new investments, acquisitions, strategic partnerships or joint ventures by us or our competitors;
- announcements of new products and services and expansions by us or our competitors;
- changes in financial estimates by securities analysts;
- announcements of studies and reports relating to the quality of our product and service offerings or those of our competitors;
- changes in the economic performance or market valuations of other beauty companies;
- conditions in the beauty market;
- detrimental negative publicity about us, our competitors or our industry;
- additions or departures of key personnel;
- our share repurchase programs;
- release of lockup or other transfer restrictions on our outstanding equity securities or sales of additional equity securities;

- regulatory developments affecting us or our industry;
- general economic or political conditions in China or elsewhere in the world;
- fluctuations of exchange rates between the RMB and the U.S. dollar; and
- potential litigation or regulatory investigations.

Any of these factors may result in large and sudden changes in the volume and price at which the ADSs will trade. Furthermore, the stock market in general experiences price and volume fluctuations that are often unrelated or disproportionate to the operating performance of companies like us. These broad market and industry fluctuations may adversely affect the market price of our ADSs. Volatility or a lack of positive performance in our ADS price may also adversely affect our ability to retain key employees, most of whom have been granted equity incentives.

Pursuant to NYSE Rule 802.01C, a company will be considered to be below compliance standards if the average closing price of a security as reported on the consolidated tape is less than US\$1.00 over a consecutive 30 trading-day period. Once notified, the company must bring its share price and average share price back above US\$1.00 within the applicable cure period following receipt of the notification. The company can regain compliance at any time during the cure period if on the last trading day of any calendar month during the cure period the company has a closing share price of at least US\$1.00 and an average closing share price of at least US\$1.00 over the 30 trading-day period ending on the last trading day of that month. In the event that at the expiration of the cure period, both a US\$1.00 closing share price on the last trading day of the cure period and a US\$1.00 average closing share price over the 30 trading-day period ending on the last trading day of the cure period are not attained, the NYSE will commence suspension and delisting procedures. In addition, we understand that the NYSE has a policy to suspend trading immediately and commence delisting procedures if the market price of securities becomes “abnormally low.” We received a letter from the NYSE dated April 11, 2022 notifying us that (i) we are below NYSE compliance standards due to the trading price of our ADSs and (ii) the applicable cure period for us to regain compliance expires on October 11, 2022. We took various measures to resolve the non-compliance caused by adverse effects on the trading price of our ADSs and avoid any potential delisting, including monitoring the market conditions of our listed securities and implementing a share repurchase program. As a result, we have cured the deficiency within the prescribed cure period. On August 1, 2022, NYSE notified us that our company has regained compliance with the NYSE’s continued listing criterion of a minimum share price as set forth in Section 802.01C of the NYSE Listed Company Manual. However, we cannot assure you that we will stay compliant with these NYSE listing rules at all times going forward. There can be no assurance that our ADSs will be eligible for trading on any such alternative exchanges or markets in the United States. If our ADSs are delisted from the NYSE, the liquidity and value of an investment in our ADSs will be materially and adversely affected.

In the past, shareholders of public companies have often brought securities class action suits against companies following periods of instability in the market price of their securities. We and certain of our current and former directors or officers, our authorized U.S. representative, a shareholder, and our November 2020 IPO underwriters have been named as defendants in a putative shareholder class action, which has yet to be resolved. See “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings.” We are currently unable to estimate the outcome of this lawsuit or any possible loss or range of loss, if any, associated with the resolution thereof. There can be no assurance that we will be able to prevail in our defense or reverse any unfavorable judgment on appeal, and we may decide to settle such lawsuits on unfavorable terms. We may continue to be subject to lawsuits from time to time in the future, including but not limited to putative class action lawsuits brought by shareholders. The existence of such cases and any potential adverse outcome of these cases, including any plaintiff’s appeal of a judgment, could have a material adverse effect on our business, reputation, financial condition, results of operations, cash flows as well as the trading price of our ADSs. In addition, there can be no assurance that our insurance carriers will cover all or part of the defense costs, or any liabilities that may arise from these matters. Resolution of these matters may utilize a significant portion of our cash resources and divert management’s attention from the day-to-day operations of our company, all of which could harm our business. We also may be subject to claims for indemnification related to these matters, and we cannot predict the impact that indemnification claims may have on our business or financial results.

If securities or industry analysts cease to publish research or reports about our business, or if they adversely change their recommendations regarding the ADSs, the market price for the ADSs and trading volume could decline.

The trading market for the ADSs will be influenced by research or reports that industry or securities analysts publish about our business. If one or more analysts who cover us downgrade the ADSs, the market price for the ADSs would likely decline. If one or more of these analysts cease to cover us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume for the ADSs to decline.

Our dual-class voting structure limits your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial.

We have adopted a dual-class voting structure such that our authorized and issued ordinary shares consist of Class A ordinary shares and Class B ordinary shares (with certain shares remaining undesignated, with power for our directors to designate and issue such classes of shares as they think fit). In respect of matters requiring the votes of shareholders, holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to twenty votes per share based on our dual-class share structure. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any transfer of Class B ordinary shares by a holder thereof to any person or entity that is not an affiliate of such holder, such Class B ordinary shares shall be automatically and immediately converted into the same number of Class A ordinary shares.

Mr. Jinfeng Huang, our founder, chairman of the board of directors and chief executive officer, beneficially owned all of our Class B ordinary shares as of February 28, 2023. These Class B ordinary shares constitute 24.7% of our total issued and outstanding share capital and 86.8% of the aggregate voting power of our total issued and outstanding share capital as of February 28, 2023 due to the disparate voting powers associated with our dual-class share structure. See “Item 6. Directors, Senior Management and Employees—E. Share Ownership.” As a result of the dual-class share structure and the concentration of ownership, holders of Class B ordinary shares will have considerable influence over matters such as decisions regarding mergers and consolidations, election of directors and other significant corporate actions. Such holders may take actions that are not in the best interest of us or our other shareholders. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could have the effect of depriving our other shareholders of the opportunity to receive a premium for their shares as part of a sale of our company and may reduce the price of our ADSs. This concentrated control will limit your ability to influence corporate matters and could discourage others from pursuing any potential merger, takeover or other change of control transactions that holders of Class A ordinary shares and ADSs may view as beneficial.

Our dual-class voting structure may render the ADSs representing our Class A ordinary shares ineligible for inclusion in certain stock market indices, and thus adversely affect the trading price and liquidity of the ADSs.

We cannot predict whether our dual-class share structure with different voting rights will result in a lower or more volatile market price of the ADSs, adverse publicity, or other adverse consequences. Certain index providers have announced restrictions on including companies with multi-class share structures in certain of their indices. For example, S&P Dow Jones and FTSE Russell have changed their eligibility criteria for inclusion of shares of public companies on certain indices, including the S&P 500, to exclude companies with multiple classes of shares and companies whose public shareholders hold no more than 5% of total voting power from being added to such indices. As a result, our dual-class voting structure may prevent the inclusion of the ADSs representing our Class A ordinary shares in such indices, which could adversely affect the trading price and liquidity of the ADSs representing our Class A ordinary shares. In addition, several shareholder advisory firms have announced their opposition to the use of multiple class structure and our dual-class structure may cause shareholder advisory firms to publish negative commentary about our corporate governance, in which case the market price and liquidity of the ADSs could be adversely affected.

We cannot guarantee that any share repurchase program will be fully consummated or that any share repurchase program will enhance long-term shareholder value, and share repurchases could increase the volatility of the price of our ADSs and could diminish our cash reserves.

On November 17, 2021, our board of directors authorized a share repurchase program, under which we may repurchase up to US\$100.0 million of our ordinary shares (including in the form of ADSs) over the following 24 months through November 16, 2023. On August 26, 2022, our board of directors authorized a change to the term and size of the share repurchase program, increasing the aggregate value of shares that may be repurchased under the share repurchase program from US\$100.0 million to US\$150.0 million and extending the effective term of the share repurchase program through August 25, 2024. The share repurchase program, authorized by our board of directors, does not obligate us to repurchase any specific dollar amount or to acquire any specific number of ADSs. The share repurchase program could affect the price of our ADSs and increase volatility and may be suspended or terminated at any time, which may result in a decrease in the trading price of our ADSs. We had accumulatively repurchased approximately US\$3.5 million of ADSs in 2021 and approximately US\$96.5 million of ADSs in 2022. Our board of directors will review the share repurchase program periodically, and may authorize further adjustment of its terms and size.

We are a “controlled company” within the meaning of the NYSE Listed Company Manual and, as a result, may rely on exemptions from certain corporate governance requirements that provide protection to shareholders of other companies.

We are a “controlled company” as defined under the NYSE Listed Company Manual because Mr. Jinfeng Huang, our founder, chairman of the board of directors and chief executive officer, owns more than 50% of our total voting power. For so long as we remain a “controlled company” under that definition, we are permitted to elect to rely, and may rely, on exemptions from certain corporate governance rules, including an exemption from the rule that a majority of our board of directors must be independent directors or that we have to establish a nominating committee and a compensation committee composed entirely of independent directors. In the event that we elect to rely on one or more of these exemptions, you will not have the same protection afforded to shareholders of companies that are subject to these corporate governance requirements.

Techniques employed by short sellers may drive down the market price of our ADSs.

Short selling is the practice of selling securities that the seller does not own but rather has borrowed from a third-party with the intention of buying identical securities back at a later date to return to the lender. The short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as the short seller expects to pay less in that purchase than it received in the sale. As it is in the short seller’s interest for the price of the security to decline, many short sellers publish, or arrange for the publication of, negative opinions regarding the relevant issuer and its business prospects in order to create negative market momentum and generate profits for themselves after selling a security short. These short attacks have, in the past, led to selling of shares in the market.

Public companies listed in the United States that have substantially all of their operations in China have been the subject of short selling. Much of the scrutiny and negative publicity has centered on allegations of a lack of effective internal control over financial reporting resulting in financial and accounting irregularities and mistakes, inadequate corporate governance policies or a lack of adherence thereto and, in many cases, allegations of fraud. As a result, many of these companies are now conducting internal and external investigations into the allegations and, in the interim, are subject to shareholder lawsuits and/or SEC enforcement actions.

It is not clear what effect such negative publicity could have on us. If we were to become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we could have to expend a significant amount of resources to investigate such allegations and/or defend ourselves. While we would strongly defend against any such short seller attacks, we may be constrained in the manner in which we can proceed against the relevant short seller by principles of freedom of speech, applicable state law or issues of commercial confidentiality. Such a situation could be costly and time-consuming and could distract our management from growing our business. Even if such allegations are ultimately proven to be groundless, allegations against us could severely impact our business operations and stockholder's equity, and any investment in our ADSs could be greatly reduced.

We currently do not expect to pay dividends in the foreseeable future and you must rely on price appreciation of our ADSs for return on your investment.

We currently intend to retain most, if not all, of our available funds and any future earnings to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future. Therefore, you should not rely on an investment in our ADSs as a source for any future dividend income.

Our board of directors has complete discretion as to whether to distribute dividends, subject to certain requirements of Cayman Islands law. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors. Under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in our ADSs will likely depend entirely upon any future price appreciation of our ADSs. There is no guarantee that our ADSs will appreciate in value or even maintain the price at which you purchased the ADSs in the future. You may not realize a return on your investment in our ADSs and you may even lose your entire investment in our ADSs.

Substantial future sales or perceived potential sales of our ADSs in the public market could cause the price of our ADSs to decline.

Sales of our ADSs in the public market or the perception that these sales could occur, could cause the market price of our ADSs to decline. Certain our shareholders have registration rights and may request us to register their securities for sale under the Securities Act. Sales of these shares, or the perception that such sales could happen, could cause the price of our ADSs to decline. Such sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. We cannot predict what effect, if any market sales of securities held by a principal shareholder or any other shareholder or the availability of these securities for future sale will have on the market price on our ADSs. In addition, if we issue additional ordinary shares, either through private transactions or in the public markets in the United States or other jurisdiction, your ownership interests in our company would be diluted and this, in turn, would have an adverse effect on the price of our ADSs.

Our memorandum and articles of association contain anti-takeover provisions that could have a material adverse effect on the rights of holders of our Class A ordinary shares and the ADSs.

Our currently effective memorandum and articles of association contain provisions to limit the ability of others to acquire control of our company or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction. Our board of directors has the authority, without further action by our shareholders, to issue preferred shares in one or more series and to fix their designations, powers, preferences, privileges and relative participating, optional or special rights and the qualifications, limitations or restrictions, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our Class A ordinary shares, including those represented by ADSs. Preferred shares could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management

more difficult. If our board of directors decides to issue preferred shares, the price of the ADSs may fall and the voting and other rights of the holders of our Class A ordinary shares and the ADSs may be materially and adversely affected.

Forum selection provisions in our memorandum and articles of association and our deposit agreement with the depositary bank could limit the ability of holders of our Class A ordinary shares, ADSs or other securities to obtain a favorable judicial forum for disputes with us, our directors and officers, the depositary bank, and potentially others.

Our memorandum and articles of association provide that the United States District Court for the Southern District of New York (or, if the United States District Court for the Southern District of New York lacks subject matter jurisdiction over a particular dispute, the state courts in New York County, New York) is the exclusive forum within the United States for the resolution of any complaint asserting a cause of action arising out of or relating in any way to the federal securities laws of the United States, regardless of whether such legal suit, action, or proceeding also involves parties other than our company. Our deposit agreement provides that the United States District Court for the Southern District of New York (or, if the United States District Court for the Southern District of New York lacks subject matter jurisdiction over a particular dispute, the state courts in New York County, New York) shall have exclusive jurisdiction over any suit, action or proceeding against or involving us or the depositary, arising out of or relating in any way to the deposit agreement or the transactions contemplated thereby or by virtue of owning the ADSs or ADRs. However, the enforceability of similar federal court choice of forum provisions in other companies' organizational documents has been challenged in legal proceedings in the United States, and it is possible that a court could find this type of provision to be inapplicable, unenforceable, or inconsistent with other documents that are relevant to the filing of such lawsuits. If a court were to find the federal choice of forum provision contained in our currently effective memorandum and articles of association to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions. If upheld, the forum selection clause in our currently effective memorandum and articles of association, as well as the forum selection provision in the deposit agreement, may limit a security-holder's ability to bring a claim against us, our directors and officers, the depositary bank, and potentially others in his or her preferred judicial forum, and this limitation may discourage such lawsuits. In addition, the Securities Act provides that both federal and state courts have jurisdiction over suits brought to enforce any duty or liability under the Securities Act or the rules and regulations thereunder. Accepting or consent to this forum selection provision does not represent you are waiving compliance with federal securities laws and the rules and regulations thereunder. The exclusive forum provision in our currently effective memorandum and articles of association will not operate so as to deprive the courts of the Cayman Islands from having jurisdiction over matters relating to our internal affairs.

The voting rights of holders of ADSs are limited by the terms of the deposit agreement, and you may not be able to exercise your right to direct the voting of the underlying Class A ordinary shares represented by your ADSs.

Holders of ADSs do not have the same rights as our registered shareholders. As a holder of ADSs, you will not have any direct right to attend general meetings of our shareholders or to cast any votes at such meetings. You will only be able to exercise the voting rights attached to the Class A ordinary shares underlying your ADSs indirectly by giving voting instructions to the depositary in accordance with the provisions of the deposit agreement. Where any matter is to be put to a vote at a general meeting, then upon receipt of your voting instructions, the depositary will try, as far as is practicable, to vote the underlying Class A ordinary shares represented by your ADSs in accordance with your instructions. You will not be able to directly exercise your right to vote with respect to the underlying Class A ordinary shares unless you cancel and withdraw the shares and become the registered holder of such shares prior to the record date for the general meeting.

When a general meeting is convened, you may not receive sufficient advance notice of the meeting to withdraw the Class A ordinary shares represented by your ADSs and become the registered holder of such shares to allow you to attend the general meeting and to vote directly with respect to any specific matter or resolution to be considered and voted upon at the general meeting. In addition, under our currently effective memorandum and articles of association, for the purposes of determining those shareholders who are entitled to attend and vote at any general meeting, our directors may close our register of members and/or fix in advance a record date for such meeting, and such closure of our register of members or the setting of such a record date may prevent you from withdrawing the underlying Class A ordinary shares represented by your ADSs and from becoming the registered holder of such shares prior to the record date, so that you would not be able to attend the general meeting or to vote directly. Where any

matter is to be put to a vote at a general meeting, upon our instruction the depositary will notify you of the upcoming vote and will arrange to deliver our voting materials to you. We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote the underlying Class A ordinary shares represented by your ADSs.

In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out your voting instructions. This means that you may not be able to exercise your right to direct how the underlying Class A ordinary shares represented by your ADSs are voted and you may have no legal remedy if the underlying Class A ordinary shares represented by your ADSs are not voted as you requested. In addition, in your capacity as an ADS holder, you will not be able to call a shareholders' meeting.

Further, under the deposit agreement for the ADSs, if you do not vote, the depositary will give us a discretionary proxy to vote the Class A ordinary shares underlying your ADSs at shareholders' meetings unless:

- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary that there is substantial opposition as to a matter to be voted on at the meeting;
- a matter to be voted on at the meeting would have a material adverse impact on shareholders; or
- the voting at the meeting is to be made on a show of hands.

The effect of this discretionary proxy is that you cannot prevent our Class A ordinary shares underlying your ADSs from being voted, except under the circumstances described above. This may adversely affect your interests and make it more difficult for shareholders to influence the management of our company. Holders of our Class A ordinary shares are not subject to this discretionary proxy.

You may not receive dividends or other distributions on our Class A ordinary shares and you may not receive any value for them, if it is illegal or impractical to make them available to you.

The depositary of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on Class A ordinary shares or other deposited securities underlying our ADSs, after deducting its fees and expenses. You will receive these distributions in proportion to the number of Class A ordinary shares your ADSs represent. However, the depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act but that are not properly registered or distributed under an applicable exemption from registration. The depositary may also determine that it is not feasible to distribute certain property through the mail. Additionally, the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may determine not to distribute such property. We have no obligation to register under U.S. securities laws any ADSs, Class A ordinary shares, rights or other securities received through such distributions. We also have no obligation to take any other action to permit the distribution of ADSs, Class A ordinary shares, rights or anything else to holders of ADSs. This means that you may not receive distributions we make on our Class A ordinary shares or any value for them if it is illegal or impractical for us or the depositary to make them available to you. These restrictions may cause a material decline in the value of our ADSs.

You may be subject to limitations on transfer of your ADSs.

Your ADSs are transferable on the books of the depositary. However, the depositary may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depositary may close its books from time to time for a number of reasons, including in connection with corporate events such as a rights offering, during which time the depositary needs to maintain an exact number of ADS holders on its books for a specified period. The depositary may also close its books in emergencies, and on weekends and public holidays. The depositary may refuse to deliver, transfer or register transfers of the ADSs generally when our share register or the books of the depositary are closed, or at any time if we or the depositary thinks it is advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

You may experience dilution of your holdings due to inability to participate in rights offerings.

We may, from time to time, distribute rights to our shareholders, including rights to acquire securities. Under the deposit agreement, the depositary will not distribute rights to holders of ADSs unless the distribution and sale of rights and the securities to which these rights relate are either exempt from registration under the Securities Act with respect to all holders of ADSs, or are registered under the provisions of the Securities Act. The depositary may, but is not required to, attempt to sell these undistributed rights to third parties, and may allow the rights to lapse. We may be unable to establish an exemption from registration under the Securities Act, and we are under no obligation to file a registration statement with respect to these rights or underlying securities or to endeavor to have a registration statement declared effective. Accordingly, holders of ADSs may be unable to participate in our rights offerings and may experience dilution of their holdings as a result.

You may face difficulties in protecting your interests, and your ability to protect your rights through U.S. courts may be limited, because we are incorporated under Cayman Islands law.

We are an exempted company incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our ninth amended and restated memorandum and articles of association, the Companies Act (As Revised) of the Cayman Islands and the common law of the Cayman Islands. The rights of shareholders to take action against our directors, actions by our minority shareholders and the fiduciary duties of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary duties of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. Some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, Cayman Islands companies may not have the standing to initiate a shareholder derivative action in a federal court of the United States.

Shareholders of Cayman Islands exempted companies like us have no general rights under Cayman Islands law to inspect corporate records (other than the memorandum and articles of association and any special resolutions passed by such companies, and the registers of mortgages and charges of such companies) or to obtain copies of lists of shareholders of these companies. Under Cayman Islands law, the names of our current directors can be obtained from a search conducted at the Registrar of Companies. Our directors have discretion under our ninth amended and restated articles of association to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of our board of directors or controlling shareholders than they would as public shareholders of a company incorporated in the United States.

Certain judgments obtained against us by our shareholders may not be enforceable.

We are an exempted Cayman Islands company and substantially all of our assets are located outside of the United States. All of our current operations are conducted in China. In addition, most of our current directors and officers are nationals and residents of countries other than the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States in the event that you believe that your rights have been infringed under the U.S. federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

ADSs holders may not be entitled to a jury trial with respect to claims arising under the deposit agreement, which could result in less favorable outcomes to the plaintiff(s) in any such action.

The deposit agreement governing the ADSs representing our Class A ordinary shares provides that, subject to the depositary's right to require a claim to be submitted to arbitration, the United States District Court for the Southern District of New York (or, if the United States District Court for the Southern District of New York lacks subject matter jurisdiction over a particular dispute, in the state courts in New York County, New York) shall have exclusive jurisdiction to hear and determine claims arising out of or relating in any way to the deposit agreement (including claims arising under the Exchange Act or the Securities Act) and in that regard, to the fullest extent permitted by law, ADS holders waive the right to a jury trial of any claim they may have against us or the depositary arising out of or relating to our shares, the ADSs or the deposit agreement, including any claim under the U.S. federal securities laws.

If we or the depositary opposed a jury trial demand based on the waiver, the court would determine whether the waiver was enforceable based on the facts and circumstances of that case in accordance with the applicable state and federal law. To our knowledge, the enforceability of a contractual pre-dispute jury trial waiver in connection with claims arising under the federal securities laws has not been finally adjudicated by the United States Supreme Court. However, we believe that a contractual pre-dispute jury trial waiver provision is generally enforceable, including under the laws of the State of New York, which govern the deposit agreement. In determining whether to enforce a contractual pre-dispute jury trial waiver provision, courts will generally consider whether a party knowingly, intelligently and voluntarily waive the right to a jury trial. We believe that this is the case with respect to the deposit agreement and the ADSs. It is advisable that you consult legal counsel regarding the jury waiver provision before investing in the ADSs.

If you or any other holders or beneficial owners of ADSs bring a claim against us or the depositary in connection with matters arising under the deposit agreement or the ADSs, including claims under federal securities laws, you or such other holder or beneficial owner may not be entitled to a jury trial with respect to such claims, which may have the effect of limiting and discouraging lawsuits against us or the depositary, lead to increased costs to bring a claim, limited access to information and other imbalances of resources between such holder and us, or limit such holder's ability to bring a claim in a judicial forum that such holder finds favorable. If a lawsuit is brought against us or the depositary under the deposit agreement, it may be heard only by a judge or justice of the applicable trial court, which would be conducted according to different civil procedures and may result in different outcomes than a trial by jury would have had, including results that could be less favorable to the plaintiff(s) in any such action.

Nevertheless, if this jury trial waiver provision is not enforced, to the extent a court action proceeds, it would proceed under the terms of the deposit agreement with a jury trial. No condition, stipulation or provision of the deposit agreement or ADSs shall relieve us or the depositary from our respective obligations to comply with the Securities Act and the Exchange Act nor serve as a waiver by any holder or beneficial owner of ADSs of compliance with any provision of the Securities Act and the Exchange Act.

An ADS holder's right to pursue claims against the depositary is limited by the terms of the deposit agreement.

Under the deposit agreement, any legal suit, action or proceeding against or involving us or the depositary, arising out of or relating in any way to the deposit agreement or the transactions contemplated thereby or by virtue of owning the ADSs may only be instituted in the United States District Court for the Southern District of New York (or, if the United States District Court for the Southern District of New York lacks subject matter jurisdiction over a particular dispute, in the state courts in New York County, New York), and you, as a holder of our ADSs, will have

irrevocably waived any objection which you may have to the laying of venue of any such proceeding, and irrevocably submitted to the exclusive jurisdiction of such courts in any such action or proceeding.

The depositary may, in its sole discretion, require that any dispute or difference arising from the relationship created by the deposit agreement be referred to and finally settled by an arbitration conducted under the terms described in the deposit agreement, although the arbitration provisions do not preclude you from pursuing claims under the Securities Act or the Exchange Act in the United States District Court for the Southern District of New York (or such state courts if the United States District Court for the Southern District of New York lacks subject matter jurisdiction).

As a company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the New York Stock Exchange listing standards.

As a Cayman Islands company listed on the New York Stock Exchange, we are subject to the New York Stock Exchange listing standards, which requires listed companies to have, among other things, a majority of their board members to be independent and independent director oversight of executive compensation and nomination of directors. However, New York Stock Exchange rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the New York Stock Exchange listing standards.

We are permitted to elect to rely on home country practice to be exempted from the corporate governance requirements. Section 303A.01 of the NYSE Listed Company Manual requires a listed company to have a majority of independent directors. Section 302.00 of the NYSE Listed Company Manual requires a listed company to hold an annual shareholders' meeting during each fiscal year. Section 303A.08 requires that shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, subject to limited exemptions. Section 303A.09 requires that listed companies must adopt and disclose corporate governance guidelines. We currently follow our home country practice in lieu of these requirements. We may also continue to rely on these and other exemptions available to foreign private issuers in the future. As a result, our shareholders may be afforded less protection than they otherwise would under the NYSE corporate governance listing standards applicable to U.S. domestic issuers.

We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to U.S. domestic public companies.

Because we qualify as a foreign private issuer under the Exchange Act, we are exempt from certain provisions of the securities rules and regulations in the United States that are applicable to U.S. domestic issuers, including:

- the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q or current reports on Form 8-K;
- the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act;
- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and
- the selective disclosure rules by issuers of material nonpublic information under Regulation FD.

We are required to file an annual report on Form 20-F within four months of the end of each fiscal year. In addition, we intend to publish our results on a quarterly basis as press releases, distributed pursuant to the rules and regulations of the New York Stock Exchange. Press releases relating to financial results and material events are also furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC is less extensive and less timely compared to that required to be filed with the SEC by U.S. domestic issuers. As a result, you may not be afforded the same protections or information that would be made available to you were you investing in a U.S. domestic issuer.

We believe that we were a passive foreign investment company, or PFIC, for United States federal income tax purposes for the taxable year ended December 31, 2022, which could subject United States investors in our ADSs or Class A ordinary shares to significant adverse United States income tax consequences.

We will be classified as a passive foreign investment company, or PFIC, for United States federal income tax purposes for any taxable year if either (a) 75% or more of our gross income for such year consists of certain types of “passive” income or (b) 50% or more of the value of our assets (generally determined on the basis of a quarterly average) during such year is attributable to assets that produce or are held for the production of passive income, or the “asset test.” Although the law in this regard is unclear, we intend to treat the VIE (including its subsidiaries) as being owned by us for United States federal income tax purposes, not only because we exercise effective control over the operation of such entities but also because we are entitled to substantially all of their economic benefits and, as a result, we consolidate their results of operations in our consolidated financial statements. Based upon the nature and composition of our assets (in particular, the retention of substantial amounts of cash and investments), and the market price of our ADSs, we believe that we were a PFIC for the taxable year ended December 31, 2022 and we will likely be a PFIC for our current taxable year unless the market price of our ADSs increases and/or we invest a substantial amount of the cash and other passive assets we hold in assets that produce or are held for the production of active income.

If we are a PFIC in any taxable year, a U.S. Holder (as defined in “Item 10. Additional Information—E. Taxation—United States Federal Income Tax Considerations”) will generally be subject to reporting requirements and may incur significantly increased United States income tax on gain recognized on the sale or other disposition of the ADSs or Class A ordinary shares and on the receipt of distributions on the ADSs or Class A ordinary shares to the extent such gain or distribution is treated as an “excess distribution” under the United States federal income tax rules, and such U.S. Holder may be subject to burdensome reporting requirements. Further, if we are a PFIC for any year during which a U.S. Holder holds our ADSs or Class A ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. Holder holds our ADSs or Class A ordinary shares, unless we were to cease to be a PFIC and the U.S. Holder were to make a “deemed sale” election with respect to the ADSs or Class A ordinary shares. For more information see “Item 10. Additional Information—E. Taxation—United States Federal Income Tax Considerations” and “Item 10. Additional Information—E. Taxation—United States Federal Income Tax Considerations—Passive Foreign Investment Company Considerations.”

We incur increased costs as a result of being a public company.

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and the NYSE, impose various requirements on the corporate governance practices of public companies. We expect these rules and regulations to increase our legal and financial compliance costs and to make some corporate activities more time-consuming and costly. Our management will continue to be required to devote substantial time and attention to our public company reporting obligations and other compliance matters. We are currently evaluating and monitoring developments with respect to these rules and regulations, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs. Our reporting and other compliance obligations as a public company may place a strain on our management, operational and financial resources and systems for the foreseeable future.

We have been named as a defendant in a putative shareholder class action lawsuit in the United States, and we may continue to subject to lawsuits from time to time in the future, including but not limited to putative class action lawsuits brought by shareholders. See “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings.” Such lawsuits could divert a significant amount of our management’s attention and other resources from our business and operations, which could harm our results of operations and require us to incur significant expenses to defend the lawsuits. There can be no assurance that our insurance carriers will cover all or part of the defense costs, or any liabilities that may arise from these matters. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We commenced our operations in July 2016 through Guangzhou Yatsen Global Co., Ltd., or Guangzhou Yatsen, a limited liability company under the laws of the PRC. In September 2016, we incorporated Mangrove Bay Ecommerce Holding (Cayman), which later changed its name to Yatsen Holding Limited in January 2019, under the laws of the Cayman Islands as our offshore holding company to facilitate offshore financing. Also in September 2016, Yatsen Holding Limited incorporated Yatsen (HK) Limited (formerly known as Mangrove Bay Ecommerce (Hong Kong) Limited) as its intermediary holding company.

In March 2017, Guangzhou Yatsen established Guangzhou Yatsen Cosmetics Co., Ltd. as its wholly-owned subsidiary to engage in offline retail business in areas outside East China.

In September 2018, Yatsen (HK) Limited acquired all of the equity interests in Guangzhou Yatsen, from its shareholders to engage in the development, manufacturing and sales of cosmetics and skincare products as well as general administration of the business of the group in China.

In April 2019, Guangzhou Yatsen established Guangzhou Yiyan Cosmetics Co., Ltd. as its wholly owned subsidiary to engage in sales of cosmetic and skincare products under the brand of *Perfect Diary* on certain platforms other than Tmall and the operation of our online product sales business in Southeastern Asia through our international website www.perfectdiary.com.

In February 2019, we gained control and beneficial ownership of Huizhi Weimei. In July 2019, Guangzhou Yatsen signed a series of contractual arrangements with Huizhi Weimei and its shareholder to formalize the control and beneficiary ownership it has over Huizhi Weimei.

In June 2019, in connection with the acquisition of *Little Ondine*, we acquired the control of Aoyan Shanghai Cosmetics Trading Co., Ltd., a PRC company that owned *Little Ondine*, through a series of contractual arrangements. Through a series of corporate restructurings in July 2020, we acquired 100% of the equity interest of Aoyan Shanghai Cosmetics Trading Co., Ltd. and continue to manage the operations of *Little Ondine*.

In October 2020, we acquired *Galénic*, an iconic premium skincare brand, from Pierre Fabre Dermo Cosmetics Laboratory, one of the largest dermatology and skincare group in Europe.

In January 2021, we acquired the mainland China business of *DR.WU*, a professional skincare brand developed by renowned dermatologists. In March 2021, we acquired *Eve Lom*, a prestige skincare brand from Manzanita Capital. In October 2021, we acquired *EANTiM*, a professional-channel skincare and haircare brand.

In May 2022, we issued our first Environmental, Social and Governance (ESG) Report, which details our strategic ESG initiatives to develop a long-term, sustainable and environmentally-friendly business, and reviews achievements made during the 2021 fiscal year. In December 2022, our ESG rating was upgraded to A by one of the world’s largest providers of ESG indexes, MSCI. This rating represents an internationally recognized leading level.

Our principal executive offices are located at Building No. 35, Art Port International Creation Center, No. 2519 East Xingang East Road, Haizhu District, Guangzhou 510330, People's Republic of China. Our telephone number at this address is +86 20 3837-3543. Our registered office in the Cayman Islands is located at c/o Office of Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC on www.sec.gov. You can also find information on our website <http://ir.yatsenglobal.com>. The information contained on SEC's website or our website is not a part of this annual report.

See "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Material Cash Requirements" for a discussion of our capital expenditures.

B. Business Overview

Yatsen is a leading China-based beauty group with the mission of creating an exciting new journey of beauty discovery for consumers around the world. Founded in 2016, we have launched and acquired numerous Color Cosmetics Brands and Skincare Brands including *Perfect Diary*, *Little Ondine*, *Abby's Choice*, *Galénic*, *DR.WU* (its mainland China business), *Eve Lom*, *Pink Bear* and *EANTiM*. Our flagship brand, *Perfect Diary*, is one of the leading color cosmetics brands in China in terms of retail sales value. Yatsen primarily reaches and engages with customers directly both online and offline, with expansive presence across all major e-commerce, social and content platforms in China.

The beauty industry in China is evolving rapidly. For many Chinese beauty consumers, massive e-commerce platforms have become default shopping destinations. More recently, dynamic social and content platforms play an expanded role in consumers' discovery and purchase of beauty products. At the same time, domestic Chinese beauty brands have made significant progress in upgrading their product quality, R&D capability and in-house or outsourced manufacturing capabilities, by partnering with technologically advanced ODM/OEM and packaging supply partners who have extensive experience working with large international beauty brands. In addition to these trends, Chinese consumers, particularly those in the Gen-Z and Millennial demographics, prefer brands that offer personalized products and represent strong local Chinese identities.

As a result, we were able to create and operate a group of distinctive beauty brands, reimagined from the ground up, which partners with these marketing channels, supply chain players and research institutes in a more integrated and unique way and provides young consumers with a superior experience and an engaging new journey of beauty discovery.

To replicate the success of *Perfect Diary*, we have expanded our brand portfolio to cover additional beauty product categories, consumer demographics, and price points. At the end of October 2020, we consummated the acquisition of *Galénic*, an iconic premium skincare brand, from Pierre Fabre, a French pharmaceutical and dermo-cosmetics group. *Galénic* was introduced in France and other European markets in the late 1970s by Mr. Pierre Fabre, a renowned French pharmacist who invented and expanded the dermo-cosmetics category worldwide. Throughout 2021 and 2022, we supported the growth of the brand in China and Europe by capitalizing on its French identity and partnering with Pierre Fabre to develop and launch new products.

In January 2021, we acquired the mainland China business of *DR.WU*, a dermatological skincare brand. Leveraging its brand equity, proven products and formulations, coupled with our DTC model and platform capabilities, we achieved significant sales growth over the past two year. In March 2021, we acquired *Eve Lom*, a prestige skincare brand from Manzanita Capital. *Eve Lom* combines high quality natural ingredients with the latest scientific innovations to create a radiance effect on the skin. In March 2021, we also launched the *Pink Bear* brand targeting teens and price-sensitive young adults in the lower mass color cosmetics market.

In October 2021, we acquired *EANTiM*, a professional-channel skincare brand. Founded in 2018 by a team with extensive background in the pharmaceutical skincare and haircare sectors, *EANTiM* develops products focused on improving skin health via the emerging field of microbiome.

As the zero-COVID policy continued to negatively impact consumer sentiment and demand for social gatherings, the color cosmetics market faced prolonged headwinds, with our Color Cosmetics Brands and offline stores experiencing challenges in such an environment. As a result, at the beginning of 2022, we launched our five-year strategic transformation plan with the goal of fostering a portfolio of strong brands with highly differentiated, effective products to drive sustainable growth. Key business initiatives under the plan focus on (i) balancing the revenue mix to support the growth of our Skincare Brands, fine-tuning the channel and product mix of our Color Cosmetics Brands, and investing in R&D to build up a robust new product pipeline; and (ii) cost cutting, which is expected to be achieved by the implementation of stricter pricing and discount policies, the closure of underperforming offline stores, and the optimization of operating efficiencies.

Despite the challenges in 2022, our strategic transformation plan proved to be effective and played out in line with our expectations. We have focused on building brand equity, an effort backed by our investment in branding and R&D, as well as improving profitability throughout the year. Specifically, as we accomplished major milestones in growing revenue contribution from our Skincare Brands from 14.6% in 2021 to 33.5% in 2022, we also improved our gross margin from 66.8% in 2021 to 68.0% in 2022, and our net loss margin from 26.5% in 2021 to 22.2% in 2022. Besides, we recorded positive cash flows from operating activities of RMB136.2 million (US\$19.7 million) for the fiscal year ended December 31, 2022, as compared with negative cash flows from operating activities of RMB1.02 billion for the fiscal year ended December 31, 2021. We expect to continue executing our new five-year strategic plan with a focus on building a vital and sustainable brand portfolio and capitalizing on rising opportunities as the consumer industry recovers.

Our Diverse Brand Portfolio

Color Cosmetics Brands

Our Color Cosmetics Brands consist of *Perfect Diary*, *Little Ondine* and *Pink Bear* and other color cosmetics brands, which offer a broad range of color cosmetics products, including eye, face and lip products to provide our customers a full-spectrum of beauty experience. In 2020, 2021 and 2022, we generated net revenues of RMB4.92 billion, RMB4.87 billion and RMB2.42 billion (US\$350.2 million) from the sales of products under our Color Cosmetics Brands, respectively, representing 94.0%, 83.4% and 65.2% of our net revenues in 2020, 2021 and 2022, respectively.

Perfect Diary

Perfect Diary is our first and largest brand. We launched *Perfect Diary* in 2017 to provide high-quality and innovative color cosmetics with exquisite designs targeting Gen-Z. With a broad and growing portfolio of products that spans the color cosmetics, skincare, beauty tools and kits categories, *Perfect Diary* offers comprehensive beauty solutions at a mass-market price point.

Little Ondine

Little Ondine was founded in 2013. *Little Ondine* initially gained popularity with its odorless, non-toxic, easy peel-off and fashionable nail polish. We acquired *Little Ondine* in 2019 and have since expanded its product variety and offerings. *Little Ondine* now features trend-setting and functional eye, face and lip makeup products, such as eyeliner, mascara, contour palette, and eyebrow liners. *Little Ondine*'s loyal customers mainly include women between the ages of 20 to 29 in Tier 1 and Tier 2 cities who are more willing to purchase products at higher price points.

Pink Bear

Pink Bear is a color cosmetic brand we launched in March 2021 to target the teenage and young adult customer base. Employing a “young girl” style and brand identity, the brand is intended to provide high value-for-money products at a lower mass-market price point, with a focus on the lip gloss product category. *Pink Bear* was embraced by customers and recognized by the industry only two years after its launch, awarded the Beauty Industry Super New Brand by Tmall.

Skincare Brands

Our Skincare Brands include *DR.WU* (mainland China business), *Galénic*, *Eve Lom*, *Abby's Choice*, and other skincare brands, which offer products featuring high-quality formulas, ingredients and packaging. In 2020, 2021 and 2022, we generated net revenues of RMB200.8 million, RMB855.2 million and RMB1.24 billion (US\$180.0 million) from the sales of products under our Skincare Brands, respectively, representing 3.8%, 14.6% and 33.5% of our net revenues in 2020, 2021 and 2022, respectively.

DR.WU (mainland China business)

Founded in 2003, *DR.WU* is a professional skincare brand developed by renowned dermatologist, Dr. Ying-Chin Wu. *DR.WU* created a technologically-advanced skincare line of hypoallergenic and highly efficacious products, leveraging 50 years of experience in dermatology and extensive research on skin immunology and laser treatment as well as a team of seasoned dermatologists. *DR.WU*'s products have received numerous awards and recognition from beauty media and platforms. We completed the acquisition of *DR.WU*'s mainland China business in January 2021. Post-closing, we re-launched the *DR.WU* brand in mainland China market by simplifying the product line-up to the core Mandellic Acid serum series. We also re-positioned the brand as a professional dermatologist-grade skincare brand offering highly efficacious solutions for acne-related skin problems, making tremendous efforts across research and development, product innovation and brand building.

Galénic

Originated in France, *Galénic* was founded in 1978 by Mr. Pierre Fabre, a well-known pharmacist, botanist and the inventor of dermo-cosmetics, with the aim of offering women high-end dermo-cosmetics with proprietary formulation and highly demonstratable effectiveness. *Galénic* is Yatsen's first premium skincare brand which we acquired from the Pierre Fabre group, one of the largest pharmaceutical and dermo-cosmetic group in Europe. With its R&D expertise and strong roots in France, *Galénic*'s products are known for their scientific formula which are derived from precious plant essence and ingredients to create effective skincare solutions, as well as for offering elegant skincare experiences for women. As part of the acquisition of *Galénic*, we established a long-term R&D and product innovations collaboration with Pierre Fabre to support the *Galénic* brand going forward. Today, *Galénic*'s products are sold in Europe and Asia.

In 2021, we launched *Galénic* in China and embarked on a number of marketing initiatives to increase brand awareness of *Galénic* among Chinese consumers. *Galénic*'s N°1 Poudre Vitamine C Pure Eclaircissante, which features facial serums with highly-concentrated, 20% Vitamin C extract designed to reduce dark spots and brighten the skin, won numerous recognitions from industry publications such as *Elle* and *Bazaar* since its launch.

Eve Lom

Eve Lom is a prestige skincare brand founded in 1985 by the renowned facialist *Eve Lom*. *Eve Lom*'s eponymous skincare collection has won numerous awards, with products featuring high-quality natural ingredients which create a luxurious and efficacious skincare experience. *Eve Lom* is sold through a global distribution network with notable strength in Asian markets. With its e-commerce channels, the brand has built a large following worldwide. We acquired *Eve Lom* in March 2021 from Manzanita Capital, which retains a minority stake in the business and continues to serve as a strategic partner to Yatsen. Post-closing, we increased the investment of resources in *Eve Lom*'s China operations and initiated a series of marketing events.

Abby's Choice

Benefiting from powerful consumer insights developed from data collected from our large customer base, we realized that younger beauty consumers are highly focused on safe and effective skincare. In response, we developed *Abby's Choice*, a skincare-focused brand, providing effective skincare solutions, such as masks, toner, face cream, eye cream and anti-acne patches. Products under this brand have particularly benefited from our strong R&D capabilities, through which we are able to continually develop and introduce new products in close collaboration with third-party R&D laboratories.

EANTiM

EANTiM is a professional-channel skincare and haircare brand focused on developing products to improve skin health via the emerging field of microbiome. *EANTiM* was founded in 2018 by a management team with extensive background in pharmaceutical research and functional skincare.

Our Wide Selection of High-Quality and Memorable Products

Color Cosmetics Products

We offer a wide range of color cosmetics products featuring lip, eye, and face. To attract customers who consistently return for the latest looks, we frequently introduce experimental shades for creating bold ensembles and incorporate innovative themes into our makeup. Our most popular color cosmetics products include the iconic *Perfect Diary* ReadMe Lip Gloss and the *Perfect Diary* Explorer Eyeshadow Palettes. In 2022, we also launched the *Perfect Diary* Translucent Blurring Loose Powder, an upgrade that added additional anti-dullness efficacy to the original SmartLOCK™ technology featured in the first generation of Pearl Loose Powder. This product was the winner of the Loose Powder of the Year awarded by COSMO.

Little Ondine and *Pink Bear* gained popularity among young generation with their eye-catching makeup products as well. Throughout 2022, *Little Ondine*'s Sculpture Contour and Highlight Palette appeared on the Marie Claire brand list, while *Pink Bear* also launched a series of new products including the Matte Lip Mud in collaboration with My Melody.

Skincare Products

In 2020, we launched *Abby's Choice*, a brand specifically featuring effective skincare products. In the same year, we acquired *Galénic*, a premium cosmeceutical skincare brand that originated in France in 1978. In January 2021, we acquired the mainland China business of *DR.WU*, a dermatologist-developed, hypoallergenic and highly efficacious brand founded in 2003. In March 2021, we acquired the skincare brand *Eve Lom*, a prestige skincare brand with a portfolio of luxurious and effective products, many of which are award-winning. In October 2021, we completed the acquisition of *EANTiM*, a professional-channel skincare and haircare brand focused on developing products to improve skin health via the emerging field of microbiome.

Our assortment of skincare products includes face serums, face creams, eye creams, masks, toners, makeup removers, cleansers, ampoules, and anti-acne patches. Our most popular skincare products include: (i) *Galénic* N°1 Poudre Vitamine C Pure Eclaircissante serum, featuring highly-concentrated, 20% Vitamin C extract designed for dark spot reductions and skin brightening applications, a core technology that was published in the Journal of Cosmetics, Dermatological Sciences and Applications in March 2022, (ii) *DR.WU* Intensive Renewal Serum with Mandelic Acid, which was the top-selling product in both Tmall's acne treatment category and Douyin's domestic serum category by sales during the Single's Day event in 2022, and (iii) *Eve Lom* Cleanser, our iconic cleanser balm that cleanses, hydrates, tones, removes makeup, and exfoliates skin. Deeply embraced by those who believe the first step to radiant skin is the perfect cleanse, *Eve Lom*'s Cleanser ranked first among high-end cleanser products by sales on Tmall during the Singles' Day event in 2022.

Other Products

Our product portfolio also includes categories such as beauty tools and kits, sun screen, colored contact lenses and beauty devices. We offer a variety of products to complement our customers' beauty routine.

Our Massive Young and Loyal Customer Base

We serve a large number of customers across our brands, who comprise mostly of younger generations such as Gen-Z and Millennials and are drawn to our brand's fashionable and accessible products as well as our innovative digital marketing strategy. While we started *Perfect Diary* targeting Gen-Z, we are expanding into both younger and older age groups as we launch new brands. For example, our *Galénic* and *Eve Lom* brands target an older, more affluent customer base.

Our customers are primarily located in cities all across China. We are expecting to maintain and expand our customer base in terms of geographical locations and age groups. In addition, we will continue to support our acquired brands *Galénic* and *Eve Lom* to expand their respective customer base in the international market while enhancing their presence in China, as applicable.

Our Product Development Process

Benefiting from our large customer base and deep consumer insights gathered through data analysis and frequent surveys, our team is able to constantly monitor customer behavior to develop insights into trends and customer needs and then to originate, develop and deliver products that address those needs. We frequently test the popularity of new concepts and adjust our designs based on further customer surveys and feedback. We engage in discussion with customers directly to develop ideas for new products and are able to launch products with concepts that target the specific niche that appeals most to our customers. Our customers frequently participate as part of the product development process, and know that their feedback is valuable and impacts our brand.

Our dedicated creativity team has a wealth of experience in the beauty, luxury, fashion, art, digital technology and other industries both domestically and globally. This team mainly drives our product creativity and focus on the originality and creativity of product concepts. Our product development approach is customer-centric and data-driven.

Our Research and Development Capabilities

Our dedicated R&D team works closely with our product development and marketing teams to create and improve our formulas. Our R&D team has extensive work experience with established beauty brands and have expertise in biology, chemistry or biochemistry. As of December 31, 2022, we have registered a total of 174 patents, including 5 utility model patents, 82 design patents and 43 invention patents (some of which are in the process of being transferred to us), in addition to 44 patents currently pending approval worldwide. In 2020, 2021 and 2022, our R&D expenses totaled RMB66.5 million, RMB142.1 million and RMB126.9 million (US\$18.4 million), representing 1.3%, 2.4% and 3.4% of our net revenues, respectively. As an organization, we will continue to invest in our R&D capabilities, with a focus on developing active ingredients and efficacious formulations as well as discovering cutting-edge innovations from biomedical and biotechnology fields with applications in color cosmetics and skincare in China.

Our R&D Facilities

We continued to expand our R&D capabilities in 2022. We currently operate a 1,896-square-meter R&D Center located in Guangzhou, China, and a 3,819-square-meter R&D center located in Shanghai, China. Our R&D team have developed full spectrum capabilities including fundamental research, ingredient quality testing, formula development, efficacy evaluation, sensory evaluation, safety evaluation and logistics support. We have also started the construction of a large-scale manufacturing hub and R&D facility with Cosmax in Guangzhou in March 2021. The facility is expected to feature best-in-class equipment for R&D when completed and put in use, the completion of which is expected to be in 2023. We also operate a laboratory in France for the *Galénic* brand comprising approximately 650 square meters, which officially opened in February 2023.

In June 2022, our R&D Center in Guangzhou was certified by the China National Accreditation Service for Conformity Assessment. This certification demonstrates our technical capability in providing testing in accordance with internationally recognized standards. Tests conducted at our R&D Center are authoritative and credible among institutions with mutual recognition agreement across over 70 countries or regions.

Our Global R&D Partnerships and Collaborations

We collaborate with various renowned research institutions, universities and hospitals in China and around the world under our “OpenLab” framework. Under this OpenLab framework, we seek to identify, develop and commercialize the latest innovations in skincare and cosmetics globally by collaborating with a network of highly capable partners and research institutions.

In January 2021, we formed a joint research lab with Huazhong University of Science and Technology and the National Engineering Research Center for Nanomedicine to develop nano-based active ingredients for serums in skincare applications. In March 2021, we deployed a nano-based active ingredient, which was developed during this partnership, and incorporated it into our *Abby's Choice* ceramides series products.

In June 2021, we launched *Perfect Diary* Pearl Loose Powder which features the proprietary SmartLOCK™ technology which we co-developed with the Chinese Academy of Science. SmartLOCK™ was designed to absorb excess oil from the skin without affecting the effect of makeup. Other notable technologies developed with significant contribution from our R&D team in 2021 include the nano-targeting delivery system used in *DR.WU's* new Mandelik Multiple Acid Renewal Mask, as well as the patented anti-skin darkening technology deployed in *Little Ondine's* long-wear foundation product.

In September 2021, we invested a minority stake in MingMed Biotechnology, a company focusing on the development of industry-leading pharmaceutical products, with a product pipeline covering medical aesthetics, innovative beauty drugs, cell therapy and small molecule immuno-oncology. With this investment, we intend to work with MingMed to develop and commercialize cutting-edge biomedical technologies for future potential applications in the field of beauty products.

In addition, we established an Innovative Skincare Laboratory with Ruijin Hospital's dermatological department and formed a R&D partnership with Sun Yat-sen University in October 2021. Ruijin Hospital, part of Shanghai Jiaotong University's School of Medicine, is a Grade III Level General Hospital with an illustrious history. Its dermatological department has a nationally renowned national-grade clinic specializing in the diagnosis and treatment of refractory skin diseases. Sun Yat-sen University is also a nationally renowned academic research institution in China. Supported by both institutions' expertise in dermatology, our partnerships focus on discovering new active ingredients, formulations and advanced applications to address skin issues for Chinese consumers. Our partnership with Sun Yat-sen University reached a new level in November 2022 when we announced the launch of our joint laboratory and released the latest results of the Chinese Skin Aging Research Platform at the 5th China International Import Expo.

Aside from the aforementioned parties, our R&D team also works extensively with global leading R&D teams of ODM/OEM and packaging supply partners, including Cosmax, Intercos, Kolmar, Sensient Technologies and Naolys, to develop new formulations. Through our acquisition of *Galénic*, we have established a long-term collaboration with Pierre Fabre, a France-based pharmaceutical and dermo-cosmetics company, in the areas of research and development and product innovations for the *Galénic* brand. As part of our acquisition of *DR.WU's* business in mainland China, we also established a long-term R&D collaboration with *DR.WU* to continue to support new product development and skincare research going forward. We will continue to strengthen our R&D capabilities by establishing new partnerships with leading global R&D institutions.

Our Innovative and Effective Marketing Initiatives

Our marketing strategy is digitally native and is built upon our ability to engage with our massive follower base. Our marketing efforts rely on our ability to attract consumers to trust our brand and accept our product offerings across a breadth of online channels, especially through our own accounts and through our expansive KOL and celebrity network. Our track record of successful IP-based marketing exemplifies how we attract customers with trendy products backed by consumer insights, introduce popular concepts validated by customer feedback and launch campaigns with effective social media marketing.

Cost-effective Self-owned Marketing Engine

There were, in aggregate, over 80 million followers across the various official accounts we own and operate on the various e-commerce and social media platforms as of March 31, 2023. Leveraging our large base of followers, we can quickly advertise to numerous customers with negligible marketing costs through posting advertisements and promotions on our official accounts.

Powerful and Pioneering KOL Marketing Capability

We have become one of the first beauty companies in China to systematically utilize KOLs on a large scale, leveraging a network of KOLs and celebrities across multiple e-commerce social platforms. We primarily work with KOLs directly rather than through intermediaries, which is a characteristic of our “direct-to-KOL” social marketing model.

Innovative IP-based Marketing

Through collaborative partnerships with other IP and brand owners, we have leveraged famous IP to help introduce certain of our unique products to new customers who may be more familiar with the IP but have not previously purchased our products. Such collaborative partnerships also allow us to generate additional engagement from our existing customer base. We have established a track record of infusing our products with popular IPs, creating successful, viral social media campaigns and top-selling products. We have successfully partnered with a number of IPs, such as the Metropolitan Museum of Art, The British Museum, Disney, Sponge Bob Square Pants, Sanrio, *Honour of Kings*, Shanghai Fashion Week, Betty Boop and McDull to launch a range of products that further expand our customer base.

Differentiated Celebrity Marketing Targeting Gen-Z

We partner with new generations of artists and content producers, including producers of popular reality shows, who are highly popular among Gen-Z and incubate new generations of celebrities through multiple rounds of competition involving votes from millions of viewers. We have engaged some of these emerging celebrities as our brand ambassadors, including Xun Zhou, Haoran Liu and Lusi Zhao, each of them with millions of followers on their official Weibo accounts, and created interactive content and gift kits that appealed to the fans of such brand ambassadors to enhance our brand awareness by and connection with Gen-Z.

Our Seamless and Engaging Omni-channel Shopping Experience

Online Channels

We entered JD.com in April 2017, Tmall in August 2017, RED’s e-commerce channel in September 2017, Vipshop in April 2018 and commenced operating company channels on Weixin in 2018. We also entered Pinduoduo, Douyin and Kuaishou’s e-commerce channels in 2019 and Dewu in 2021. Today, our products are available across all major e-commerce platforms in China. Our ability to directly engage our customers across multiple channels differentiates us from traditional mass market brands, which typically focus on offline distribution and often through third-party retailers.

Customers can also discover and purchase our products through various social and content platforms, such as Douyin, Kuaishou, RED and Bilibili. The various social and content platforms combine digital and community-driven marketing with opportunities for direct purchase and have demonstrated great potential to access and convert customers into purchasers through introducing interesting and compelling digital contents. Shopping behaviors of customers on social and content platforms are more heavily influenced by digital content generated by KOLs and live broadcasting anchors.

Social platforms, such as Weixin official accounts and Xiaowanzi Weixin Shop, play an important role in our sales and marketing strategy. Our Xiaowanzi Weixin Shop, Weixin official accounts and Weixin groups hosted by dedicated beauty advisors operate as our interface to directly engage with customers, build brand loyalty and influence purchasing decisions, offering an integrated customer engagement and shopping experience. We have direct control over the quality of customer engagement via the Xiaowanzi Weixin Shop, as our technology engineers are fully responsible for its content development and user interface. Featuring rich content, a seamless ordering experience, an interactive membership program and personalized offerings, Xiaowanzi Weixin Shop is a meaningful part of the seamless omni-channel shopping experience we are offering.

Experience Stores

Empowered by our data and technology capabilities, our offline experience store network provides customers with seamless omni-channel shopping experiences and completes their journey of beauty discovery. As of December 31, 2022, we operated a total of 164 stores, compared to 294 stores as of December 31, 2021, as a result of an adjustment to our offline footprint amidst the impact of COVID-19.

Our online and offline channels are fully integrated such that our online presence can contribute to more foot traffic at our offline experience stores and customers visiting our offline experience stores are encouraged to engage further with our online content. We leverage our online marketing vehicles to quickly attract customers to new stores, including advertisements on our official accounts, local media and local Weixin official accounts, and we reward followers for social sharing of such advertisements and content with other customers. Customers can redeem online membership points for makeup services or gifts at our experience stores. Our experience stores are often equipped with massive screens broadcasting our own centralized media channel, including live broadcasting and commercial videos. Further, customers who visit our experience stores are encouraged to engage with us by joining Weixin groups hosted by our online beauty advisors, achieving the dual goals of fostering a sense of community while continuously introducing discounts and holiday tie-in offers. In the Weixin groups, our beauty advisors constantly introduce attractive promotions, advise on how to put on the best look with our products, post pictures and tutorials, and respond to personal inquiries from group members.

Our current experience stores are located in shopping malls across first-tier and lower-tier cities in China based on our big data analysis of the geographical locations of our targeted customers.

World-class Supply Chain

Our world-class supply chain capability is vital to our fast-growing business. We closely collaborate with a network of top-class ODM/OEM and packaging supply partners to produce our products, such as, Cosmax, Intercos, Shanghai Zhenchen, HCP and Qiaxing. Most of the original ODM/OEM and packaging supply partners we work with are located in China, while we also collaborated with top-class suppliers overseas that serve our global premium and luxury beauty brands. The large scale of our business allows us to establish more favorable contract terms with manufacturers and produce high-quality products at a competitive cost. Meanwhile, our cooperation with these ODM/OEM and packaging supply partners enable us to use formulation packaging materials that reflect the latest technological trends and advancements.

In order to leverage the scale effect and further strengthen product quality, we plan to also engage directly in the manufacturing of our products either through direct investment or joint venture. For example, we are in the process of building a manufacturing hub in Guangzhou through a joint venture with Cosmax, equipped with best-in-class R&D capabilities. We currently expect the new hub to start production in 2023. Upon completion, we expect the manufacturing and R&D facility to be one of the largest and most technologically advanced cosmetics manufacturing bases of its kind in China.

Quality Control

We have a comprehensive quality assurance program that gives us visibility and control over the quality and safety of our products during the sourcing and production cycle. Over the course of product development, a series of functionality, stability and compatibility tests are performed on the designed packaging materials and product ingredients under various rigorous conditions. In addition, we implement an intensive audit program to ensure our third-party manufacturers are in compliance with the product safety compliance standards in China. We take great care to ensure that our third-party manufacturers share our commitment to quality and ethics. The suppliers we work with typically have established high quality production standards given their experience in serving global premium and luxury beauty brands. The third-party manufacturers with whom we cooperate adopt strict internal guidelines and conduct regular inspections to ensure the product quality meets our rigorous standards.

We cooperate with several internationally renowned quality inspection companies with China Metrology Accreditation, to ensure our products meet global and local standards. We provide oversight through regular on-site inspections and audits of our third-party manufacturers as well as component suppliers. Our quality assurance team

also builds a scorecard to evaluate performance of third-party suppliers on a quarterly basis to ensure consistency of manufacturing quality and to provide incentives for top-performing partners. We terminate our collaboration with the partners who fail to meet our quality standards. In addition, we built our own testing laboratory with advanced equipment and our experienced team to validate finished products in 2021.

Fulfilment and Logistics

Our fulfilment team ensures orders are quickly, efficiently and accurately processed, packed, shipped and delivered to customers. In addition to our operated 26,828-square-meter warehouse, we also collaborate with multiple third-party warehouse companies and leverage their warehouse and geographical coverage. As of December 31, 2022, we fulfill through a total of fourteen warehouses in four cities in China and two cities overseas. For logistics, we work closely with major third-party logistics companies such as SF Express to fulfill shipments to our customers.

With the assistance of third-party logistics companies and the wide geographic distribution of our warehouses, our proprietary inventory tracking system enables our customers to receive real-time updates regarding the status of their orders. We are continuously improving our fulfilment and logistics system to provide speedy delivery to our customers.

Data and Technology

Strong In-house Technology Team

Our business model is enabled by our technology and data. Our in-house team of engineers dedicated to technology, data and related functions develop and support the software and analytics on which our platform operates. Many of our engineers have more than five years of coding experience in leading technology companies in China and around the world, having performed a variety of roles including product managers, user interface (UI) designers, front end and back end developers, testers, data analysts and architects. The team has developed a series of in-house systems across the value chain, including Supplier Relationship Management (SRM), Office Automation (OA), KOL Management System, Product Management System, Ecommerce Store (Xiaowanzi Weixin Shop), and Real-time Big Data Platform.

Cutting-edge Technologies Empowered by World-class Partners

To build direct connections with our customers, we built a flexible and adaptable technology infrastructure with world-class partners. We collaborated with top experts at Alibaba and Ali Cloud to build a technology platform that can support many concurrent transactions. Meanwhile, to further optimize the computational power of our servers on Ali Cloud, we have deployed flexible container instance technologies based on Kubernetes, enabling us to scale up to ten times the number of container instances in ten minutes. Leveraging the e-commerce experiences of Alibaba and technological leadership of Ali Cloud, our technology team is able to master and rapidly apply various cutting-edge technologies to support massive concurrent queries and transactions.

In order to create unique and engaging customer experiences, we have also been partnering with Tencent extensively to design and refine the social e-commerce experience on our Xiaowanzi Weixin Shop. For example, we regularly meet with Weixin product managers and engineers to explore new ways to offer seamless social e-commerce experiences, by launching social sharing games, by inviting customers to share their beauty experience with our content community, by building our brand name in search results, and by integrating membership, payment and fulfilment across our online and offline stores.

Data Security and Privacy

We have adopted data protection policies to ensure the security of our proprietary data and employed a data security team of engineers and technicians dedicated to protecting the security of our data. To ensure data security and avoid data leakage, we have established stringent internal protocols under which we grant classified access to confidential personal data only to limited employees with strictly defined and layered access authority. We control and manage the use of data within our various departments and do not share data with external third parties, nor do we cooperate with third-party vendors in our data analytics efforts.

Trademark and Intellectual Property

Our most valuable intellectual property is our brand names, including *Perfect Diary*, *Little Ondine*, *Abby's Choice*, *Galénic*, *DR.WU*, *Eve Lom*, *Pink Bear* and *EANTiM*. We have registered 1,904 trademarks in China and 1,860 trademarks outside China as of December 31, 2022 to protect our brand names. The design of the packaging of our products is an important element of the enhancement of our brand image. Therefore, where possible and economically reasonable, we have registered figurative trademarks in order to protect our original labels and design patents in respect of some of our packaging. As of December 31, 2022, we had registered a total of 174 patents, including 5 utility model patents, 82 design patents and 43 invention patents (some of which are in the process of being transferred to us), and we had submitted applications for 44 patents which are currently pending approval worldwide.

We further protect our intellectual property, such as unpatented proprietary expertise and production formulation, innovation and other know-how through confidentiality agreements which we have been increasingly including in our employment contracts and in our agreements with third-party manufacturers and business partners to whom our formulas, designs or business information may be made available. We also regularly monitor the market for infringement of our IP, and will vigorously pursue and defend our rights against third parties whom we believe have infringed upon our intellectual property rights. So far, we have not experienced any material difficulties in protecting against the infringement of our intellectual property rights due to the lack of proprietary rights.

We have not had any material action brought against us by any third parties claiming that we have infringed any their intellectual property rights. However, from time to time we may be involved in disputes relating to intellectual property rights belonging to or asserted by third parties.

Competition

We compete with both established multinational and domestic brands, as well as small targeted niche brands that continue to enter the Chinese and global beauty markets. We believe that we compete primarily on the basis of perceived value, including pricing and innovation, product efficacy, service to the customer, promotional activities, advertising, special events, new product introductions, e-commerce initiatives, direct sales, KOL collaborations, and other activities. It is difficult for us to predict the timing, scale and effectiveness of our competitors' actions in these areas or the timing and impact of new entrants into the marketplace. For additional risks associated with our competitive position, see "Item 3. Key Information—D. Risk Factors—Risk Relating to Our Business and Industry—The beauty industry is highly competitive. If we are unable to compete effectively, we may lose our market share and our business, results of operations and financial condition may be materially and adversely affected."

Environmental, Social and Governance

We are subject to numerous national, municipal and local environmental, health and safety laws and regulations relating to, among other matters, safe working conditions, product stewardship and environmental protection, including those relating to emissions to the air, discharges to land and surface waters, generation, handling, storage, transportation, treatment and disposal of hazardous substances and waste materials, and registration and evaluation of chemicals. We maintain policies and procedures to monitor and control environmental, health and safety risks, and to monitor compliance with applicable environmental, health and safety requirements.

Compliance with such laws and regulations pertaining to the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had a material effect upon our capital expenditures, earnings or competitive position. However, environmental laws and regulations have tended to become increasingly stringent and, to the extent regulatory changes occur in the future, they could result in, among other things, increased costs to our company.

In 2021, we identified two top Corporate Social Responsibility ("CSR") priorities for the Yatsen Group: (i) preservation of beauty in the natural environment, and (ii) the empowerment of women and feminine beauty in every aspect of life. To this end, we participated in SEE Foundation's "Preserve China's Beauty" campaign to protect the red-crowned crane in March 2021, which occurred at the same time as the launch of our *Perfect Diary* Red-crowned Crane Eyeshadow Palette product that month. In May 2022, we issued our first ESG Report, which details our strategic ESG initiatives to develop a long-term, sustainable and environmentally-friendly business, and reviews achievements made during the 2021 fiscal year. In December 2022, our ESG rating was upgraded to A by one of the world's largest providers of ESG indexes, MSCI. This rating represents an internationally recognized leading level.

From a product standpoint, *Galénic* and *Eve Lom* use Forest Stewardship Council (“FSC”) certified paper to ensure that their paper source is compatible with environmental protection and sustainable social and economic development, facilitating biodiversity protection, as of the date of this annual report. The FSC-certified papers used in the carton packaging of some products of *Abby’s Choice* can be reused by customers as storage boxes. Our goal is to pass FSC certification for the logistics package cartons we use for all our brands by the end of 2023. At the same time, we plan to continue exploring the sustainable development model of the product packaging for *Perfect Diary*, *Pink Bear* and other brands, and reduce the use of cardboard boxes and tape in the transportation of products, so as to successfully realize product “slimming.”

Throughout 2022, we continued to explore the journey of beauty, focusing on discovering the beauty of women, protecting the beauty of nature, passing on the beauty of kindness, and striving to enable more people to enjoy beauty. We have made cash donations to the China Women’s Development Foundation over the past three years to provide job training, job placement and innovation support to women living in rural, high-poverty areas. In 2022, we launched a number of women’s empowerment projects, covering beauty skills training, job creation support, aesthetics education and other public welfare activities.

Furthermore, we attached great importance to the national higher education and scientific research to aid the healthy and rapid development of scientific research and personnel training in universities. In the beginning of 2023, we set up the “Sun Yat-sen University-Yatsen Holding Limited Research and Development Fund” along with the Sun Yat-sen University Education Development Foundation in Guangzhou, to support the university’s work in oceanography and Chinese-style modernization.

Insurance

We maintain a range of insurance coverage in relation to our business that is customary for our industry, including, without limitation, property damage, product liability insurance and carriage of goods insurance.

We have not made any material claims on any insurance policy maintained by us during the period beginning January 1, 2022 to the date of this annual report.

Seasonality

We experience seasonality in our business, reflecting a combination of seasonal fluctuations in internet usage and traditional retail seasonality patterns. For example, we typically generate a substantial portion of our net revenues in the second and the fourth calendar quarters as a result of higher sales during series of shopping festivals across online e-commerce platforms, such as “618,” “Singles’ Day” and “Double Twelve.” Due to our limited operating history, the seasonal trends that we have experienced in the past may not apply to, or be indicative of, our future operating results.

Regulations

Most of our business is located in mainland China, and laws and regulations in mainland China are most relevant to our business. We also conduct limited import and export business in Hong Kong that are not material to our company as a whole. This section sets forth a summary of the most significant rules and regulations that affect our business activities in mainland China and Hong Kong.

Regulations Relating to Cosmetic Products

Regulatory Authorities

The newly formed National Medical Products Administration, or the NMPA, under the State Administration for Market Regulation, or the SAMR, is the government authority that monitors and supervises the administration of cosmetics, medical devices, and foods. The NMPA’s predecessor, the China Food and Drug Administration, or the CFDA, was established in March 2013 and separated from the Ministry of Health of the PRC, or the MOH, as part of an institutional reform of the State Council.

Regulations Relating to Cosmetic Products

Pursuant to the *Regulations on the Supervision and Administration of Cosmetics*, or the Supervision Regulations which came into effect on January 1, 2021 to replace its predecessor *the Regulations Concerning the Hygiene Supervision over Cosmetics Products* or the Hygiene Regulations, cosmetic products are divided into special purpose cosmetic products and non-special purpose cosmetic products. Special purpose cosmetic products refer to those cosmetics used for hair growth, hair dye, hair perm, hair removal, breast massage, deodorant, fading cream and sun protection. Any cosmetic product not covered by such scope is a non-special purpose cosmetic product.

Compared with the *Hygiene Regulations and the Implementation Rule of Hygiene Regulations* and its implementation rules, the Supervision Regulations clarify or amend certain provisions including without limitation the follows:

- (i) Responsibilities of the different parties in the operation of cosmetics. Firstly, the Supervision Regulations for the first time introduce the concepts of registrant and record-filing applicant of cosmetics. The applicant for registration or record-filing of cosmetics shall undertake the main responsibilities for the quality, safety and effectiveness claims of cosmetics. Specifically, an applicant for registration or record-filing of cosmetics shall be responsible for the registration or filing before sale of such cosmetics, the monitoring of adverse reactions, the evaluation and reporting, product risk control and recall, and safety reevaluation of the products and raw materials after sale of such cosmetics to ensure quality and safety of the registered/filed products. In addition, the claims for the effectiveness of all types of cosmetics shall be supported by sufficient scientific basis and an extract of the papers, research data or product evaluation material on which such effectiveness is claimed to be based shall be made public on websites designated by the regulatory authority. An applicant registering or filing the record for cosmetics shall be subject to the supervision of the NMPA. Secondly, an applicant for registration or record-filing of cosmetics may entrust another enterprise (OEMs) with the production of cosmetics. The OEMs shall obtain the corresponding license for production of cosmetics and shall carry out production in accordance with the laws, regulations, mandatory national standards, technical specifications and contractual agreements, and be responsible for production activities and accept the supervision of the applicant for registration or record-filing of cosmetics. With respect to our business operation, we will become the applicant for registration or record-filing of cosmetics under the Supervision Regulations and undertake main responsibilities for quality, safety and effectiveness claims of our cosmetics products.
- (ii) Categories of cosmetics. Cosmetics are divided into special cosmetics and ordinary cosmetics instead of special purpose cosmetic products and non-special purpose cosmetic products. Special cosmetics refer to cosmetics for hair dye, hair perm, freckle removal and whitening, sun protection and hair loss prevention as well as those purporting to have new functions and effects, and ordinary cosmetics refer to cosmetics other than special cosmetics. The production and import of special cosmetics shall be registered with the NMPA. The production and import of ordinary cosmetics is subject to the record-filing administration.
- (iii) Legal consequences of violations. The Supervision Regulations have raised the limit for penalties for noncompliance. For example, monetary penalties on production of cosmetics without requisite permits, production of unregistered special cosmetics, use of banned materials and illegal use of materials may be subject to a fine of 30 times the value of the concerned products.

Violations of the provisions of the Supervision Regulations will result in different penalties ranging from fines (fixed range or, in cases of severe violations, based on the values of the illegally manufactured goods), confiscation of raw materials, products illegally manufactured or sold and illegally obtained gains, revoking licenses, and suspension of business. Furthermore, pursuant to the Supervision Regulations, the responsible individual shall be subject to an industry operation banning period for five or ten years or even criminal liability.

Pursuant to the *Regulations on the Supervision and Administration of Cosmetics*, or the Supervision Regulations, a producer of cosmetic products shall obtain and maintain a license for cosmetic production issued by the local administrative regulator. In addition, special cosmetics shall be registered from the competent administrative regulator, otherwise those who produce or distribute special cosmetics may be subject to confiscation of the relevant products and illegal gains, a fine according to the value of the cosmetics illegally produced or distributed, or suspension of business or the revocation of the license for cosmetic production. In cases where producers cooperate with OEMs to manufacture such products, the OEM, instead of the producer, shall obtain and maintain the above-mentioned

certificates. As for the labels of cosmetic products, information such as name and address of the registrant or the record-filing applicant of cosmetics, production license number, and standard number for product implementation shall be contained. The labels of such cosmetic product shall not contain any statement that explicitly and implicitly implies medical effects, and contain false or misleading content, and contain content contrary to public order and good morals or include any other content prohibited by the relevant laws and regulations. Violation of such provisions may result in confiscation of the relevant products and illegal gains, monetary fine or other punishment.

Pursuant to the Measures for the Administration of the Registration and Recordation of Cosmetics, or the Registration and Recordation Measures promulgated by the SAMR on January 7, 2021, and effective as of May 1, 2021, ordinary cosmetics produced domestically shall be subject to the online record-filing procedure before the entry into the market. The competent administrative regulator shall conduct supervisory inspection of the activities relating to and recordation of record-filing applicant of cosmetics. Producers of such products will be ordered to take corrective measures if the inspection results revealed any noncompliance. In particular, if the recordation materials in relation to the safety of such cosmetics fail to comply with the requirements, producers of such products may be concurrently ordered to suspend the sale of such cosmetics.

In order to coincide with the implementation of the Supervision Regulations and the Registration and Recordation Measures, the NMPA promulgated the Notice on Issuing the Measures for the Administration of the Registration and Recordation of Cosmetics on March 5, 2021, which provides that the record-filing applicant of cosmetics shall undergo recordation of cosmetics through the new information service platform for the recordation from May 1, 2021. In addition, it requires that record-filing applicant who has fulfilled the procedure of online record-filing on the original platform shall submit related information of the ordinary cosmetics through the new filing platform before May 1, 2022. As for the ordinary cosmetics, the annual reporting system is adopted from January 1, 2022, which requires that the record-filing applicant of cosmetics shall submit the annual report annually through the new filing platform mentioned above.

The *Regulations on the Supervision and Administration of Cosmetics*, or the *Supervision Regulations*, was promulgated by the State Council on June 16, 2020 and will become effective as of January 1, 2021 to replace the *Hygiene Regulations*.

Regulations Relating to Foreign Investment

The Foreign Investment Law and the Implementing Regulations of the Foreign Investment Law provide that a system of pre-entry national treatment and negative list shall be applied for the administration of foreign investment, where “pre-entry national treatment” means that the treatment given to foreign investors and their investments at market entry stage is no less favorable than that given to domestic investors and their investments, and “negative list” means the special administrative measures for foreign investment’s entry to specific fields or industries. Foreign investments beyond the negative list will be granted national treatment. Foreign investors shall not invest in the prohibited fields as specified in the negative list, and foreign investors who invest in the restricted fields shall comply with certain special requirements on shareholding and senior management personnel, etc. In the meantime, relevant competent government departments will formulate a catalogue of the specific industries, fields and regions in which foreign investors are encouraged and guided to invest according to the national economic and social development needs. The current industry entry clearance requirements governing investment activities in the PRC by foreign investors are set out in two categories, namely the 2021 Negative List, as promulgated on December 27, 2021 by the National Development and Reform Commission, or the NDRC, and the MOFCOM, and taking effect on January 1, 2022, and the Encouraged Industry Catalogue for Foreign Investment (2022 Version), as promulgated by the NDRC and the MOFCOM on October 26, 2022 and became effective on January 1, 2023. Industries not listed in these two catalogues are generally deemed “permitted” for foreign investment unless specifically restricted by other PRC laws. According to the 2021 Negative List, foreign equity ownership in any given value-added telecommunications services provider shall not exceed 50% (excluding e-commerce, domestic multi-party telecommunication, storage and forwarding business, and call center).

In order to coincide with the implementation of the Foreign Investment Law (as defined below) and the Implementing Regulations of the Foreign Investment Law (as defined below), the MOFCOM and the SAMR promulgated the *Measures for Reporting of Information on Foreign Investment* on December 30, 2019, effective as of January 1, 2020, which provides that foreign investors or the FIEs shall submit investment information by submitting initial reports, change reports, deregistration reports, and annual reports through an enterprise registration system and a national enterprise credit information publicity system.

Announcement of the Ministry of Commerce 2019 No.62-Announcement on Matters Concerning the Reporting of Information on Foreign Investment promulgated by MOFCOM on December 31, 2019 and *Circular of the State Administration for Market Regulation on Effective Work on Registration of Foreign-invested Enterprises for the Implementation of the Foreign Investment Law* promulgated by SAMR on December 28, 2019 further refine the related rules.

Foreign investment law

On March 15, 2019, the National People's Congress, or the NPC, promulgated the *Foreign Investment Law of the PRC*, or the Foreign Investment Law, which became effective on January 1, 2020 and replaced the *Sino-foreign Equity Joint Venture Enterprise Law*, the *Sino-foreign Cooperative Joint Venture Enterprise Law* and the *Wholly Foreign-invested Enterprise Law*, together with their implementation rules and ancillary regulations. The organization form, organization and activities of foreign-invested enterprises shall be governed, among others, by the PRC Company Law and the PRC Partnership Enterprise Law. Foreign-invested enterprises established before the implementation of the Foreign Investment Law may maintain their original organization form and structure within five years after the implementation of the Foreign Investment Law. The Foreign Investment Law mainly provides for four forms of foreign investments: (a) establishment of a foreign-invested enterprise within PRC by a foreign investor, individually or collectively with other investors; (b) acquisition of shares or equity interests in, asset interests of, or other like rights and interests of an enterprise within PRC by a foreign investor; (c) investments in a new project within the PRC by a foreign investor, individually or collectively with other investors, and (d) foreign investors' investments in the PRC through any other methods under laws, administrative regulations, or provisions prescribed by the State Council of the PRC. It does not address the concept and regulatory regime of VIE structures and uncertainties remain in relation to its interpretation and implementation.

On December 26, 2019, the State Council promulgated the *Implementing Regulations of the Foreign Investment Law of the People's Republic of China*, or the Implementing Regulations of the Foreign Investment Law, which became effective on January 1, 2020. The Implementing Regulations of the Foreign Investment Law strictly implements the legislative principles and purpose of the Foreign Investment Law. It emphasizes promoting and protecting the foreign investment and refines the specific measures to be implemented. On the same day, the Supreme People's Court issued an Interpretation on the Application of the Foreign Investment Law of the PRC, effective as of January 1, 2020. This interpretation applies to all contractual disputes arising from the acquisition of the relevant rights and interests by a foreign investor by way of gift, division of property, merger of enterprises, division of enterprises.

Regulations Relating to Value-Added Telecommunications Services

Foreign investment in value-added telecommunications

Foreign direct investment in telecommunications companies in China is regulated by the *Administrative Provisions on Foreign-Invested Telecommunications Enterprises*, or the FITE Regulation, which was issued by the State Council on December 11, 2001, and amended on September 10, 2008, February 6, 2016, and May 1, 2022, respectively. The FITE Regulation provides that a foreign-invested telecommunications enterprise in the PRC, or the FITE, must be established as a sino-foreign equity joint venture for operations in the PRC except as otherwise provided by the authority. Under the FITE Regulation and in accordance with WTO-related agreements, the foreign party investing in a FITE engaging in value-added telecommunications services may hold up to 50% of the ultimate equity interests of the FITE. In addition, the major foreign party as the shareholder of the FITE must satisfy a number of stringent performance and operational experience requirements, including demonstrating a good track record and experience in operating a value-added telecommunications business. The FITE that meets these requirements must obtain approvals from the MIIT, and MOFCOM or their authorized local counterparts, which retain considerable discretion in granting approvals. Furthermore, the foreign party investing in e-commerce business, as a type of value-added telecommunications services, has been allowed to hold up to 100% of the equity interests of the FITE based on the *Circular of the Ministry of Industry and Information Technology on Removing the Restrictions on Shareholding Held by Foreign Investors in Online Data Processing and Transaction Processing (Operating E-commerce) Business* issued on June 19, 2015 and the current effective *Catalogue of Telecommunications Services*, or the Telecom Catalog.

On July 13, 2006, the Ministry of Information Industry of the PRC, or the MII (which is the predecessor of the MIIT) promulgated the *Notice of the Ministry of Information Industry on Strengthening the Administration of Foreign Investment in Value-added Telecommunications Business*, or the MII Notice, which reiterates certain requirements of the FITE Regulations and strengthens the administration by the MII. Under the MII Notice, if a foreign investor intends to invest in PRC value-added telecommunications business, the foreign investor must establish a foreign invested enterprise and apply for the relevant license for value-added telecommunications services, or the VATs License. In addition, a domestic company that holds a VATs License is prohibited from leasing, transferring or selling the license to foreign investors in any form, and from providing any assistance, including providing resources, sites or facilities, to foreign investors to conduct value-added telecommunications businesses illegally in China. Trademarks and domain names that are used in the provision of value-added telecommunications services must be owned by the license holder or its shareholders. The MII Notice also requires that each value-added telecommunications services license holder have appropriate facilities for its approved business operations and maintain such facilities in the business regions covered by its license. The holder of a VATs License shall improve relevant measures for safeguarding the network and information, establish relevant administrative policies on information safety, set up the procedures for handling network emergencies and information safety and implement the liabilities system for information safety in accordance with the standards set forth in the relevant PRC regulations.

Due to a lack of interpretive materials from the relevant PRC governmental authorities, there are uncertainties regarding whether PRC governmental authorities would consider our corporate structure and contractual arrangements to constitute foreign ownership of a value-added telecommunications business. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of internet-related business and companies, including limitations on our ability to own key assets.” In order to comply with PRC regulatory requirements, we operate a portion of our business through the VIE, with which we have contractual relationships but in which we do not have direct ownership interest. If our current ownership structure is found to be in violation of current or future PRC laws, rules or regulations regarding the legality of foreign investment in the PRC internet sector, we could be subject to severe penalties.

Telecommunications regulations

The *Telecommunications Regulations of the PRC*, or the Telecom Regulations, promulgated on September 25, 2000 and amended on July 29, 2014 and February 6, 2016 respectively, are the primary PRC regulations governing telecommunications services, which set out the general framework for the provision of telecommunications services within the PRC. The Telecom Regulations require that telecommunications service providers shall obtain licenses prior to commencing operations. The Telecom Regulations draw a distinction between basic telecommunications services and value-added telecommunications services. The *Telecom Catalog*, promulgated by MII on February 21, 2003 and most recently amended by the MIIT on June 6, 2019, and issued as an attachment to the Telecom Regulations, identifies internet information services and online data processing and transaction processing as value-added telecommunications services.

On July 3, 2017, the MIIT issued the revised *Administrative Measures for the Licensing of Telecommunications Business*, or the Telecom License Measures, which became effective on September 1, 2017, to supplement the Telecom Regulations. The Telecom License Measures require that an operator of value-added telecommunications services obtain a VATs License from the MIIT or its provincial level counterparts. The term of a VATs License is five years and the license holder is subject to annual inspection.

Internet information services

On September 25, 2000, the State Council promulgated the *Measures for the Administration of Internet Information Services*, or the ICP Measures, as amended on January 8, 2011. Under the ICP Measures, internet information services are categorized into commercial internet information services and non-commercial internet services. The operators of non-commercial internet information services must file with relevant governmental authorities and operators of commercial internet information services in China must obtain an ICP License from the relevant governmental authorities. And the provision of particular information services, such as news, publishing, education, healthcare, medicine and medical advice must also comply with relevant laws and regulations and obtain approval from competent governmental authorities.

Internet information service providers are required to monitor their websites. They shall not post or disseminate any content that falls within prohibited categories provided by laws or administrative regulations and must stop providing any such content on their websites. The relevant PRC governmental authorities may order ICP License holders that violate the content restrictions to correct those violations and revoke their ICP Licenses in cases of gross violations.

The MIIT released the *Circular on Regulating the Use of Domain Names in Internet Information Services* on November 27, 2017, effective as of January 1, 2018, which provides that the domain names used by the internet information service provider in providing internet information services shall be registered and owned by such internet information service provider, and if the internet information service provider is a legal entity, the domain name registrant shall be the legal entity (or any of its shareholders), or its principal or senior manager.

Regulations Relating to Online Trading and E-Commerce

On January 26, 2014, the State Administration for Industry and Commerce, or the SAIC (which is the predecessor of the SAMR) promulgated the *Administrative Measures for Online Trading*, or the Online Trading Measures, which became effective on March 15, 2014, to regulate all operating activities for product sales and services offered via the internet (including mobile internet). It stipulates the obligations of online products operators and services providers and certain special requirements applicable to third-party platform operators.

On August 31, 2018, the SCNPC promulgated the *E-Commerce Law of the PRC*, or the E-Commerce Law, which became effective on January 1, 2019. The promulgation of the E-Commerce Law established the basic legal framework for the development of China's e-commerce business and clarified the obligations of the e-commerce business operators and the possible legal consequences if e-commerce business operators are found to be in violation of legal obligations. For example, pursuant to the E-Commerce Law, the e-commerce business operators shall disclose information about goods or services provided comprehensively, truthfully, accurately and promptly in order to protect the consumers' rights to know and rights to choose. The e-commerce business operators shall not fabricate transactions or users' comments to conduct false or misleading business promotions so as to defraud or mislead consumers. Violation of the provisions of the E-Commerce Law may result in being ordered to make corrections within a prescribed period of time, confiscation of illegally obtained gains, fines, suspension of business, inclusion of such violations in the credit records and possible civil liabilities.

On March 15, 2021, the SAMR promulgated the *Administrative Measures for Online Trading*, or the New Online Trading Measures, which will take effect on May 1, 2021. The New Online Trading Measure, as the replacement of the Online Trading Measures issued by the SAIC in 2014, supplements the obligations of e-commerce business operators under the E-Commerce Law in connection with business activities for product sales and services offered via internet, and specifies the possible legal consequences when e-commerce business operators are found to be in violation of the relevant legal obligations. For example, the e-commerce business operators should act in compliance with the requirements relating to data protection, commercial promotion, registration for record, and unfair trading. Legal consequences of violating the New Online Trading Measures may include credit record enforcement as well as civil and even criminal liabilities.

Regulations Relating to Medical Devices

The *Regulation on the Supervision and Administration of Medical Devices*, or *Regulation on Medical Devices*, as amended by the State Council on June 1, 2021, regulates entities that engage in the research and development, production, operation, use, supervision and administration of medical devices in the PRC. Medical devices are classified according to their risk levels. Class I medical devices are medical devices with low risks, and the safety and effectiveness of which can be ensured through routine administration. Class II medical devices are medical devices with moderate risks, which are strictly controlled and administered to ensure their safety and effectiveness. Class III medical devices are medical devices with relatively high risks, which are strictly controlled and administered through special measures to ensure their safety and effectiveness. The evaluation of the risk levels of medical devices takes into consideration the medical devices' objectives, structural features, methods of use and other factors. Registration certificates are required for Class II and Class III medical devices. The classification of specific medical devices is stipulated in the Medical Device Classification Catalog, which was issued by the CFDA on August 31, 2017 and took effect on August 1, 2018. Violations of the Regulation on Medical Devices shall result in different penalties ranging

from fines (fixed range or based on the values of the illegally manufactured goods in severe violations), confiscation of products illegally sold and illegally obtained gains, revoking licenses, suspension of business, being refused to review and approve the medical device permit within ten years after such violation, or even criminal liability.

The *Catalogue of Medical Device Classification* issued by the CFDA on August 1, 2018 regulates that color soft hydrophilic contact lens, astigmatic soft hydrophilic contact lens, soft corneal contact lens, soft hydrophilic contact lens, and soft contact lens aseptic normal saline solution are Class III medical devices.

The *Measures for the Administration and Supervision of Online Sales of Medical Devices* issued by the CFDA on December 20, 2017, regulates entities that engage in the online sales of medical devices. Enterprises engaged in online sales of medical devices shall be medical device production and operation enterprises that have obtained a medical device production license or operation license in accordance with the law or have been filed for record, unless such license or record-filing is not required by laws and regulations.

Regulations Relating to Food Business

China has adopted a licensing system for food supply operations under the Food Safety Law and its implementation rules. The Food Safety Law of the PRC, which took effect from June 1, 2009 and was amended by the SCNPC on April 24, 2015, December 29, 2018 and April 29, 2021, respectively, and the Implementation Regulations of the Food Safety Law of the PRC, which took effect from July 20, 2009 and were amended by the State Council on February 6, 2016 and on October 11, 2019, respectively, set up a system for the supervision and administration of food safety and stipulate food safety standards. The State Council implements a licensing system for food production and transaction. To engage in food production, sale or catering services, the business operator shall obtain a license in accordance with the laws. Furthermore, the State Council implements strict supervision and administration for special categories of foods such as healthcare foods, and formula foods for special medical purposes. Pursuant to the aforementioned laws and regulations, third-party platform providers of online transactions of food shall conduct real name registration for participating food business operators, and specify their food safety management responsibilities, and examine their licenses if such licenses are required in accordance with the relevant laws and regulations. Upon discovery of any violation by participating food business operators, third-party platform providers for online food transactions shall promptly suspend the business of the offender and forthwith report to the food safety supervision and administration department. Upon discovery of a serious illegal act, the third-party platform provider shall forthwith stop providing online trading platform service.

The Administrative Measures for Food Operation Licensing, promulgated by the CFDA on August 31, 2015 and amended on November 17, 2017 regulates the food business licensing activities, strengthens the supervision and management of food business and ensures food safety. Food business operators shall obtain a license for operating a food business with respect to each venue where they engage in food business activities. The term of a food business license is five years.

Regulations Relating to Product Quality and Consumers Protection

According to the *Product Quality Law of the PRC*, which took effect on September 1, 1993 and was amended by the SCNPC on July 8, 2000, August 27, 2009 and December 29, 2018 respectively, products for sale must satisfy relevant safety standards and sellers shall adopt measures to maintain the quality of products for sale. Sellers may not mix impurities or imitations into products, or pass counterfeit goods off as genuine ones, or defective products as good ones or substandard products as standard ones. For sellers, any violation of state or industrial standards for health and safety or other requirements may result in civil liabilities and administrative penalties, such as compensation for damages, fines, confiscation of products illegally manufactured or sold and the proceeds from the sales of such products illegally manufactured or sold and revoking business license; in addition, severe violations may subject the responsible individual or enterprise to criminal liabilities.

According to the *Consumers Rights and Interests Protection Law of the PRC*, or the Consumers Rights and Interests Protection Law, which became effective on January 1, 1994 and was amended by the SCNPC on August 27, 2009 and October 25, 2013, respectively, business operators should guarantee that the products and services they provide satisfy the requirements for personal or property safety, and provide consumers with authentic information about the quality, function, usage and term of validity of the products or services. The consumers whose interests have

been damaged due to the products or services that they purchase or receive on the internet trading platforms may claim damages against sellers or service providers. Where the operators of the online trading platforms are unable to provide the real names, addresses and valid contact details of the sellers or service providers, the consumers may also claim damages against the operators of the online trading platforms. Operators of online trading platforms that clearly knew or should have known that sellers or service providers use their platforms to infringe upon the legitimate rights and interests of consumers but fail to take necessary measures must bear joint and several liabilities with the sellers or service providers. Moreover, if business operators deceive consumers or knowingly sell substandard or defective products, they should not only compensate consumers for their losses, but also pay additional damages equal to three times the price of the goods or services.

On January 6, 2017, the SAIC issued the *Interim Measures for Seven-day Unconditional Return of Online Purchased Goods*, which became effective on March 15, 2017 and was amended on October 23, 2020, further clarifying the scope of consumers' rights to make returns without a reason, including exceptions, return procedures and online trading platform operators' responsibility to formulate seven-day unconditional return rules and related consumer protection systems, and supervise the merchants for compliance with these rules.

Regulations Relating to Import and Export Goods

Pursuant to the *Customs Law of the PRC*, promulgated by the SCNPC on January 22, 1987 and amended on July 8, 2000, June 29, 2013, December 28, 2013, November 7, 2016, November 4, 2017 and April 29, 2021 respectively, unless otherwise stipulated, the declaration of import and export goods may be made by consignees and consignors themselves, and such formalities may also be completed by their entrusted customs brokers that have registered with the Customs. The consignees and consignors for import or export of goods and the customs brokers engaged in customs declaration shall register with the Customs in accordance with relevant laws.

Pursuant to the *Provisions of the People's Republic of China on the Administration of Recordation of Customs Declaration Entities*, promulgated by the General Administration of Customs on November 19, 2021. The customs declaration entities include the consignee or consignor of imported or exported goods and the customs declaration enterprise, as being filed with the customs. In the event the consignee or consignor of imported or exported goods or a customs declaration enterprise applies for recordation, it shall obtain the qualification of market entities; particularly where the consignee or consignor of imported or exported goods applies for recordation, it shall be filed as a foreign trade business.

In addition, the Foreign Trade Law of the PRC which was promulgated by the SCNPC on May 12, 1994 and last amended on December 30, 2022, and the Measures for the Record Filing and Registration of Foreign Trade Business Operators, which was promulgated by the MOFCOM on June 25, 2004 and last amended on May 10, 2021, require any foreign trade business operator that is engaged in the import and export of goods or technology shall be registered for archival purposes with the administrative department of foreign trade of the State Council or the institution entrusted thereby, unless it is otherwise provided for by any law, administrative regulation or the foreign trade department of the State Council. The specific measures for archival registration shall be formulated by the foreign trade department of the State Council. Where any foreign trade business operator that fails to file for record and registration according to relevant provisions, the customs may not handle the procedures of customs declarations and release of the import or export goods.

Regulations Relating to Online Transmission of Audio-Visual Programs

On April 13, 2005, the State Council promulgated the *Certain Decisions on the Entry of the Non-State-owned Capital into the Cultural Industry*. On July 6, 2005, five PRC regulatory agencies, namely, the Ministry of Culture, or the MOC, the State Administration of Radio, Film and Television, or the SARFT (which is the predecessor of the National Radio and Television Administration, the NRTA), the General Administration of Press and Publication, or the GAPP, the NDRC and MOFCOM, jointly promulgated the *Several Opinions on Canvassing Foreign Investment into the Cultural Sector*. According to these regulations, non-State-owned capital and foreign investors are prohibited from conducting the business of transmitting audio-visual programs through information network.

According to the *Administrative Provisions on Internet Audio-visual Program Service*, or the Audio-visual Program Provisions, jointly promulgated by the SARFT and MII on December 20, 2007 and amended by the State

Administration of Press, Publication, Radio, Film and Television, or the SAPPRFT, on August 28, 2015, providers of internet audio-visual program services are required to obtain a License for Online Transmission of Audio-visual Programs, or the Audio-visual License issued by the competent department of radio, film and television or complete certain record-filing procedures. Providers of internet audio-visual program services are generally required to be either state-owned or state-controlled by the PRC government, and the business to be carried out by such providers must satisfy the overall planning and guidance catalog for internet audio-visual program service determined by the SARFT.

In 2008, the SARFT issued the *Notice on Relevant Issues Concerning Application and Approval of License for Online Transmission of Audio-visual Programs*, amended on August 28, 2015, which further sets forth detailed provisions concerning the application and approval process regarding the Audio-visual License. The notice also provides that the internet audio-visual program services providers who engaged in such services prior to the promulgation of the Audio-visual Program Provisions shall also be eligible to apply for the license so long as their violation of the laws and regulations is minor and can be rectified in a timely manner and they have no records of violation during the latest three months prior to the promulgation of the Audio-visual Program Provisions.

Further, on March 31, 2009, the SARFT promulgated the *Notice on Strengthening the Administration of the Content of Internet Audio-visual Programs*, which reiterates the requirement for the internet audio-visual programs to be published to the public through information networks, where applicable, and prohibits certain types of internet audio-visual programs containing violence, pornography, gambling, terrorism, superstitions or other similarly prohibited elements.

On March 17, 2010, the SARFT issued the *Internet Audio-visual Program Services Categories (Provisional)*, or the Provisional Categories, amended on March 10, 2017, which classified internet audio-visual program services into four categories. In addition, the *Notice concerning Strengthening the Administration of the Streaming Service of Online Audio-Visual Programs* promulgated by the SAPPRFT on September 2, 2016 emphasizes that, unless a specific license is granted, an audio-visual programs service provider is forbidden from engaging in live streaming on major political, military, economic, social, cultural and sports events.

As of the date of this annual report, we have not obtained an Audio-visual License. For detailed analysis, see “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—If we fail to obtain and maintain the requisite licenses, permits, registrations and filings applicable to our business, or fail to obtain additional licenses, permits, registrations or filings that become necessary as a result of new enactment or promulgation of government policies, laws or regulations or the expansion of our business, our business and results of operations may be materially and adversely affected.”

On November 4, 2016, the Office of the CAC promulgated the *Administrative Provisions on Internet Live-Streaming Services*, or Internet Live-Streaming Services Provisions. According to the Internet Live-Streaming Services Provisions, an internet live-streaming service provider shall (i) establish a live-streaming content review platform; (ii) conduct authentication registration of internet live-streaming issuers based on their identity certificates, business licenses and organization code certificates; and (iii) enter into a service agreement with internet live-streaming services user to specify both parties’ rights and obligations.

According to the Guidelines on Strengthening Supervision of Online Live Broadcasting Marketing Activities promulgated by the SAMR on November 5, 2020, any network platform will assume the responsibility and obligation as an e-commerce platform operator according to the E-Commerce Law; provided that this platform provides operators, who sell goods or provide services via internet live broadcasting, with services such as internet operation place, transaction matchmaking and information publication in order for the transaction parties to independently complete their transaction activities.

According to the Notice on Strengthening the Management of Online Show Live Broadcasting and E-commerce Live Broadcasting promulgated by the NRTA on November 12, 2020, live broadcasting platforms for online shows are requested to strengthen positive value guidance and enable those tasteful, meaningful, interesting and warm live-broadcasting programs to have good traffic, and to prevent the spread of the trends of wealth flaunting, money worshiping and vulgarity. In addition, the number of content reviewers a platform is required to keep must in principle be no less than 1:50 of the number of live broadcasting rooms. Live broadcasting platforms for online shows need to manage the hosts and “reward” users based on the real-name registration system, and users who have not registered

with real names or who are minors are prohibited from making rewards. The live broadcasting platforms are required to implement real-name registration system by real-name verification, face recognition, manual review and other measures to prevent minors from making rewards. The platform shall limit the maximum amount of rewards each user may give per time, day and month. Live streaming platforms for e-commerce shall not illegally produce and broadcast, beyond their business scope of e-commerce, any commentary programs unrelated to sales of goods.

According to the Law of the PRC on the Protection of Minors (2020 Revision), which will take effect on June 1, 2021, among others, live broadcasting service providers are not allowed to provide minors under age 16 with online live broadcasting publisher account registration service, and must obtain the consent from parents or guardians and verify the identity of the minors before allowing minors aged 16 or above to register live broadcasting publisher accounts.

According to the *Notice on Strengthening the Administration of the Internet Live Streaming Service* jointly promulgated by the MIIT, the Ministry of Public Security of the PRC and other government agencies on August 1, 2018, internet live streaming service providers shall go through the procedures of filing with the competent department of telecommunications. The internet live streaming service providers engaged in telecommunications business and internet news information, network performances and internet live streaming of audio-visual programs shall apply to the relevant departments for permission to operate such telecommunication business and shall perform the procedures of record-filing with the local public security department within 30 days after the live streaming service being operated.

Furthermore, pursuant to the *Administrative Provisions on Online Audio and Video Information Services* jointly promulgated by the CAC, Ministry of Culture and Tourism of the PRC and NRTA on November 18, 2019 and effective on January 1, 2020, online audio and video information services providers shall obtain the relevant legally required qualifications and certificates. They shall also fulfill their responsibilities as information content management entities, such as having in place professional staff commensurate with their service scale, and establishing the systems of user registration, content review, information release, intellectual property rights protection and minority protections and other mechanisms. Moreover, when the online audio and video information services provider produce, publish or spread untrue audio-visual information by way of utilizing new technologies such as deep learning or virtual reality, the disseminated information shall be identified in a noticeable way.

Regulations Relating to Production of Radio and Television Programs

On July 19, 2004, the SARFT issued the *Regulations on the Administration of Production and Operation of Radio and Television Programs*, or the Radio and TV Programs Regulations, which took effect on August 20, 2004 and was amended on August 28, 2015 and October 29, 2020 respectively. The Radio and TV Programs Regulations require any entities engaging in the production and operation of radio and television programs to obtain a license for such businesses from the NRTA or its provincial branches. Entities with the permit to produce and distribute radio and television programs must conduct their business operations strictly in compliance with the approved scope of production and operations and these entities (except radio and TV stations) must not produce radio and TV programs regarding current political news or similar subjects.

On July 6, 2012, the SARFT and the CAC issued the Notice Regarding Further Enhancement of Management of Online Audio and Video Programs such as Online Drama Series and Micro Films, pursuant to which providers of internet audio-visual program services which are engaged in the production of online audio-visual programs such as online drama series and micro films and broadcast such programs on their own websites shall lawfully obtain the permit to produce and distribute radio and television programs issued by competent governmental authorities and corresponding License for Online Transmission of Audio-visual Programs at the same time. Providers of internet audio-visual program services shall report the information on online audio-visual programs such as online drama series and micro films which have been reviewed and approved to the provincial branches of the SARFT in their domiciles for filing.

The SARFT issued a Supplementary Notice on Further Enhancement of Management of Online Audio and Video Programs such as Online Drama Series and Micro Films on January 2, 2014, which reiterates the providers of online audio and video programs such as online drama series and micro films shall lawfully obtain the permit to produce and distribute radio and television programs issued by competent governmental authorities. Online audio and video programs produced by unlicensed organizations shall not be broadcast.

Regulations Relating to Franchising Operations

The *Administrative Regulations on Commercial Franchise Operations*, or the Franchising Regulations, was promulgated by the State Counsel on February 6, 2007, effective as of May 1, 2007, under which a franchisor shall have a well-established operation model, be able to provide the franchisee with long-term management guidance, technical support, business training and other services, and have at least two direct sales stores and have undertaken the business for more than a year. A franchisor shall, within 15 days of its first franchising contract signing, file with the competent commerce authority accordingly.

Pursuant to the Franchising Regulations, a franchising contract shall include but not be limited to the following terms: the basic information of the franchisor and franchisees, the term of the contract, the type, amount and payment(s) of the franchising fees, the specific content of operation guidance, technical supports and business training as well as the method for providing the same, the quality requirements and quality control measures, the marketing and advertisements arrangements, the consumer protection and indemnification, the change, cancelation or termination of the contract, the breach of the contract, and the dispute resolution, which shall all be put in writing. Moreover, according to the Franchising Regulations, the franchisee shall be allowed to unilaterally cancel the franchising contract within a certain period of time; the franchising term, unless the franchisee otherwise agrees, shall be no less than three years (renewals are excluded); the purpose and refund conditions and means of the fees paid by the franchisee to the franchisor in advance of the establishment of the franchising contract shall be clarified in writing; the usage of publicity and promotion fees paid by the franchisee to the franchisor shall be disclosed to the franchisee in a timely manner; the franchisee may not transfer the franchise rights to a third party without the consent of the franchisor; and the franchisor shall report the information about the conclusion of franchise contracts in the previous year to the competent commerce authority in the first quarter of each year. In addition to the Franchising Regulations, the MOFCOM has also promulgated two implementing regulations: the *Administrative Measures for Archival Filing of Commercial Franchises*, promulgated on May 1, 2007, amended on December 12, 2011 and came into effect on February 1, 2012; and the *Administrative Measures on Information Disclosure Requirements for Commercial Franchises*, which was promulgated on April 30, 2007 and was then amended on February 23, 2012 and came into effect on April 1, 2012. The above two implementing regulations, together with the Franchising Regulations form the basic legal framework for the regulation of the PRC franchise operations.

Regulations Relating to Advertising

In 1994, the SCNPC promulgated the *Advertising Law of the PRC*, or the Advertising Law, which was recently amended on April 29, 2021 and became effective on the same date. The Advertising Law regulates commercial advertising activities in the PRC and sets out the obligations of advertisers, advertising operators, advertising publishers and advertisement endorsers, and prohibits any advertisement from containing any obscenity, pornography, gambling, superstition, terrorism or violence-related content. Any advertiser in violation of such requirements on advertisement content will be ordered to cease publishing such advertisements and imposed a fine, the business license of such advertiser may be revoked, and the relevant authorities may revoke the approval document for advertisement examination and refuse to accept applications submitted by such advertiser for one year. In addition, any advertising operator or advertising publisher in violation of such requirements will be imposed a fine, and the advertisement fee received will be confiscated; in severe circumstances, the business license of such advertising operator or advertising publisher may be revoked.

The Measures for the Administration of Internet Advertising, or the Internet Advertising Measures, which would regulate the internet-based advertising activities were adopted by the SAMR on February 25, 2023 and will become effective on May 1, 2023 to replace *The Interim Measures for the Administration of Internet Advertising*. According to the Internet Advertising Measures, internet advertisers are responsible for the authenticity of the advertisements content and all online advertisements must be identifiable so that viewers can identify them as advertisements. Publishing and circulating advertisements through the internet shall not affect the normal use of the internet by users. The Internet Advertising Measures prohibit inducing users to click advertising links or content by the following deceptive or misleading means: (i) using fake system or fake alarms on system updates, system errors, clearances, notices and so on, (ii) using fake symbols for playing content, start, pause, return or so on, (iii) using deceptive promises relating to awards, or (iv) using other means to induce users to click on the content of advertisements. In addition, advertisements for cosmetic products are prohibited from publishing on any internet medium targeting minors.

Regulations Relating to Leasing

Pursuant to the *Law on Administration of Urban Real Estate of the PRC* promulgated by the SCNPC on July 5, 1994 and amended on August 30, 2007, August 27, 2009, August 26, 2019 and took effect on January 1, 2020, and the Administrative Measures for Commodity House Leasing promulgated by Ministry of Housing and Urban-Rural Development, or the MOHURD, on December 1, 2010 and taking effect on February 1, 2011, when leasing premises, the lessor and lessee are required to enter into a written lease contract, containing such provisions as the leasing term, use of the premises, rental and repair liabilities, and other rights and obligations of both parties. Both lessor and lessee are also required to register the lease with the real estate administration department within thirty days upon the conclusion of the lease contract. If the lessor and lessee fail to go through the registration procedures, both lessor and lessee may be subject to fines.

According to *Part III of the PRC Civil Code, which are pertinent to contracts*, the lessee may sublease the leased premises to a third party, subject to the consent of the lessor. Where the lessee subleases the premises, the lease contract between the lessee and the lessor remains valid. The lessor is entitled to terminate the lease contract if the lessee subleases the premises without the consent of the lessor. In addition, if the lessor transfers the premises, the lease contract between the lessee and the lessor will still remain valid.

Pursuant to *Part II of the PRC Civil Code, which are pertinent to property rights*, if a mortgagor leases the mortgaged property before the mortgage contract is executed, the previously established leasehold interest will not be affected by the subsequent mortgage; and where a mortgagor leases the mortgaged property after the creation and registration of the mortgage interest, the leasehold interest will be subordinated to the registered mortgage.

Regulations Relating to Construction Project

Pursuant to the Regulations on Planning Administration Regarding Assignment and Transfer of the Rights to Use of the State-Owned Land in Urban Area promulgated by the Ministry of Construction on December 4, 1992 and amended on January 26, 2011, a construction land planning permit shall be obtained from the municipal planning authority with respect to the planning and use of land. Pursuant to the PRC Urban and Rural Planning Law promulgated by the SCNPC on October 28, 2007 and amended on April 24, 2015 and April 23, 2019, a construction work planning permit must be obtained from the competent urban and rural planning government authority for the construction of any structure, fixture, road, pipeline, or other engineering project within an urban or rural planning area.

After obtaining a construction work planning permit, a construction enterprise must apply for a construction work commencement permit from the housing and urban-rural development administrative department of a local people's government at or above the county level or above pursuant to the *Administrative Provisions on Construction Permit of Construction Projects*, or the Construction Measures, promulgated by the Ministry of Construction (the predecessor of the MOHURD) on October 15, 1999, and as most recently amended on March 30, 2021.

Pursuant to the Administrative Measures for Reporting Details Regarding Acceptance Examination upon Completion of Buildings and Municipal Infrastructure promulgated by the Ministry of Construction on April 7, 2000 and amended on October 19, 2009, and the Provisions on Acceptance Examination upon Completion of Buildings and Municipal Infrastructure promulgated by MOHURD on December 2, 2013, the construction enterprise shall complete the project inspection required by the above provisions and shall go through the filing procedures with the competent governmental authorities where the construction project is located within 15 days after the inspection is completed.

The *Construction Law of PRC*, which took effect on November 1, 1997 and was amended on April 22, 2011 and April 23, 2019, respectively, is primarily aimed at regulating the construction industry. Pursuant to the Construction Law, the developer shall apply for a construction permit prior to commencement of a construction project, except for small projects below the limit determined by the construction administrative authorities of the State Council. Unauthorized construction without obtaining construction permit and projects which do not satisfy the criteria for commencement of work may face orders to stop construction and fines by construction administrative authorities.

Under the Construction Measures, construction and decoration of all kinds of buildings and ancillary facilities shall apply for the permission before starting construction project unless the amount investment of the project less than RMB300,000 or the area of the construction project is less than 300 square meters (the administrative department of Housing and Urban-Rural development in provincial level may adjust the limitation capital based on the reality of different regions). Our office properties and one of our offline experience stores are over 300 square meters and the project amount of which are more than RMB300,000 thus shall apply for the construction permit. As of the date of this annual report, we have not obtained all such requisite permissions.

Pursuant to the *Regulations on the Quality Management of Construction Projects*, or the Construction Projects Regulations, which took effect on January 30, 2000 and was amended on October 7, 2017 and April 23, 2019, a construction enterprise may be subject to suspension of construction, a fine of not less than 2% but not more than 4% of the contractual project price, and liabilities for any losses so caused, if it commits any of the following: (i) delivering the project for use before organizing the acceptance inspection, (ii) delivering the project for use in the event that the project has not passed the acceptance inspection, or (iii) inspecting and accepting a construction project not conforming to standard as one meeting the standard.

Regulations Relating to Fire Safety

Pursuant to the *Fire Protection Law of PRC*, or the Fire Protection Law, which took effect on April 29, 1998 and was amended on October 28, 2008, April 23, 2019 and April 29, 2021, and the Interim Provisions on the Administration of the Fire Protection Design Review and Final Inspection of Construction Projects promulgated by the MOHURD on April 1, 2020 and taking effect on June 1, 2020, construction enterprises shall file the record of the construction projects other than the special construction projects after the completion of inspection and acceptance thereof with the competent authority in housing and urban-rural development which will conduct random inspection on the construction projects. Failure to complete the inspection and acceptance of fire protection for the construction project before its use will subject the construction enterprise to an order of suspension of construction, use, or business, with a fine ranging from RMB 30,000 to 300,000. Failure to complete the record filing after the inspection and acceptance of fire protection for the construction project will subject the construction enterprise to an order of correction and a fine not exceeding RMB 5,000.

Regulations Relating to Internet Information Security and Privacy Protection

The PRC Constitution states that the PRC laws protect the freedom and privacy of communications of citizens and prohibit infringement on such rights. PRC government authorities have enacted laws and regulations with respect to internet information security and protection of personal information from any abuse or unauthorized disclosure, which include the *Decision of the Standing Committee of the National People's Congress on Internet Security Protection* enacted and amended by the SCNPC on December 28, 2000 and August 27, 2009, respectively, the *Provisions on the Technical Measures for Internet Security Protection* issued by the Ministry of Public Security on December 13, 2005 and took effect on March 1, 2006, the *Decision of the Standing Committee of the National People's Congress on Strengthening Network Information Protection* promulgated by the SCNPC on December 28, 2012, the *Several Provisions on Regulating the Market Order of Internet Information Services* promulgated by the MIIT on December 29, 2011, and the *Provisions on Protection of Personal Information of Telecommunication and Internet Users* released by the MIIT on July 16, 2013. Internet information in China is regulated from a national security standpoint.

On November 1, 2015, the Ninth Amendment to the *Criminal Law of the PRC* issued by the SCNPC became effective, pursuant to which, any internet service provider that fails to comply with obligations related to internet information security administration as required by applicable laws and refuses to rectify upon order is subject to criminal penalty for (i) any large-scale dissemination of illegal information; (ii) any severe consequences due to the leakage of the user information; (iii) any serious loss of criminal evidence; or (iv) other severe circumstances. Furthermore, any individual or entity that (i) sells or distributes personal information in a manner which violates relevant regulations, or (ii) steals or illegally obtain any personal information is subject to criminal penalty under severe circumstances.

On June 1, 2017, the *Cyber Security Law of the PRC*, or the Cyber Security Law, promulgated by SCNPC took effect, which is formulated to maintain the network security, safeguard the cyberspace sovereignty, national security

and public interests, protect the lawful rights and interests of citizens, legal persons and other organizations, and requires that a network operator, which includes, among others, internet information services providers, take technical measures and other necessary measures to safeguard the safe and stable operation of the networks, effectively respond to the network security incidents, prevent illegal and criminal activities, and maintain the integrity, confidentiality and availability of network data. The Cyber Security Law reaffirms the basic principles and requirements set forth in other existing laws and regulations on personal information protections and strengthens the obligations and requirements of internet service providers, which include but are not limited to: (i) keeping all user information collected strictly confidential and setting up a comprehensive user information protection system; (ii) abiding by the principles of legality, rationality and necessity in the collection and use of user information and disclosure of the rules, purposes, methods and scopes of collection and use of user information; and (iii) protecting users' personal information from being leaked, tampered with, destroyed or provided to third parties. Any violation of the provisions and requirements under the Cyber Security Law and other related regulations and rules may result in administrative liabilities such as warnings, fines, confiscation of illegal gains, revocation of licenses, suspension of business, and shutting down of websites, or, in severe cases, criminal liabilities. After the release of the Cyber Security Law, on May 2, 2017, the CAC, together with another ten regulatory authorities jointly issued the *Measures for Cybersecurity Review*, or the Review Measures, which become effective on June 1, 2020. The Review Measures establish the basic framework and principle for national cybersecurity reviews of network products and services.

For the further purposes of regulating data processing activities, safeguarding data security, promoting data development and utilization, protecting the lawful rights and interests of individuals and organizations, and maintaining national sovereignty, security, and development interests, on June 10, 2021, the Standing Committee of the PRC National People's Congress published the Data Security Law of the People's Republic of China, which took effect on September 1, 2021. The Data Security Law requires data processing, which includes the collection, storage, use, processing, transmission, provision, publication of data, to be conducted in a legitimate and proper manner. The Data Security Law provides for data security and privacy obligations on entities and individuals carrying out data activities. The Data Security Law also introduces a data classification and hierarchical protection system based on the importance of data in economic and social development, and the degree of harm it may cause to national security, public interests, or legitimate rights and interests of individuals or organizations if such data are tampered with, destroyed, leaked, illegally acquired or illegally used. The appropriate level of protection measures is required to be taken for each respective category of data. For example, a processor of important data is required to designate the personnel and the management body responsible for data security, carry out risk assessments of its data processing activities and file the risk assessment reports with the competent authorities. State core data, i.e. data having a bearing on national security, the lifelines of national economy, people's key livelihood and major public interests, shall be subject to stricter management system. Moreover, the Data Security Law provides a national security review procedure for those data activities which affect or may affect national security and imposes export restrictions on certain data and information. In addition, the Data Security Law also provides that any organization or individual within the territory of the PRC shall not provide any foreign judicial body and law enforcement body with any data without the approval of the competent PRC governmental authorities.

On July 6, 2021, certain PRC regulatory authorities issued Opinions on Strictly Cracking Down on Illegal Securities Activities, which, among others, provides for improving relevant laws and regulations on data security, cross-border data transmission, and confidential information management. It provided that efforts will be made to revise the regulations on strengthening the confidentiality and file management relating to the offering and listing of securities overseas, to implement the responsibility on information security of overseas listed companies, and to strengthen the standardized management of cross-border information provision mechanisms and procedures.

For the purposes of protecting rights and interests relating to personal information, regulating personal information processing activities, and promoting the reasonable use of personal information, on August 20, 2021, the Standing Committee of the PRC National People's Congress published the Personal Information Protection Law of the People's Republic of China, which took effect on November 1, 2021. The Personal Information Protection Law integrates the scattered rules with respect to personal information rights and privacy protection. It is clarified that "Personal information" refers to all kinds of information related to identified or identifiable natural persons that are electronically or otherwise recorded, excluding information that has been anonymized, "Sensitive personal information" refers to the personal information of which the leakage or illegal use could easily lead to the violation of the personal dignity of a natural person or harm to personal or property safety, including information on biometric identification, religious beliefs, specific identity, health care, financial accounts, and personal whereabouts, and

personal information of minors under the age of fourteen, and “Personal information processing” includes, but is not limited to, the collection, storage, use, processing, transmission, provision, disclosure, and deletion of personal information. From a macro level, the Personal Information Protection Law sets forth on personal information processing rules, sensitive personal information processing rules, cross-border provision of personal information rules, individuals’ rights in personal information processing activities, obligations of personal information processors, authorities performing personal information protection functions and legal liability. The Personal Information Protection Law also focuses on the legal basis of personal information processing, separate consent, automated decision-making, personal information protection impact assessment, etc. On November 14, 2021, the CAC released the Regulations on the Network Data Security (Draft for Comments), or the Draft Regulations. The Draft Regulations provide that data processors refer to individuals or organizations that autonomously determine the purpose and the manner of processing data. If a data processor that processes personal data of more than one million users would like to list overseas, it shall apply for a cybersecurity review according to the Draft Regulations. Besides, data processors that are listed overseas shall carry out an annual data security assessment.

On December 28, 2021, the CAC, together with certain other PRC governmental authorities, jointly released the Revised Measures for Cybersecurity Review, which took effect on February 15, 2022. Pursuant to the Revised Measures for Cybersecurity Review, operators of critical information infrastructure that intend to purchase network products and services that affect or may affect national security must apply for a cybersecurity review. In addition, any online platform operator holding over one million users’ individual information must apply for a cybersecurity review before listing abroad. The cybersecurity review will evaluate, among others, the risk of critical information infrastructure, core data, important data, or the risk of a large amount of personal information being influenced, controlled or maliciously used by foreign governments after going public, and cyber information security risk. The Revised Measures for Cybersecurity Review set out certain general factors which would be the focus in assessing the national security risk during a cybersecurity review. However, as advised by our PRC counsel, the scope of network product or service or data processing activities that will or may affect national security is still unclear, and the PRC government authorities may have wide discretion in the interpretation and enforcement of these laws, rules and regulations.

Regulations Relating to Intellectual Property

China has adopted comprehensive legislation governing intellectual property rights, including copyrights, trademarks, patents and domain names. China is a signatory to the primary international conventions on intellectual property rights and has been a member of the Agreement on Trade Related Aspects of Intellectual Property Rights since its accession to the World Trade Organization in December 2001.

Copyright

On September 7, 1990, the SCNPC promulgated the *Copyright Law of the PRC*, or the Copyright Law, effective on June 1, 1991 and amended on October 27, 2001, February 26, 2010 and November 11, 2020, respectively. The amended Copyright Law extends copyright protection to internet activities, products disseminated over the internet and software products, and other intellectual achievements that meet the characteristics of works. In addition, there is a voluntary registration system administered by the Copyright Protection Center of China.

Under the *Regulations on the Protection of the Right to Network Dissemination of Information* that took effect on July 1, 2006 and was amended on January 30, 2013, it further provides that an internet information service provider may be held liable under various situations: (i) if it knows or should reasonably have known a copyright infringement through the internet and the service provider fails to take effective measures to remove, block or disconnect links to the relevant contents; or (ii) upon the receipt of the copyright holder’s notice of such infringement, the service provider fails to take aforementioned measures.

In order to further implement the *Regulations on Computer Software Protection*, promulgated by the State Council on December 20, 2001 and amended on January 8, 2011 and January 30, 2013, respectively, the National Copyright Administration issued the *Measures for the Registration of Computer Software Copyright* on February 20, 2002, which specify detailed procedures and requirements with respect to the registration of software copyrights.

Trademark

According to the *Trademark Law of the PRC* promulgated by the SCNPC on August 23, 1982, and amended on February 22, 1993, October 27, 2001, August 30, 2013 and April 23, 2019 respectively, the Trademark Office of the SAIC is responsible for the registration and administration of trademarks in China. The SAIC under the State Council has established a Trademark Review and Adjudication Board for resolving trademark disputes. Registered trademarks are valid for ten years from the date the registration is approved. A registrant may apply to renew a registration within twelve months before the expiration date of the registration. If the registrant fails to apply in a timely manner, a grace period of six additional months may be granted. If the registrant fails to apply before the grace period expires, the registered trademark shall be deregistered. Renewed registrations are valid for another ten years. On April 29, 2014, the State Council issued the revised *Implementing Regulations of the Trademark Law of the PRC*, which specified the requirements of applying for trademark registration and renewal. According to this law, using a trademark that is identical to or similar to a registered trademark in connection with the same or similar goods without the authorization of the owner of the registered trademark constitutes an infringement of the exclusive right to use a registered trademark. The infringer shall, in accordance with the regulations, undertake to cease the infringement, take remedial action, and pay damages.

Patent

According to the *Patent Law of the PRC*, or the Patent Law, promulgated by the SCNPC on March 12, 1984, which was most recently amended on October 17, 2020 (the amendment will come into effect on June 1, 2021), and the *Implementation Rules of the Patent Law of the PRC*, or the Implementation Rules of the Patent Law, promulgated by the State Council on June 15, 2001 and amended on December 28, 2002 and January 9, 2010, the patent administrative department under the State Council is responsible for the administration of patent-related work nationwide and the patent administration departments of provincial or autonomous regions or municipal governments are responsible for administering patents within their respective administrative areas. The Patent Law and Implementation Rules of the Patent Law provide for three types of patents, namely “inventions,” “utility models” and “designs.” Invention patents are valid for twenty years, while utility model patents and design patents are valid for ten years, from the date of application. The Chinese patent system adopts a “first come, first file” principle, which means that where more than one person files a patent application for the same invention, a patent will be granted to the person who files the application first. An invention or a utility model must possess novelty, inventiveness and practical applicability to be patentable. Third parties must obtain consent or a proper license from the patent owner to use the patent. Otherwise, the unauthorized use constitutes an infringement on the patent rights.

Domain names

On August 24, 2017, the MIIT promulgated the *Administrative Measures for Internet Domain Names*, or the Domain Name Measures, which became effective on November 1, 2017. The Domain Name Measures regulate the registration of domain names, such as the China’s national top-level domain name “.CN” The China Internet Network Information Center, or the CNNIC, issued the *Administrative Regulations for Country Code Top-Level Domain Name Registration* and *Country Code Top-Level Dispute Resolutions Rules* on June 18, 2019, pursuant to which the CNNIC can authorize a domain name dispute resolution institution to decide domain name related disputes.

Regulations Relating to Foreign Exchange

The principal regulations governing foreign currency exchange in China are the *Administrative Regulations on Foreign Exchange of the PRC*, or the Foreign Exchange Administrative Regulation, which were promulgated by the State Council on January 29, 1996, became effective on April 1, 1996 and was subsequently amended on January 14, 1997 and August 5, 2008 and the *Administrative Regulations on Foreign Exchange Settlement, Sales and Payment* which was promulgated by the PBOC, on June 20, 1996 and became effective on July 1, 1996. Under these regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. By contrast, approval from or registration with appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital account items such as the repayment of foreign currency denominated loans, direct investment overseas and investments in securities or derivative products outside of the PRC. FIEs are permitted to convert their after-tax dividends into foreign

exchange and to remit such foreign exchange out of their foreign exchange bank accounts in the PRC. Violations of the Foreign Exchange Administrative Regulation will result in fines (fixed range or based on the amount of the illegal transmitted amount), confiscation of illegally obtained gains, and suspension of business or revoking business license or even criminal liability.

On March 30, 2015, the SAFE promulgated the *Notice on Reforming the Administration of Foreign Exchange Settlement of Capital of FIEs*, or the SAFE Circular 19, which took effect on June 1, 2015. According to SAFE Circular 19, the foreign currency capital contribution to an FIE in its capital account may be converted into Renminbi on a discretionary basis.

On June 9, 2016, the SAFE promulgated the *Circular on Reforming and Regulating Policies on the Management of the Settlement of Foreign Exchange of Capital Accounts*, or the SAFE Circular 16. The SAFE Circular 16 unifies the Discretional Foreign Exchange Settlement for all the domestic institutions. The Discretional Foreign Exchange Settlement means that the foreign exchange capital in the capital account which has been confirmed by the relevant policies to be subject to the discretionary foreign exchange settlement (including foreign exchange capital, foreign loans and funds remitted from the proceeds from the overseas listing) can be settled at the banks based on the actual operational needs of the domestic institutions. The proportion of Discretional Foreign Exchange Settlement of the foreign exchange capital is temporarily determined as 100%. Violations of SAFE Circular 19 or SAFE Circular 16 could result in administrative penalties in accordance with the Foreign Exchange Administrative Regulation and relevant provisions.

Furthermore, SAFE Circular 16 provides that the use of foreign exchange incomes of capital accounts by FIEs shall follow the principles of authenticity and self-use within the business scope of the enterprises. The foreign exchange incomes of capital accounts and capital in RMB obtained by the FIE from foreign exchange settlement shall not be used for the following purposes: (i) directly or indirectly used for the payment beyond the business scope of the enterprises or the payment prohibited by relevant laws and regulations; (ii) directly or indirectly used for investment in securities or financial schemes other than bank guaranteed products unless otherwise provided by relevant laws and regulations; (iii) used for granting loans to non-affiliated enterprises, unless otherwise permitted by its business scope; and (iv) used for the construction or purchase of real estate that is not for self-use (except for the real estate enterprises).

On October 23, 2019, the SAFE promulgated the Notice of the State Administration of Foreign Exchange on Further Promoting the Convenience of Cross-border Trade and Investment, or the SAFE Circular 28. The SAFE Circular 28 provides that non-investment FIEs may use capital to carry out domestic equity investment in accordance with laws under the premise that the investment is not in violation of the applicable special entry management measures for foreign investment (negative list) and the projects invested are true and in compliance with relevant laws and regulations.

On April 10, 2020 the SAFE issued the *Notice of the SAFE on Optimizing Foreign Exchange Administration to Support the Development of Foreign-related Business*, or the SAFE Circular 8. The SAFE Circular 8 provides that under the condition that the use of the funds is genuine and compliant with current administrative provisions on use of income relating to capital account, enterprises are allowed to use income under capital account such as capital funds, foreign debts and overseas listings for domestic payment, without submission to the bank prior to each transaction of materials evidencing the veracity of such payment.

Regulations Relating to Dividend Distributions

The principal regulations governing distribution of dividends of wholly foreign-owned enterprise, or the WFOE, include the PRC Company Law, the Foreign Investment Law and the Implementing Regulations of the Foreign Investment Law. Under these regulations, WFOEs in China may pay dividends only out of their accumulated profits, if any, determined in accordance with the PRC accounting standards and regulations. In addition, FIEs in the PRC are required to allocate at least 10% of their accumulated profits each year, if any, to fund certain reserve funds unless these reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends.

Regulations Relating to Offshore Special Purpose Companies Held by PRC Residents

According to the *Circular on Printing and Distributing the Provisions on Foreign Exchange Administration over Domestic Direct Investment by Foreign Investors and the Supporting Documents* promulgated by SAFE on May 10, 2013 and amended on October 10, 2018 and December 30, 2019 respectively, the administration by SAFE or its local branches over direct investment by foreign investors in the PRC shall be conducted by way of registration and banks shall process foreign exchange business relating to the direct investment in the PRC based on the registration information provided by SAFE and its branches.

SAFE promulgated Notice on Issues Relating to Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles, or the SAFE Circular 37, on July 4, 2014 that requires PRC residents or entities to register with SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. In addition, such PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and term of operation), capital increase or capital reduction, transfers or exchanges of shares, or mergers or divisions. SAFE Circular 37 was issued to replace the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments via Overseas Special Purposes Vehicles.

SAFE further enacted the Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving the Foreign Exchange Management Policies for Direct Investment, or the SAFE Circular 13, which allows PRC residents or entities to register with qualified banks in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. However, remedial registration applications made by PRC residents that previously failed to comply with the SAFE Circular 37 continue to fall under the jurisdiction of the relevant local branch of SAFE. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from distributing profits to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary.

On January 26, 2017, SAFE issued the *Notice on Improving the Check of Authenticity and Compliance to Further Promote Foreign Exchange Control*, or the SAFE Circular 3, which provides for several capital control measures with respect to the outbound remittance of profit from domestic entities to offshore entities, including (i) under the principle of genuine transaction, banks shall check board resolutions regarding profit distribution, the original version of tax filing records and audited financial statements; and (ii) domestic entities shall hold income to account for previous years' losses before remitting the profits. Moreover, pursuant to SAFE Circular 3, domestic entities shall make detailed explanations of the sources of capital and utilization arrangements, and provide board resolutions, contracts and other proof when completing the registration procedures in connection with an outbound investment.

Regulations Relating to Stock Incentive Plans

According to the Notice of the State Administration of Foreign Exchange on Issues Relating to the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Listed Company, or the Share Incentive Rules, which was issued on February 15, 2012 and other regulations, directors, supervisors, senior management and other employees participating in any share incentive plan of an overseas publicly-listed company who are PRC citizens or non-PRC citizens residing in China for a continuous period of not less than one year, subject to certain exceptions, are required to register with the SAFE. All such participants need to authorize a qualified PRC agent, such as a PRC subsidiary of the overseas publicly-listed company to register with the SAFE and handle foreign exchange matters such as opening accounts, transferring and settlement of the relevant proceeds. The Share Incentive Rules further require an offshore agent to be designated to handle matters in connection with the exercise of share options, sales of shares underlying the options and remittance of proceeds for the participants of the share incentive plans. Failure to complete the said SAFE registrations may subject our participating directors, supervisors, senior management and other employees to fines and legal sanctions.

Regulations Relating to Taxation

Income tax

According to the *Enterprise Income Tax Law of the PRC*, or the EIT Law, which was promulgated on March 16, 2007, became effective as of January 1, 2008 and was amended on February 24, 2017 and December 29, 2018, an enterprise established outside the PRC with de facto management bodies within the PRC is considered a resident enterprise for PRC enterprise income tax purposes and is generally subject to a uniform 25% enterprise income tax rate on its worldwide income. The *Implementing Rules of the Enterprise Income Law of the PRC*, or the Implementing Rules of the EIT Law defines a “de facto management body” as a managing body that in practice exercises “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise. Non-PRC resident enterprises without any branches in the PRC pay an enterprise income tax in connection with their income originating from the PRC at the tax rate of 10%. Enterprises that are recognized as high and new technology enterprises in accordance with the *Administrative Measures for the Determination of High and New Tech Enterprises* issued by the Ministry of Science, the Ministry of Finance, or the MOF and the State Administration of Taxation, or the SAT are entitled to enjoy a preferential enterprise income tax rate of 15%. Under which the validity period of the high and new technology enterprise qualification shall be three years from the date of issuance of the certificate. An enterprise can re-apply for such recognition as a high and new technology enterprise before or after the previous certificate expires.

On February 3, 2015, the SAT issued the Announcement on Several Issues Concerning the Enterprise Income Tax on Indirect Transfer of Assets by Non-Resident Enterprises, or the SAT Circular 7. The SAT Circular 7 repeals certain provisions in the Notice of the State Administration of Taxation on Strengthening the Administration of Enterprise Income Tax on Income from Equity Transfer by Non-Resident Enterprises, or the SAT Circular 698, issued by SAT on December 10, 2009 and the Announcement on Several Issues Relating to the Administration of Income Tax on Non-resident Enterprises issued by SAT on March 28, 2011 and clarifies certain provisions in the SAT Circular 698. The SAT Circular 7 provides comprehensive guidelines relating to, and heightening the Chinese tax authorities’ scrutiny on, indirect transfers by a non-resident enterprise of assets (including assets of organizations and premises in PRC, fixed assets in the PRC, equity investments in PRC resident enterprises) or the PRC Taxable Assets. For instance, when a non-resident enterprise transfers equity interests in an overseas holding company that directly or indirectly holds certain PRC Taxable Assets and if the transfer is ascertained by the PRC tax authorities to have no reasonable commercial purpose other than to evade enterprise income tax, the SAT Circular 7 allows the PRC tax authorities to reclassify the indirect transfer of PRC Taxable Assets into a direct transfer and therefore impose a 10% rate of PRC enterprise income tax on the non-resident enterprise. The SAT Circular 7 lists several factors to be taken into consideration by tax authorities in determining if an indirect transfer has a reasonable commercial purpose. However, regardless of these factors, the overall arrangements in relation to an indirect transfer satisfying all the following criteria will be deemed to lack a reasonable commercial purpose: (i) 75% or more of the equity value of the intermediary enterprise being transferred is derived directly or indirectly from

PRC Taxable Assets; (ii) at any time during the one-year period before the indirect transfer, 90% or more of the asset value of the intermediary enterprise (excluding cash) is comprised directly or indirectly of investments in the PRC, or during the one-year period before the indirect transfer, 90% or more of its income is derived directly or indirectly from the PRC; (iii) the functions performed and risks assumed by the intermediary enterprise and any of its subsidiaries and branches that directly or indirectly hold the PRC Taxable Assets are limited and are insufficient to prove their economic substance; and (iv) the foreign tax payable on the gain derived from the indirect transfer of the PRC Taxable Assets is lower than the potential PRC tax on the direct transfer of those assets. On the other hand, indirect transfers falling into the scope of the safe harbors under the SAT Circular 7 may not be subject to PRC tax under the SAT Circular 7. The safe harbors include qualified group restructurings, public market trades and exemptions under tax treaties or arrangements.

On October 17, 2017, SAT issued the *Announcement on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprises*, or the SAT Circular 37, which took effect on December 1, 2017. Certain provisions of the SAT Circular 37 were repealed by the *Announcement of the State Administration of Taxation on Revising Certain Taxation Normative Documents*. According to the SAT Circular 37, the balance after deducting the equity net value from the equity transfer income shall be the taxable income amount for equity transfer income. Equity transfer income shall mean the consideration collected by the equity transferor from the equity transfer, including various income in monetary form and non-monetary form. Equity net value shall mean the tax computation basis for obtaining

the said equity. The tax computation basis for equity shall be: (i) the capital contribution costs actually paid by the equity transferor to a Chinese resident enterprise at the time of investment and equity participation, or (ii) the equity transfer costs actually paid at the time of acquisition of such equity to the original transferor of the said equity. Where there is reduction or appreciation of value during the equity holding period, and the gains or losses may be confirmed pursuant to the rules of the finance and tax authorities of the State Council, the equity net value shall be adjusted accordingly. When an enterprise computes equity transfer income, it shall not deduct the amount in the shareholders' retained earnings such as undistributed profits of the investee enterprise, which may be distributed in accordance with the said equity. In the event of partial transfer of equity under multiple investments or acquisitions, the enterprise shall determine the costs corresponding to the transferred equity in accordance with the transfer ratio, out of all costs of the equity.

Under the SAT Circular 7 and the *Law of the PRC on the Administration of Tax Collection* promulgated by the SCNPC on September 4, 1992 and newly amended on April 24, 2015, in the case of an indirect transfer, entities or individuals obligated to pay the transfer price to the transferor shall act as withholding agents. If they fail to make withholding or withhold the full amount of tax payable, the transferor of equity shall declare and pay tax to the relevant tax authorities within seven days from the occurrence of tax payment obligation. Where the withholding agent does not make the withholding, and the transferor of the equity does not pay the tax payable amount, the tax authority may impose late payment interest on the transferor. In addition, the tax authority may also hold the withholding agents liable and impose a penalty of ranging from 50% to 300% of the unpaid tax on them. The penalty imposed on the withholding agents may be reduced or waived if the withholding agents have submitted the relevant materials in connection with the indirect transfer to the PRC tax authorities in accordance with the SAT Circular 7.

Withholding tax on dividend distribution

The EIT Law prescribes a standard withholding tax rate of 20% on dividends and other China-sourced income of non-PRC resident enterprises which have no establishment or place of business in the PRC, or if established, the relevant dividends or other China-sourced income are in fact not associated with such establishment or place of business in the PRC. However, the Implementing Rules of the EIT Law reduced the rate from 20% to 10%, effective as of January 1, 2008. However, a lower withholding tax rate might be applied if there is a tax treaty between China and the jurisdiction of the foreign holding companies, for example, pursuant to the *Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation on Income*, or the Double Tax Avoidance Arrangement, and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under the Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends that the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5% upon receiving approval from the tax authority in charge.

Based on the *Notice on Relevant Issues Relating to the Enforcement of Dividend Provisions in Tax Treaties* issued on February 20, 2009 by the SAT, if the relevant PRC tax authorities determine, at their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment. And the *Announcement of the State Administration of Taxation on Issues concerning "Beneficial Owners" in Tax Treaties*, promulgated by the SAT on February 3, 2018 and took effect on April 1 2018, further clarified the analysis standard when determining one's qualification for beneficial owner status.

Value-added tax

Pursuant to the *Interim Regulations on Value-Added Tax of the PRC*, which was promulgated by the State Council on December 13, 1993 and as most recently amended on November 19, 2017, and the *Implementation Rules for the Interim Regulations on Value-Added Tax of the PRC*, which was promulgated by the MOF, and SAT on December 15, 2008 and became effective on January 1, 2009 and as amended on October 28, 2011, entities or individuals engaging in sale of goods, provision of processing services, repairs and replacement services or importation of goods within the territory of the PRC shall pay value-added taxes, or the VATs. Unless otherwise provided, the rate of VAT is 17% on sales and 6% on the services. On April 4, 2018, MOF and SAT jointly promulgated the *Circular of the MOF and the SAT on Adjustment of Value-Added Tax Rates*, or the Circular 32, according to which (i) for VAT taxable sales acts or import of goods originally subject to VAT rates of 17% and 11%

respectively, such tax rates shall be adjusted to 16% and 10%, respectively; (ii) for purchase of agricultural products originally subject to tax rate of 11%, such tax rate shall be adjusted to 10%; (iii) for purchase of agricultural products for the purpose of production and sales or consigned processing of goods subject to tax rate of 16%, such tax shall be calculated at the tax rate of 12%; (iv) for exported goods originally subject to tax rate of 17% and export tax refund rate of 17%, the export tax refund rate shall be adjusted to 16%; and (v) for exported goods and cross-border taxable acts originally subject to tax rate of 11% and export tax refund rate of 11%, the export tax refund rate shall be adjusted to 10%. Circular 32 became effective on May 1, 2018 and shall supersede existing provisions which are inconsistent with Circular 32.

Since November 16, 2011, the MOF and the SAT have implemented the *Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax*, or the VAT Pilot Plan, which imposes VAT in lieu of business tax for certain “modern service industries” in certain regions and eventually expanded to nation-wide application in 2013. According to the *Implementation Rules for the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax* released by the MOF and the SAT on the VAT Pilot Program, the “modern service industries” include research, development and technology services, information technology services, cultural innovation services, logistics support, lease of corporeal properties, attestation and consulting services. The *Notice on Comprehensively promoting the Pilot Plan of the Conversion of Business Tax to Value-Added Tax*, which was promulgated on March 23, 2016, became effective on May 1, 2016 and was amended on July 11, 2017 (Circular on Pilot Policies of Levying Value-added Tax in Lieu of Business Tax on Construction Services and Other Services), sets out that VAT in lieu of business tax be collected in all regions and industries.

On March 20, 2019, MOF, SAT and the General Administration of Customs jointly promulgated the *Announcement on Relevant Policies for Deepening Value-Added Tax Reform*, which became effective on April 1, 2019 and provides that (i) with respect to VAT taxable sales acts or import of goods originally subject to VAT rates of 16% and 10% respectively, such tax rates shall be adjusted to 13% and 9%, respectively; (ii) with respect to purchase of agricultural products originally subject to tax rate of 10%, such tax rate shall be adjusted to 9%; (iii) with respect to purchase of agricultural products for the purpose of production or consigned processing of goods subject to tax rate of 13%, such tax shall be calculated at the tax rate of 10%; (iv) with respect to export of goods and services originally subject to tax rate of 16% and export tax refund rate of 16%, the export tax refund rate shall be adjusted to 13%; and (v) with respect to export of goods and cross-border taxable acts originally subject to tax rate of 10% and export tax refund rate of 10%, the export tax refund rate shall be adjusted to 9%.

Regulations Relating to Employment

The *Labor Law of the PRC*, or the *Labor Law*, and its implementation rules provide that enterprises and institutions must establish and improve work safety and health system, strictly enforce national regulations and standards on work safety and health, and carry out work safety and health education for workers. Working safety and health facilities shall meet national standard. Enterprises and institutions shall provide workers with working safety and health conditions meeting national rules and standards on labor protection.

The *Labor Contract Law of the PRC*, or the *Labor Contract Law*, and its implementation rules provide requirements concerning employment contracts between an employer and its employees. If an employer fails to enter into a written employment contract with an employee within one year from the date on which the employment relationship is established, the employer must rectify the situation by entering into a written employment contract with the employee and pay the employee twice the employee’s salary for the period from the one month anniversary of the commencement date of the employment relationship to the day prior to the execution of the written employment contract. The Labor Contract Law and its implementation rules also require compensation to be paid upon certain terminations. In addition, if an employer intends to enforce a non-compete provision in an employment contract or non-competition agreement with an employee, it has to compensate the employee on a monthly basis during the term of the restriction period after the termination or expiry of the labor contract. Employers in most cases are also required to provide severance payment to their employees after their employment relationship is terminated. According to the Labor Contract Law, if an employer requires the employees to work overtime, it shall pay the worker legally required working overtime salaries. When the employer fails to pay the relevant working overtime salary, it will be ordered to pay compensation to the employees at amount based on the actual working overtime salary that has not been duly paid.

Pursuant to the *Interim Provisions on Labor Dispatch*, which was promulgated by the Ministry of Human Resources and Social Security on January 24, 2014, effective as of March 1, 2014, employers may employ dispatched workers in temporary, auxiliary or substitutable positions provided that the number of dispatched workers shall not exceed 10% of the total number of its workers. Pursuant to the Labor Contract Law, if the employer violates the relevant labor dispatch regulations, the labor administrative department shall order it to make corrections within a prescribed time limit; if it fails to make corrections within the time limit, penalty will be imposed on the basis of more than RMB5,000 and less than RMB10,000 per person.

Pursuant to the *Social Insurance Law of the PRC*, which was promulgated by the SCNPC on October 28, 2010, effective on July 1, 2011 and last amended on December 29, 2018, the *Interim Regulations on the Collection of Social Insurance Fees*, issued by the State Council on January 22, 1999 and last amended on March 24, 2019, and the *Regulations on the Administration of Housing Provident Funds*, issued by the State Council on April 3, 1999 and last amended on March 24, 2019, enterprises in China are required to participate in certain employee benefit plans, including social insurance funds, namely a pension plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan and a maternity insurance plan, and a housing provident fund, and contribute to the plans or funds in amounts equal to certain percentages of salaries, including bonuses and allowances, of the employees as specified by the local government from time to time at locations where they operate their businesses or where they are located. Any employer that fails to make sufficient social insurance contributions in a timely manner may be ordered to rectify the non-compliance and pay the required contributions within a prescribed time limit and be subject to a late fee. If the employer still fails to rectify the failure to make the relevant contributions within the prescribed time, it may be subject to a fine ranging from one to three times the amount overdue. In addition, any employer that fails to make sufficient and timely contributions to the housing funds may be ordered to rectify the non-compliance and pay the required contributions within a prescribed time limit, and will also be subject to mandatory enforcement by courts in case the employer still fails to make the relevant contributions within the prescribed time.

Regulations Relating to Mergers and Acquisitions and Overseas Listing

On August 8, 2006, six PRC regulatory agencies, including the CSRC, promulgated the *Rules on the Merger and Acquisition of Domestic Enterprises by Foreign Investors*, or the M&A Rules, which became effective on September 8, 2006 and were amended on June 22, 2009. The M&A Rules, and other regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. For example, the M&A Rules require that MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, if (i) any important industry is concerned, (ii) such transaction involves factors that impact or may impact national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand.

In addition, according to the *Notice on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* issued by the General Office of the State Council on February 3, 2011 and taking effect as of March 3, 2011, and the *Rules on Implementation of Security Review System for the Merger and Acquisition of Domestic Enterprises by Foreign Investors* issued by MOFCOM on August 25, 2011 and taking effect as of September 1, 2011, mergers and acquisitions by foreign investors that raise “national defense and security” concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise “national security” concerns are subject to strict review by MOFCOM, and the regulations prohibit any activities attempting to bypass such security review, including by structuring the transaction through a proxy or contractual control arrangement.

On February 17, 2023, the CSRC promulgated *Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies*, or the Overseas Listing Trial Measures, and five relevant supporting guidelines, together referred to as the New Overseas Listing Rules, which became effective on March 31, 2023. Pursuant to the New Overseas Listing Rules, PRC domestic companies that directly or indirectly offer or list their securities in an overseas market, which include (i) any PRC company limited by shares, and (ii) any offshore company that conducts its business operations primarily in China and contemplates to offer or list its securities in an overseas market based on its onshore equities, assets or similar interests, are required to file with the CSRC within three business days after submitting their listing application documents to the relevant regulator in the place of intended listing. Specifically, the examination and determination of an indirect offering and listing will be conducted on a substance-over-form

basis, and an offering and listing shall be considered as an indirect overseas offering and listing by a domestic company if the issuer meets the following conditions: (i) the operating income, gross profit, total assets, or net assets of the domestic enterprise in the most recent fiscal year, any of which was more than 50% of the relevant line item in the issuer's audited consolidated financial statement for that year; and (ii) senior management personnel responsible for business operations and management are mostly PRC citizens or are ordinarily resident in the PRC, and the main place of business is in the PRC or carried out in the PRC. According to the New Overseas Listing Rules, the issuer or its affiliated domestic company, as the case may be, shall file with the CSRC for its initial public offering, follow-on offering and other equivalent offering activities. Particularly, the issuer shall submit the filing with respect to its initial public offering and listing within three business days after its initial filing of the listing application, and submit the filing with respect to its follow-on offering within three business days after completion of the follow-on offering. Failure to complete the record-filing under the New Overseas Listing Rules may subject a PRC domestic company to warnings, orders of correction, or fines of RMB1 million to RMB10 million.

Regulations in Hong Kong

Under the Business Registration Ordinance (Chapter 310 of the Laws of Hong Kong), our Hong Kong subsidiaries are required to have business registration certificates to carry out business activities. Below is a summary of the most significant rules and regulations which are material to our limited business operations in Hong Kong.

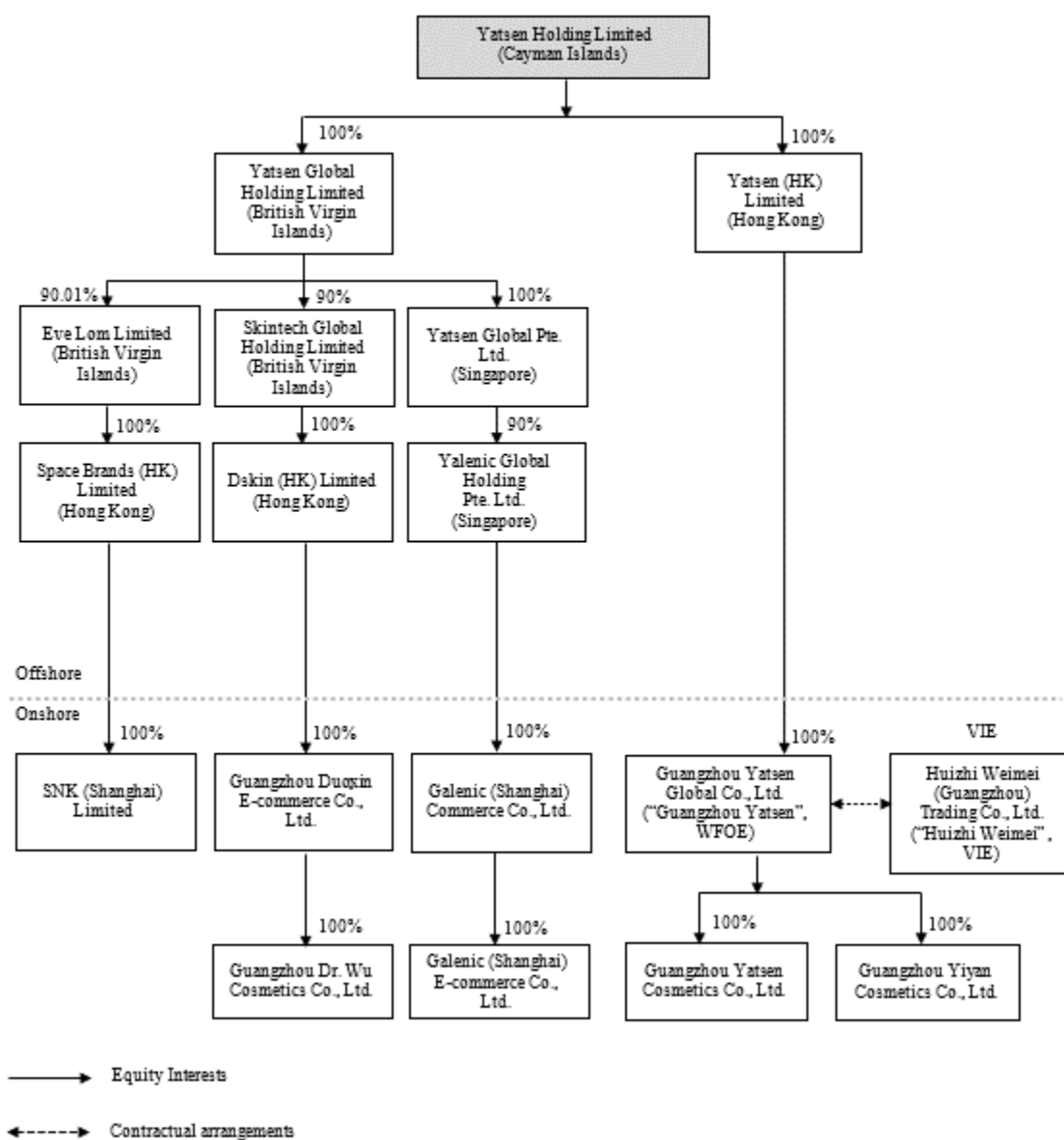
Import and Export

The Import and Export Ordinance (Chapter 60 of the Laws of Hong Kong) stipulates that all cargo which is imported or exported shall be recorded in a manifest which shall contain such particulars as the Commissioner of Customs and Excise may prescribe.

Import and Export (Registration) Regulations (Chapter 60E of the Laws of Hong Kong) provides that every person who imports or exports any article other than an exempted article shall lodge an accurate and complete import or export declaration relating to such article using services provided by a specified body with the Commissioner of Customs and Excise within 14 days after the importation or exportation of the article. Our operations in Hong Kong involve import and export of products. Any person who fails or neglects to declare within 14 days after importation or exportation without reasonable excuse is liable to a fine of HK\$1,000 upon summary conviction and HK\$100 in respect of every day such declaration has not been lodged. Penalty of up to HK\$200 shall also be payable for late lodgment of a declaration.

C. Organizational Structure

The following diagram illustrates our corporate structure as of the date of this annual report, including our principal subsidiaries and other entities that are material to our business, as of the date of this annual report:



Note:

- (1) Mr. Jinfeng Huang, our chief executive officer and controlling shareholder, holds 75.0% of equity interests in Huizhi Weimei. The remaining 25.0% of the equity interests in Huizhi Weimei are held by Huiyue (Guangzhou) Trading Limited Partnership, a limited partnership organized under the laws of the PRC whose general partner is Yuemei (Guangzhou) Trading Co., Ltd., a PRC company controlled by Mr. Jinfeng Huang.

Contractual Arrangements with the VIE and Its Shareholders

Current PRC laws and regulations impose certain restrictions or prohibitions on foreign ownership of companies that engage in value-added telecommunication services and certain other businesses. Yatsen Holding Limited is an exempted company with limited liability incorporated in the Cayman Islands. Guangzhou Yatsen is our wholly owned PRC subsidiary. To comply with PRC laws and regulations, we conduct the business of online sales of cosmetics products and skincare products in China through Huizhi Weimei, the VIE in China, through a series of contractual arrangements by and among Guangzhou Yatsen, the VIE and its nominee shareholders. The VIE may need to obtain licenses that are otherwise not permitted or advisable to be held directly by our wholly foreign-owned subsidiaries, including the License for Online Transmission of Audio-visual Programs and the Permit for Production and Operation of Radio and Television Programs. Although our wholly foreign-owned subsidiaries produce a significant majority of our revenues and hold a significant majority of our operational assets, the VIE holds certain assets that may be critical to the operation of our business. Main assets held by the VIE and its subsidiaries include the majority of the social platforms and content offering platforms we operate such as Weixin public accounts and mini-programs, which are registered and held by the VIE and its subsidiaries, and the ICP License and the Permit for Production and Operation of Radio and Television Programs, which are critical to the online operation of our business.

Our contractual arrangements with the VIE and its shareholders allow us to (i) exercise effective control over the VIE, (ii) receive substantially all of the economic benefits of the VIE, and (iii) have an exclusive option to purchase all or part of the equity interests in the VIE when and to the extent permitted by the PRC laws.

As a result of our direct ownership in Guangzhou Yatsen and the contractual arrangements with the VIE, we are regarded as the primary beneficiary of the VIE, and we treat the VIE and its subsidiaries as our consolidated entities under U.S. GAAP. We have consolidated the financial results of the VIE and its subsidiaries in our consolidated financial statements in accordance with U.S. GAAP.

The following is a summary of the currently effective contractual arrangements by and among our WFOE, the VIE and its respective shareholders.

Arrangements that provide us effective control over the VIE

Proxy Agreement and Power of Attorney. Our WFOE entered into a proxy agreement with Huizhi Weimei and its shareholders and obtained powers of attorney from shareholders of Huizhi Weimei in July 2019, which proxy agreement and powers of attorney were later amended and restated in March 2020 and October 2020. Pursuant to the second amended and restated proxy agreement and powers of attorney, each shareholder of Huizhi Weimei irrevocably authorized our WFOE to exercise all of his or its rights as a shareholder of Huizhi Weimei, including, but not limited to, the right to convene and attend shareholder meetings, the right to vote and sign any resolution as a shareholder, the right to appoint or remove directors, and the right to sell, transfer, pledge, and dispose of all or a portion of the equity interests held by such shareholders. The proxy agreement will remain effective so long as Huizhi Weimei exists. The powers of attorney will remain effective unless otherwise notified by our WFOE.

Equity Pledge Agreement. Our WFOE, Huizhi Weimei and shareholders of Huizhi Weimei entered into an equity pledge agreement in July 2019, which was later amended and restated in March 2020 and October 2020. Pursuant to the second amended and restated equity pledge agreement, shareholders of Huizhi Weimei have agreed to pledge all of their respective equity interests in Huizhi Weimei to our WFOE to guarantee the performance by Huizhi Weimei and its shareholders under the exclusive business cooperation agreement, the proxy agreement, the power of attorneys, the exclusive option agreement and the equity pledge agreement. As of the date of this annual report, we have registered all such equity pledges with the local branch of the SAMR in accordance with PRC laws to perfect their respective equity pledges. After the completion of the equity pledge registrations, in the event of a breach by Huizhi Weimei or its shareholders of contractual obligations under these agreements, our WFOE, as pledgee, will have the right to dispose of the pledged equity interests in Huizhi Weimei. The shareholders of the VIE also undertake that, during the term of the equity pledge agreement, unless otherwise approved by our WFOE in writing, they will not transfer the pledged equity interests or create or allow any new pledge or other encumbrance on the pledged equity interests.

Spousal Consent Letter. Spouse of Jinfeng Huang, the individual shareholder of Huizhi Weimei, who holds 75.0% of equity interests in Huizhi Weimei, has signed a spousal consent letter. The remaining 25.0% of the equity interests in Huizhi Weimei are held by Huiyue (Guangzhou) Trading Limited Partnership, a limited partnership organized under the laws of the PRC whose general partner is Yuemei (Guangzhou) Trading Co., Ltd., a PRC company controlled by Jinfeng Huang. The spouse of Jinfeng Huang unconditionally and irrevocably disclaimed her rights to the relevant equity interest in Huizhi Weimei and any associated economic rights or interest to which she may be entitled pursuant to applicable laws, and has undertaken not to make any assertion of rights to such equity interest and the underlying assets. The spouse of Jinfeng Huang has agreed and undertaken that she will not carry out in any circumstances any conducts that are contradictory to the contractual arrangements and the spousal consent letter.

Agreements that allow us to receive economic benefits from the VIE

Exclusive Business Cooperation Agreements. Pursuant to the exclusive business cooperation agreement entered into in July 2019 between our WFOE and Huizhi Weimei, our WFOE has the exclusive right to provide to Huizhi Weimei services related to, among other things, software technology development, technology consulting, and technical services required by Huizhi Weimei's business. Without our WFOE's prior written consent, Huizhi Weimei cannot accept any same or similar services subject to this agreement from any third party or enter into any similar business operation agreements with any third party. Huizhi Weimei agrees to pay our WFOE an amount that is adjusted in accordance with our WFOE's sole discretion for the relevant period and also the mutually-agreed amount for certain other technical services, which should be paid within ten days after our WFOE sends invoice. Our WFOE has the exclusive ownership of all the intellectual property rights created as a result of the performance of this agreement. To guarantee Huizhi Weimei's performance of its obligations thereunder, the shareholders of Huizhi Weimei have agreed to pledge their equity interests in Huizhi Weimei to our WFOE pursuant to the equity pledge agreement. The Exclusive Business Cooperation agreement will remain effective for an initial ten years and will be renewed automatically except that our WFOE is entitled to terminate the agreement as long as a 30-day prior written termination notice is provided to Huizhi Weimei.

Agreements that provide us with the option to purchase the equity interests in the VIE

Exclusive Option Agreements. Our WFOE, Huizhi Weimei and shareholders of Huizhi Weimei entered into an exclusive option agreement in July 2019, which was later amended and restated in March 2020 and October 2020. Pursuant to the second amended and restated exclusive option agreement, the shareholders of Huizhi Weimei irrevocably grant our WFOE an exclusive option to purchase, or have its designated person to purchase, at its discretion, to the extent permitted under PRC law, all or part of their equity interests in Huizhi Weimei, and Huizhi Weimei has irrevocably granted our WFOE an exclusive option to purchase all or part of its assets. Our WFOE or its designated person may exercise such options to purchase all equity interests and/or all assets at an aggregate consideration of RMB1.00, or the lowest price permitted under applicable PRC laws if there is any statutory requirement about the consideration under PRC laws. The shareholders of Huizhi Weimei further undertake that, without our WFOE's prior written consent, they will not, among other things, (i) sell, transfer, pledge, or dispose of their equity interests in Huizhi Weimei, (ii) create any pledge or encumbrance on their equity interests in Huizhi Weimei, (iii) change Huizhi Weimei's registered capital, (iv) merge Huizhi Weimei with any other entity, (v) sell, transfer, pledge, or dispose of Huizhi Weimei's assets (except in the ordinary course of business), or (vi) amend Huizhi Weimei's articles of association. The equity option agreement will remain effective for ten years and will be renewed automatically, except that our WFOE is entitled to terminate the agreement as long as a 10-day prior written termination notice is provided to Huizhi Weimei and its shareholders.

In the opinions of Zhong Lun Law Firm, our PRC legal counsel:

- the ownership structures of our WFOE and the VIE do not violate applicable PRC laws or regulations currently in effect; and
- the contractual arrangements among our WFOE, the VIE and its respective shareholders governed by PRC law are valid and binding, and do not violate applicable PRC laws or regulations currently in effect.

However, we have been further advised by our PRC legal counsel that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. Accordingly, the PRC regulatory authorities may take a view that is contrary to or otherwise different from the above opinions of our

PRC legal counsel. It is uncertain whether any new PRC laws or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide. If we or the VIE are found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure—If the PRC government finds that the agreements that establish the structure for operating some of our operations in China do not comply with PRC regulations relating to the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.” and “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—Uncertainties with respect to the PRC legal system could adversely affect us.”

D. Property, Plants and Equipment

Our principal executive offices are located on leased premises comprising approximately 39,577 square meters in Guangzhou, China. We have one R&D center comprising approximately 1,896 square meters in Guangzhou, China. We also have facilities in Shanghai, China, including one office and one R&D Center, comprising approximately 6,273 square meters and 3,819 square meters respectively. Besides, we lease a warehouse located in Guangzhou comprising approximately 26,828 square meters. Our laboratory for the Galénic brand in France, comprising approximately 650 square meters, officially opened in February 2023 and is already put in use. All of our facilities are leased from independent third parties, and we plan to renew our lease as needed.

We believe that our existing facilities are sufficient for our current needs, and we will obtain additional facilities, principally through leasing, to accommodate our future expansion plans.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not Applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report. This report contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Item 3. Key Information—D. Risk Factors” and elsewhere in this annual report. See “Forward-Looking Information.”

A. Operating Results

Founded in 2016, we have launched and acquired several Color Cosmetics Brands and Skincare Brands, including *Perfect Diary*, *Little Ondine*, *Abby’s Choice*, *Galénic*, *DR.WU* (its mainland China business), *Eve Lom*, *Pink Bear* and *EANTiM*. We achieved success through our digitally native DTC business model that was new to China’s beauty industry. Through this model, we focus on deep customer engagement, innovative product development and personalized services.

We generate substantially all of our net revenues from the sale of beauty products under our own brands. We have developed a number of successful brands and products. Our most iconic, best-selling products include *Perfect Diary* ReadMe Lip Gloss, *Galénic* N°1 Poudre Vitamine C Pure Eclaircissante serum, *DR.WU* Intensive Renewal Serum with Mandelic Acid and *Eve Lom* Cleanser.

Through our DTC model, we gain insights through direct engagement with customers, which drives product development, content creation, and further improvement of our omni-channel customer experience. We have built core technology and data capabilities that power our business operations, including our marketing strategies, product development, supply chain management and customer service.

Our total net revenues increased from RMB5.23 billion in 2020 to RMB5.84 billion in 2021 and decreased to RMB3.71 billion (US\$537.3 million) in 2022. We incurred a net loss of RMB2.69 billion in 2020, a net loss of RMB1.55 billion in 2021 and a net loss of RMB821.3 million (US\$119.1 million) in 2022. Our net loss position in 2022 was mainly due to (i) the lingering impact of COVID-19 pandemic on our offline store sales, along with store-closure expenses and provision for underperforming offline stores, (ii) marketing and branding expenses for our brands, some of which are still in their early development stage, (iii) R&D, personnel and administrative expenses, and (iv) share-based compensation expenses recorded in accordance with U.S. GAAP.

Key Factors Affecting Our Results of Operations

Our results of operations and financial conditions are affected by the general factors influencing China's beauty and retail industries, including China's overall economic growth, the increase in per capita disposable income, the continued growth of the e-commerce industry, and the growth in the willingness of consumers to spend on beauty products in China.

While our business is influenced by general factors affecting our industry, our results of operations are more directly affected by certain company specific factors, including:

Our Ability to Develop and Launch New Products and Grow Our Brands

Our ability to successfully develop and launch new products and grow our new and existing brands is pivotal to our success. We have a track record of successfully launching new products, such as *Perfect Diary* Stiletto Lipstick, *Perfect Diary* ReadMe Lip Gloss and *Perfect Diary* Translucent Loose Powder, which were well received by consumers and became iconic to the *Perfect Diary* brand. We have also developed skincare products tailored to our customers' needs, such as the *DR.WU* Triple Action Repair Serum, the *Galénic* Secret D'Excellence Snow Algie Serum, and the *Eve Lom* Radiance Repair Retinol Serum. As we have strategically expanded our business focus to the Skincare Brands, which typically feature higher gross margin as well as a higher level of customer loyalty as compared to Color Cosmetics Brands, we have recorded higher revenue contribution from Skincare Brands while maintaining and strengthening our existing competitive edge within the color cosmetics market.

In late 2020 we acquired *Galénic*, an iconic premium skincare brand, from Pierre Fabre, a French pharmaceutical and dermo-cosmetics group. We then acquired the mainland China business of *DR.WU*, a professional skincare brand, as well as *Eve Lom*, a United Kingdom-based prestige skincare brand in first quarter of 2021. In October 2021, we acquired *EANTiM*, a professional-channel skincare and haircare brand. After executing a transition and integration process, we re-introduced these brands in the mainland China market and achieved stellar growth, capitalizing on the strength of each brand's strong product offering and brand positioning.

As a result, our Skincare Brands have grown rapidly over the past two years. In 2020, our net revenues generated by Skincare Brands totaled RMB200.8 million, representing 3.8% of total net revenues, driven by the launch of our first Skincare Brand, *Abby's Choice* in June 2020, as well as the acquisition of *Galénic* in October 2020. In 2021, due to the addition of *DR.WU* (mainland China business), *Eve Lom* and *EANTiM*, our net revenues from Skincare Brands grew by 325.9% year-over-year to RMB855.2 million, representing 14.6% of total net revenues. In 2022, due to the strong brand positioning and product offerings of *DR.WU* (mainland China business), *Galénic* and *Eve Lom*, our net revenues from Skincare Brands grew by 45.2% year-over-year to RMB1.24 billion (US\$180.0 million), representing 33.5% of total net revenues.

Utilizing data insights gained through our direct engagement with customers, we are able to develop new popular products more efficiently. Having a broad, attractive and updated product offerings for each of our skincare business and color cosmetics business helps to maintain the popularity of our brands, increases customer loyalty and encourages customer purchases. We expect to continue to develop and launch new products under each of our brands to respond

to the latest industry trends and customer feedback. The success of new brand and product launches will impact the growth of our business, our ability to continue to attract and engage customers, and our short-term and long-term financial performance, including our net revenues and operating expenses, in particular marketing expenses associated with the launch and promotion of such new brands.

Our Ability to Attract and Retain Customers and Expand Coverage Among Various Sales Channels

Our success relies on our ability to continually attract new customers, retain existing customers and maintain broad coverage among various e-commerce and distribution channels, while maintaining sustainable profit margins. Our growth in sales volume has primarily been driven by the growing popularity and recognition of our brands, the increased selection and attractive prices of the innovative beauty products we offer, consumer preferences for our engaging and seamless shopping experience and quality customer service, and the effectiveness of our marketing initiatives. As China's beauty e-commerce and retailing landscape evolve, we will seek to balance the need to reach a broader consumer base while improving the profitability level on the channels where we have business presence.

We generate net revenues through sales (i) directly to end customers through various DTC online channels as well as offline stores, and (ii) to e-commerce platforms and offline distributors who then sell to end customers. For the years ended December 31, 2020, 2021 and 2022, our net revenues generated through DTC channels as a percentage of total net revenues were 86.9%, 83.5% and 84.9%, respectively. Going forward, we will continue to diversify our sales channels, including content and livestreaming platforms such as Douyin and Kuaishou, e-commerce platforms such as Dewu, and third-party distributors as well as beauty-focused offline retail store.

We historically used the number of DTC customers as an indicator of the performance of our DTC channels. Our collection and analysis of this data is no longer as comprehensive as in prior years due to the promulgation of the Personal Information Protection Law which took effect on November 1, 2021. Therefore, we no longer calculate the number of DTC customers in compliance with the law.

Our Pricing Strategy and Ability to Maintain Optimal Gross Margins

Our results of operations depend on our ability to design our pricing strategy to both maintain attractiveness to customers and to gradually improve our gross margins as we continue to grow our business. Our product pricing strategy is driven by the introduction of new products, promotional events on e-commerce platforms, adoption of new ways of engaging and selling to consumers such as livestreaming, and the broader competitive landscape. In general, we strive to gradually improve our gross margin by introducing higher-margin new products and stricter discounts and promotions, despite facing heavy price competition in the market place. As a result of our integrated approach, our gross margin was 64.3%, 66.8% and 68.0% for the years ended December 31, 2020, 2021 and 2022, respectively. The continual improvement of our gross margin for the past three years is also the result of higher revenue contribution from our skincare products, which generally have higher gross margins compared to our color cosmetic products. We also intend to incrementally introduce more premium products under our *Perfect Diary* brand. We expect to gradually improve our gross margin over time as we continue to focus on improving product and channel mix, as well as implementing more disciplined pricing and discount policies.

Effectiveness of Our Marketing Strategies

Our results of operations also depend on our ability to attract and retain customers while maintaining reasonable marketing expenses. While we are a young company, we have been successful in building popular brands and marketing our products, by leveraging our core capabilities in social media and digital marketing as well as our diversified sales channels. We work with KOLs to market our products cost-effectively through our proprietary KOL management system, which allows us to predominantly work directly with these KOLs rather than through intermediaries. Our close cooperation with KOLs provides us with valuable insights into the impact these KOLs have on our targeted consumers, and helps us increase marketing efficiency and effectiveness. As the number of our followers continues to grow, we are able to engage in more cost-effective marketing through direct engagement with and marketing to this group of consumers who have previously bought our products or are interested in our products.

We have also leveraged our offline experience store network to increase our presence and to reach and serve our customers at different touchpoints. As of December 31, 2022, we operated 164 experience stores, compared with 294 stores as of December 31, 2021. The reduction was to adjust our offline footprint amidst the impact of COVID-19 while maintaining a certain number of stores. We believe that maintaining a certain number of experience stores enables us to drive stronger engagement with our customers by providing a physical space to sample our products and engage with our brands.

Our selling and marketing expenses have been and will continue to be affected by the number of new product launches, spending on performance-based marketing on our e-commerce channels, branding and promotional activities to support the growth of our new and existing brands, and expenses related to our offline stores. Through our data insights, we also monitor our return on investment (“ROI”) across our various marketing and distribution channels and adjust our marketing spending and strategy accordingly. Our selling and marketing expenses as a percentage of total net revenues decreased from 68.6% in 2021 to 62.9% in 2022, which was primarily due to (i) the closure of underperforming offline stores, (ii) reduction in marketing event-related expenses and (iii) higher efficiency of online marketing activities. With our focus on growing our sustainability and achieving profitability, we plan to further optimize our expenses for performance-based marketing on our e-commerce channels while allocating resources to strengthen the brand equities for our existing brands.

We also plan to optimize our expenses related to our experience stores by increasing productivity among our beauty advisors and optimizing utilization of our experience stores’ space.

Our Ability to Manage Operating Costs and Expenses

Our results of operations are affected by our ability to control our general and administrative expenses and fulfilment expenses. As part of our effort to support the growth of multiple brands globally in a centralized manner, we have invested significant resources to develop technologies and mid- and back- office infrastructure, which is reflected in our spending on general and administrative expenses in 2022. General and administrative expenses decreased from RMB941.3 million in 2021 to RMB720.4 million in 2022 primarily due to a decrease in share-based compensation expenses. General and administrative expenses as a percentage of total net revenues decreased from 40.9% in 2020 to 16.1% in 2021 and increased to 19.4% in 2022. The year-over-year increase in our general and administrative expenses as a percentage of total net revenues was attributable to the deleveraging effect of lower total net revenues in 2022.

We have also developed an efficient supply chain involving manufacturing, warehousing and logistics. We leverage technology and data to manage supplier partners, ODM/OEM and packaging supply partners and other service partners, and adjust such partners’ operations to maintain optimal inventory levels as well as ensure smooth product launches. We cooperate with leading manufacturers with strong capabilities, as well as physical proximity to our customers, enabling us to further shorten the production and fulfilment process, thereby improving customer experience. Fulfilment expenses as a percentage of total net revenues decreased from 8.1% in 2020 to 7.4% in 2021 and 7.3% in 2022. We expect to further optimize our operating expenses by leveraging our technology- and data-driven supply chain management systems and outsourcing our warehouse and handling operations.

Impact of COVID-19

The COVID-19 pandemic has created unique global and industry-wide challenges, including challenges to many aspects of our business. Substantially all of our revenues and workforce are concentrated in China. Our financial position, results of operations and cash flows are affected by the trajectory of COVID-19, including its impact on the beauty industry and the Chinese economy in general. The spread of COVID-19 and the emergence of the new mutated variants such as Delta and Omicron variants has resulted in the temporary closure of many corporate offices, retail stores, and manufacturing facilities across China and travel restrictions as well as quarantine measures since 2020. Consequently, social and economic activities throughout China were curtailed from time to time, and opportunities for discretionary consumption, especially in offline sales channels, were adversely impacted during the period.

Since the second half of 2020 and up to the end of 2022, many of the preventive measures to counter the spread of COVID-19 imposed by local governments have been relaxed and re-imposed from time to time as the pandemic eased temporarily and the new variants emerged. As a result, opportunities for discretionary consumption was limited and the results of our operations fluctuated during the period. In particular, the release of the pent-up demand due to the amelioration of COVID-19 from the second half of 2020 to the first half of 2021 led to us recording a higher total net revenue in the first half of 2021 compared to that in 2020 and 2019, respectively. However, the spread of the new variants of COVID-19 such as Delta and Omicron variants resulted in the overall weakening consumer sentiment and purchasing activities and reduced foot traffic at our offline retail stores, which together adversely impacted our sales through our offline retail stores since the second half of 2021 and negatively impacted our total net revenues in the second half of 2021 and through 2022. Overall, our total net revenues for the full year of 2021 increased by 11.6% to RMB5.84 billion from RMB5.23 billion in the prior year, and our total net revenues for the full year of 2022 decreased by 36.5% to RMB3.71 billion (US\$537.3 million) from RMB5.84 billion in 2021. In addition, our online sales volume over the same period fluctuated due to the unavailability of, or delays in, delivery services during such period. In terms of our supply and inventory management, while our ODM/OEM and packaging supply partners and other service partners had to operate at reduced capacity during such period, we were able to maintain sufficient levels of inventory and fulfilment capacity through our self-operated warehouses.

China began to modify its zero-COVID policy at the end of 2022, and most of the travel restrictions and quarantine requirements were lifted in December. There were surges of cases in many cities during this time which caused disruption to our and our suppliers and logistics providers' operations, and there remains uncertainty as to the future impact of the virus, especially in light of this change in policy. The extent to which the pandemic impacts our results of operations going forward will depend on future developments which are highly uncertain and unpredictable, including the frequency, duration and extent of outbreaks of COVID-19, the appearance of new variants with different characteristics, the effectiveness of efforts to contain or treat cases, and future actions that may be taken in response to these developments. China may experience lower domestic consumption, higher unemployment, severe disruptions to exporting of goods to other countries and greater economic uncertainty, which may impact our business in a materially negative way as consumer sentiment may continue to remain low. Consequently, the COVID-19 pandemic may continue to materially and adversely affect our business, financial condition and results of operations in the current and future years. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—Our operations have been, and may continue to be affected by the COVID-19 pandemic."

Key Components of Results of Operations

Net revenues

Our net revenues are net of refunds and value-added tax. Due to operational changes, we adjusted the reporting segmentation from one reportable segment to three reportable segments on a product category basis in light of the development of our Skincare Brands business. Our net revenues are primarily generated from selling our beauty products and comprise net revenues from Color Cosmetics Brands, Skincare Brands and others. The following table sets forth the breakdown of our net revenues by segment both in absolute amounts and as a proportion of our total net revenues for the years presented:

	For the Year Ended December 31,						
	2020		2021		2022		
	RMB	%	RMB	%	RMB	US\$	%
	(in thousands, except for percentages)						
Net revenues							
Segment							
-Color Cosmetics Brands	4,919,317	94.0	4,869,279	83.4	2,415,500	350,215	65.2
-Skincare Brands	200,819	3.8	855,241	14.6	1,241,528	180,005	33.5
-Others	113,034	2.2	115,453	2.0	49,094	7,117	1.3
Total net revenues	5,233,170	100.0	5,839,973	100.0	3,706,122	537,337	100.0

As we have been continually expanding our Skincare Brands business, we expect net revenues from the Skincare Brands segment to increase.

Sales of product by channel. We generate net revenues primarily from selling our beauty products (i) directly to end customers through various DTC online channels as well as offline stores, and (ii) to e-commerce platform and offline distributors who then sell to end customers. Our DTC online channels include our online stores operated on Tmall, the e-commerce platforms of Douyin and Kuaishou and our offline stores. Our primary e-commerce platform distributors are JD.com and Vipshop. The following table sets forth the breakdown of our net revenues by channel both in absolute amounts and as a proportion of our total net revenues for the years presented:

	For the Year Ended December 31,						
	2020		2021		2022		
	RMB	%	RMB	%	RMB	US\$	%
	(in thousands, except for percentages)						
Net revenues							
Sales of product by channel							
-Sales to end customers	4,548,804	86.9	4,878,453	83.5	3,145,807	456,099	84.9
-Sales to distributor customers	678,873	13.0	941,322	16.1	546,543	79,241	14.7
-Others	5,493	0.1	20,198	0.4	13,772	1,997	0.4
Total net revenues	5,233,170	100.0	5,839,973	100.0	3,706,122	537,337	100.0

With the goal to achieve sustainable growth in 2023 and beyond, we intend to improve ROI on all our key sales channels, improve gross margins of our products and diversify our sales channels, including content and livestreaming platforms such as Douyin and Kuaishou, new e-commerce platforms such as Dewu, as well as third-party distributors and other beauty-focused offline retail stores.

Cost of revenues

Our cost of revenues consists primarily of material costs, which includes ingredient costs and costs associated with raw materials and packaging materials, manufacturing cost and other related costs that are directly attributable to the production of our products. For some of our products, we directly procure raw materials and packaging materials from third-party suppliers and pass on such materials to OEM/ODM partners for production and assembly. For the rest of our products, we procure finished goods from OEM/ODM partners. Our product costs fluctuate with the prices that we are able to negotiate with our OEM/ODM partners and our raw material and packaging material suppliers. While we expect to see continued headwinds in terms of increase in the price of raw materials in China, we plan to leverage our economy of scale to limit any upward pressure on our procurement costs going forward.

The following table sets forth our cost of revenues by amounts and percentages of our total net revenues for the years presented:

	For the Year Ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	US\$
	(in thousands, except for percentages)					
Cost of revenues	1,869,145	35.7	1,941,177	33.2	1,187,370	172,152

The following table sets forth our gross profit in absolute amount and gross profit margin for the years presented. We aim to continue improving our gross profit margin by improving our product mix, channel mix while implementing our strategies in pricing and discounts.

	For the Year Ended December 31,			
	2020	2021	2022	
	RMB	RMB	RMB	US\$
	(in thousands, except for percentages)			
Gross profit	3,364,025	3,898,796	2,518,752	365,185
Gross profit margin	64.3%	66.8%	68.0%	68.0%

Operating expenses

The following table sets forth the components of our operating expenses by amounts and percentages of our total net revenues for the years presented:

	For the Year Ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	US\$
	(in thousands, except for percentages)					
Operating expenses						
Fulfilment expenses	425,052	8.1	434,018	7.4	269,886	39,130
Selling and marketing expenses	3,412,159	65.2	4,005,589	68.6	2,330,480	337,888
General and administrative expenses	2,142,973	40.9	941,347	16.1	720,409	104,449
Research and development expenses	66,512	1.3	142,086	2.4	126,875	18,395
Total operating expenses	6,046,696	115.5	5,523,040	94.5	3,447,650	499,862

Fulfilment expenses. Fulfilment expenses are primarily expenses related to the warehousing, shipping and delivery of products to customers, which mainly include rental and personnel costs for warehouses, third-party shipping costs and customer service-related expenses.

Selling and marketing expenses. Selling and marketing expenses primarily consist of (i) advertising and marketing promotion expenses, (ii) platform commissions, (iii) personnel costs for sales and marketing staff, (iv) rental, depreciation expenses, personnel and other costs for offline experience stores and (v) share-based compensation expenses. We typically allocate more selling and marketing budget during launches of our new products and introduction of new brands.

General and administrative expenses. General and administrative expenses consist primarily of share-based compensation expenses and other expenses which are related to the general corporate functions, including accounting, finance, tax, legal and human resources, costs of facilities and equipment associated with use by these functions, such as depreciation expenses, rental and other general corporate related expenses.

Research and development expenses. Research and development expenses consist primarily of personnel costs for research and development staff, which includes IT engineers and product development personnel, and other expenses associated with our research and development activities.

Taxation

Cayman Islands

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. In addition, the Cayman Islands does not impose withholding tax on dividend payments.

Hong Kong

Our subsidiaries incorporated in Hong Kong, including Yatsen (HK) Limited, Aoyan (HK) Limited, Yatsen Investment Limited, Galenic (HK) Limited, Dskin (HK) Limited, Space Brands (HK) Limited, and Watosia (HK) Limited are subject to 16.5% Hong Kong profit tax on their taxable income generated from operations in Hong Kong. Commencing on April 1, 2018, the two-tiered profits tax regime took effect, under which the tax rate is 8.25% for assessable profits on the first HK\$2 million and 16.5% for any assessable profits in excess of HK\$2 million. Under the Hong Kong tax laws, our subsidiary in Hong Kong is exempted from the Hong Kong income tax on our foreign-derived income. In addition, payments of dividends from our Hong Kong subsidiaries to us are not subject to any Hong Kong withholding tax. No provision for Hong Kong profits tax was made as we had no estimated assessable profit that was subject to Hong Kong profits tax during 2020, 2021 and 2022.

PRC

Generally, our PRC subsidiaries, the VIE and its subsidiaries are subject to enterprise income tax on their taxable income in China at a statutory rate of 25%. The enterprise income tax is calculated based on the entity's global income as determined under PRC tax laws and accounting standards. According to a policy promulgated by the SAT and effective from 2008 and onwards, enterprises engaged in research and development activities are entitled to claim an additional tax deduction ("R&D Super Deduction") amounting to 50% of the qualified research and development expenses incurred in determining its tax assessable profits for that year. The R&D Super Deduction rate for qualified research and development expenses has been increased from 50% to 75% according to Notice by the Ministry of Finance, the State Administration of Taxation and the Ministry of Science and Technology of Raising the Proportion of Weighted Pre-tax Deduction of Research and Development Expenses, which was effective from 2018 to 2020 and was further extended to 2023. Perfect Diary Technology (Guangzhou) Co., Ltd. was entitled to claim R&D Super Deduction in 2020, 2021 and 2022. Guangzhou Jiyan Cosmetics Technology Co., Ltd. was entitled to claim R&D Super Deduction in 2021 and 2022. Hangzhou Taimei Biotechnology Co., Ltd was entitled to claim R&D Super Deduction in 2021 and 2022.

Dividends paid by our wholly foreign-owned subsidiaries in China to our intermediary holding company in Hong Kong will be subject to a withholding tax rate of 10%, unless the relevant Hong Kong entity satisfies all the requirements under the Arrangement between China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income and Capital and receives approval from the relevant tax authority. If our Hong Kong subsidiary satisfies all the requirements under the tax arrangement and receives approval from the relevant tax authority, then the dividends paid to the Hong Kong subsidiary would be subject to withholding tax at the standard rate of 5%. Effective as of November 1, 2015, the above mentioned approval requirement has been abolished, but a Hong Kong entity is still required to file an application package with the relevant tax authority, and settle the overdue taxes if the preferential 5% tax rate is denied based on the subsequent review of the application package by the relevant tax authority. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—We may rely on dividends and other distributions on equity paid by our PRC Subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC Subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business."

If our holding company in the Cayman Islands or any of our subsidiaries outside of China were deemed to be a "resident enterprise" under the PRC Enterprise Income Tax Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders."

Results of Operations

The following table sets forth a summary of our consolidated results of operations for the years presented, both in absolute amount and as a percentage of our net revenues for the years presented. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report. The results of operations in any period are not necessarily indicative of our future trends.

	For the Year Ended December 31,						
	2020		2021		2022		
	RMB	%	RMB	%	RMB	US\$	%
	(in thousands, except for percentages)						
Total net revenues	5,233,170	100.0	5,839,973	100.0	3,706,122	537,337	100.0
Total cost of revenues	(1,869,145)	(35.7)	(1,941,177)	(33.2)	(1,187,370)	(172,152)	(32.0)
Gross profit	3,364,025	64.3	3,898,796	66.8	2,518,752	365,185	68.0
Operating expenses:							
Fulfilment expenses	(425,052)	(8.1)	(434,018)	(7.4)	(269,886)	(39,130)	(7.3)
Selling and marketing expenses	(3,412,159)	(65.2)	(4,005,589)	(68.6)	(2,330,480)	(337,888)	(62.9)
General and administrative expenses	(2,142,973)	(40.9)	(941,347)	(16.1)	(720,409)	(104,449)	(19.4)
Research and development expenses	(66,512)	(1.3)	(142,086)	(2.4)	(126,875)	(18,395)	(3.4)
Total operating expenses	(6,046,696)	(115.5)	(5,523,040)	(94.5)	(3,447,650)	(499,862)	(93.0)
Loss from operations	(2,682,671)	(51.2)	(1,624,244)	(27.7)	(928,898)	(134,677)	(25.0)
Financial income	14,313	0.3	45,658	0.8	34,656	5,025	0.9
Foreign currency exchange losses	(2,774)	(0.1)	(1,751)	0.0	(35,357)	(5,126)	(1.0)
(Loss) income from equity method investments, net	(293)	0.0	5,978	0.1	12,548	1,819	0.3
Impairment loss of investments	-	-	(1,375)	0.0	(5,078)	(736)	(0.1)
Other (expenses) income, net	(10,020)	(0.2)	27,775	0.5	103,501	15,006	2.8
Loss before income tax expenses	(2,681,445)	(51.2)	(1,547,959)	(26.3)	(818,628)	(118,689)	(22.1)
Income tax (expenses) benefits	(6,970)	(0.1)	921	—	(2,705)	(392)	(0.1)
Loss from operations	(2,688,415)	(51.3)	(1,547,038)	(26.3)	(821,333)	(119,081)	(22.2)

Segment Information

In prior years, we only reported our overall performance. Due to operational changes, we currently report our results of operations in three segments on a product category basis, namely Color Cosmetics Brands, Skincare Brands and others. To that end, segment information for 2020 and 2021 has also been presented in the annual report in accordance with our current reporting system.

The following table sets forth our segment operating results for the years ended December 31, 2020, 2021, and 2022.

	For the Year Ended December 31,			
	2020	2021	2022	
	RMB	RMB	RMB	US\$
	(in thousands)			
Segment Net Revenues				
Color Cosmetics Brands	4,919,317	4,869,279	2,415,500	350,215
Skincare Brands	200,819	855,241	1,241,528	180,005
Others	113,034	115,453	49,094	7,117
Total	5,233,170	5,839,973	3,706,122	537,337
Segment Income/(Loss) from Operations				
Color Cosmetics Brands	(695,684)	(823,296)	(476,998)	(69,157)
Skincare Brands	(76,111)	(220,854)	(63,095)	(9,147)
Others	(7,659)	(8,081)	755	109
Unallocated expenses ⁽¹⁾	(1,903,217)	(572,013)	(389,560)	(56,482)
Total	(2,682,671)	(1,624,244)	(928,898)	(134,677)

Note:

- (1) Unallocated expenses represent share-based compensation and amortization of intangible assets resulting from assets and business acquisitions, which are not allocated to segments.

No asset information is provided for reportable segments as no such information provides to the chief operating decision-maker to evaluate the segment performance and most assets are managed at the group level.

Substantially all our revenues and long-lived assets are derived from and located in the PRC.

Year ended December 31, 2022 compared to year ended December 31, 2021

Total net revenues

Our total net revenues decreased by 36.5% from RMB5.84 billion in 2021 to RMB3.71 billion (US\$537.3 million) in 2022, primarily attributable to the decline in net revenues from Color Cosmetics Brands, partially offset by the increase in net revenues from Skincare Brands. Sales of our Color Cosmetics Brands were impacted by the continued softness in the market demand for color cosmetics products and intensified industry competition from both domestic and international brands, a reduction in the number of offline experience stores, and our decision to limit discounts and promotions due to our brand building strategy for sustainable growth. Our Skincare Brands, on the other hand, enjoyed strong growth due to each brand's superior product performance, strong brand positioning and our continuous development of these brands during the year. Our net revenues generated through Skincare Brands as a percentage of total net revenues increased from 14.6% in 2021 to 33.5% in 2022.

Total cost of revenues

Our cost of revenues decreased by 38.8% from RMB1.94 billion in 2021 to RMB1.19 billion (US\$172.2 million) in 2022, primarily due to the decrease in overall sales volume of our beauty products in 2022.

Gross profit and gross margin

As a result of the foregoing, our gross profit decreased by 35.4% from RMB3.90 billion in 2021 to RMB2.52 billion (US\$365.2 million) in 2022. Our gross margins increased from 66.8% in 2021 to 68.0% in 2022, primarily due to: (i) increasing sales of higher-gross margin products from our Skincare Brands, (ii) stricter pricing and discount policies, and (iii) cost optimization across all of our brand portfolios.

Fulfilment expenses

Our fulfilment expenses decreased from RMB434.0 million in 2021 to RMB270.0 million (US\$39.1 million) in 2022. The decrease was primarily attributable to (i) a decrease in warehouse and logistics cost from RMB343.0 million in 2021 to RMB213.0 million (US\$30.9 million) in 2022 due to lower sales volume of our beauty products, (ii) a decrease in customer service cost from RMB59.9 million in 2021 to RMB38.9 million (US\$5.6 million) in 2022, and (iii) a decrease in share-based compensation expenses related to fulfilment personnel from RMB13.1 million in 2021 to RMB4.3 million (US\$0.6 million) in 2022. Our fulfilment expenses as a percentage of total net revenues decreased from 7.4% in 2021 to 7.3% in 2022 as we outsourced most of our warehouse and handling operations to optimize our fulfilment operations.

Selling and marketing expenses

Our selling and marketing expenses decreased from RMB4.01 billion in 2021 to RMB2.33 billion (US\$337.9 million) in 2022, primarily attributable to: (i) a decrease in advertising, marketing and brand promotion costs from RMB2.37 billion in 2021 to RMB1.06 billion (US\$154.4 million) in 2022, (ii) a decrease in platform commissions from RMB529.7 million in 2021 to RMB363.4 million (US\$52.7 million) in 2022, and (iii) a decrease in expenses for offline experience stores from RMB552.9 million in 2021 to RMB404.0 million (US\$58.6 million) due to the closure of underperforming offline experience stores. The decrease in our advertising, marketing and brand promotion costs was primarily due to a reduction in marketing event-related expenses and higher efficiency of online marketing activities.

General and administrative expenses

Our general and administrative expenses decreased from RMB941.3 million in 2021 to RMB720.4 million (US\$104.4 million) in 2022, primarily due to a decrease in share-based compensation expenses from RMB418.8 million in 2021 to RMB248.4 million (US\$36.0 million) in 2022.

Research and development expenses

Our research and development expenses decreased from RMB142.1 million in 2021 to RMB126.9 million (US\$18.4 million) in 2022, primarily due to the planning of research and development activities to maintain research and development expenses at a reasonable level relative to net revenues.

Income (loss) from operations

As a result of the foregoing, we generated net loss from operations of RMB928.9 million (US\$134.7 million) in 2022, compared to net loss from operations of RMB1.62 billion in 2021. The decrease in net loss from operations was primarily attributable to our stricter pricing and discount policies, optimization of operating efficiencies as well as the closure of underperforming offline stores.

Income tax benefits/(expenses)

We recorded income tax expenses of RMB2.7 million (US\$0.4 million) in 2022, as compared to income tax benefits of RMB0.9 million in 2021. The change was primarily due to income tax expenses provided for profitable entities.

Net (loss) income

As a result of the foregoing, we generated net loss of RMB821.3 million (US\$119.1 million) in 2022, compared to net loss of RMB1.55 billion in 2021.

Year ended December 31, 2021 compared to year ended December 31, 2020

Total net revenues

Our net revenues increased by 11.6% from RMB5.23 billion in 2020 to RMB5.84 billion in 2021, primarily attributable to an increase in sales from our Skincare Brands, partially offset by a slight decline in sales from our Color Cosmetics Brands. Sales of our Color Cosmetics Brands were impacted by the sluggish consumer demand during the second half of 2021, as well as our decision to limit discounts and promotions due to our brand building strategy for sustainable growth. Our Skincare Brands, on the other hand, enjoyed strong growth due to acquisition of several new skincare brands as well as further development of these brands during the year. Our net revenues generated through Skincare Brands as a percentage of total net revenues increased from 3.8% in 2020 to 14.6% in 2021.

Total cost of revenues

Our cost of revenues increased by 3.9% from RMB1.87 billion in 2020 to RMB1.94 billion in 2021, primarily due to the growth in overall sales volume of our beauty products in the same period.

Gross profit and gross margin

As a result of the foregoing, our gross profit increased by 15.9% from RMB3.36 billion in 2020 to RMB3.90 billion in 2021, and our gross margins increased from 64.3% in 2020 to 66.8% in 2021, which increases are primarily due to (i) increased sales from our higher-gross margin skincare products and (ii) enhanced discipline in pricing, discounts and promotions, partially offset by inventory provisions which we record periodically to account for expected write-offs from slow-moving inventory.

Fulfilment expenses

Our fulfilment expenses increased from RMB425.1 million in 2020 to RMB434.0 million in 2021, which was primarily attributable to (i) an increase in customer service cost from RMB37.3 million in 2020 to RMB59.9 million in 2021 and (ii) an increase in share-based compensation expenses related to fulfilment personnel from RMB2.9 million in 2020 to RMB13.1 million in 2021, partially offset by a decrease in warehouse and logistics cost from RMB366.8 million to RMB 343.0 million. While the nominal amount of our fulfilment expenses have increased along with our increased net revenues, our fulfilment expenses as a percentage of net revenues decreased from 8.1% in 2020 to 7.4% in 2021 as we leveraged our technology- and data-driven supply chain and warehouse management systems to optimize our fulfilment operations.

Selling and marketing expenses

Our selling and marketing expenses increased from RMB3.41 billion in 2020 to RMB4.01 billion in 2021, primarily attributable to (i) an increase in expenses incurred in connection with the development of experience stores from RMB324.9 million in 2020 to RMB552.9 million in 2021 as the number of our experience stores increased from 241 as of December 31, 2020 to 294 as of December 31, 2021, (ii) an increase in advertising, marketing and brand promotion costs from RMB2.22 billion in 2020 to RMB2.37 billion in 2021, and (iii) an increase in personnel costs from RMB166.7 million in 2020 to RMB301.4 million in 2021, given the increase in headcount and compensation of our selling and marketing personnel. The increase in our advertising, marketing and brand promotion costs was primarily due to an increase in brand marketing activities for *Perfect Diary* and our newly launched and acquired Skincare Brands, partially offset by savings in our performance-based marketing on e-commerce channels as we instituted a program to increase ROI on our key sales channels beginning in the second quarter of 2021.

General and administrative expenses

Our general and administrative expenses decreased from RMB2.14 billion in 2020 to RMB941.3 million in 2021, primarily due to a decrease in share-based compensation expenses from RMB1.84 billion in 2020 to RMB418.8 million in 2021, partially offset by an increase in personnel costs from RMB126.3 million in 2020 to RMB234.4 million in 2021. We recorded a large lump-sum share-based compensation expenses of RMB1.15 billion in November 2020 as part of our initial public offering in accordance with U.S. GAAP.

Research and development expenses

Our research and development expenses increased from RMB66.5 million in 2020 to RMB142.1 million in 2021, primarily due to (i) an increase in personnel costs from RMB57.9 million in 2020 to RMB94.3 million in 2021, as a result of the increased resources and personnel we deployed to support our research and development as well as information technology capabilities, (ii) an increase in share-based compensation expenses related to research and development personnel from RMB1.9 million in 2020 to RMB17.9 million in 2021, and (iii) an increase in equipment procurement and other expenses from RMB6.7 million in 2020 to RMB29.8 million in 2021.

Loss from operations

As a result of the foregoing, we generated net loss from operations of RMB1.62 billion in 2021, compared to net loss from operations of RMB2.68 billion in 2020. The decrease in net loss from operations is primarily attributable to the significant decrease in our share-based compensation expenses due to the share-based compensation expenses of RMB1.15 billion triggered by our initial public offering in November 2020 in accordance with U.S. GAAP.

Income tax benefits/(expenses)

We recorded income tax benefits of RMB0.9 million in 2021, as compared to income tax expenses of RMB7.0 million in 2020. The change was primarily due to deferred tax liabilities related to our acquisitions in 2021.

Net loss

As a result of the foregoing, we generated net loss of RMB1.55 billion in 2021, compared to net loss of RMB2.69 billion in 2020.

Recently Issued Accounting Pronouncements

A list of recently issued accounting pronouncements that are relevant to us is included in Note 2 to our audited consolidated financial statements included elsewhere in this annual report.

Inflation

To date, inflation in China has not materially affected our results of operations. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for 2020, 2021 and 2022 were increases of 2.5%, 0.9% and 2.0%, respectively. Although we have not been materially affected by inflation in the past, we may be affected if China experiences higher rates of inflation in the future.

Impact of Foreign Currency Fluctuation

See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—Fluctuations in exchange rates could have a material and adverse effect on the value of your investment and our results of operations.” and “Item 11. Quantitative and Qualitative Disclosures About Market Risk—Foreign exchange risk.”

Impact of Governmental Policies

See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China” and “Item 4. Information on the Company—B. Business Overview—Regulations.”

B. Liquidity and Capital Resources

The following table sets forth a summary of our cash flows for the years presented:

	For the Year Ended December 31,			
	2020	2021	2022	
	RMB	RMB	RMB	US\$
	(in thousands)			
Summary Consolidated Cash Flow Data				
Net cash (used in)/generated from operating activities	(983,368)	(1,020,441)	136,208	19,749
Net cash used in investing activities	(508,832)	(1,484,257)	(1,155,416)	(167,519)
Net cash generated from/(used in) financing activities	6,680,869	(1,706)	(654,450)	(94,886)
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(131,856)	(88,980)	89,978	13,044
Net increase/(decrease) in cash and cash equivalents and restricted cash	5,056,813	(2,595,384)	(1,583,680)	(229,612)
Cash and cash equivalents and restricted cash at the beginning of the year	676,579	5,733,392	3,138,008	454,968
Cash and cash equivalents and restricted cash at the end of the year	5,733,392	3,138,008	1,554,328	225,356

To date, we have financed our operating and investing activities primarily through cash generated by historical equity financing activities. As of December 31, 2020, 2021 and 2022, respectively, our cash, cash equivalents and restricted cash were RMB5.73 billion, RMB3.14 billion and RMB1.55 billion (US\$225.4 million). We had short-term investments with an aggregate outstanding amount of RMB1.07 billion (US\$155.6 million) as of December 31, 2022. Our cash and cash equivalents primarily consist of currency on hand, deposits held by financial institutions that can be added to or withdrawn without limitation, short-term and highly liquid investments placed with banks, and all highly liquid investments with original maturities of three months or less. Short-term investments consist primarily of financial products offered by commercial banks in the PRC with fixed maturity dates ranging from three months to one year.

We believe that our current cash and cash equivalents will be sufficient to meet our current and anticipated working capital requirements and capital expenditures for at least the next 12 months from the date of this annual report. We decide to enhance our liquidity position or increase our cash reserve for future investments through additional capital and finance funding. The issuance and sale of additional equity would result in further dilution to our shareholders. The incurrence of indebtedness would result in increased fixed obligations and could result in operating covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

As of December 31, 2022, 30.2% of our cash, cash equivalents and restricted cash were held in China, and 30.3% were denominated in Renminbi. Although we consolidate the results of the VIE and its subsidiaries, we only have access to the assets or earnings of the VIE and its subsidiaries through our contractual arrangements with the VIE and its shareholders. See “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with the VIE and Its Shareholders.” For restrictions and limitations on liquidity and capital resources as a result of our corporate structure, see “—Holding Company Structure.”

A significant majority of our net revenues have been, and we expect will likely to continue to be, denominated in Renminbi. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior SAFE approval as long as certain routine procedural requirements are fulfilled. Therefore, our PRC subsidiaries are allowed to pay dividends in foreign currencies to us without prior SAFE approval by following certain routine procedural requirements. However, approval from or registration with competent government authorities is required where the Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future.

Operating activities

Net cash generated from operating activities in 2022 was RMB136.2 million (US\$19.7 million). The difference between our net cash generated from operating activities in 2022 of RMB136.2 million (US\$19.7 million) and net loss of RMB821.3 million (US\$119.1 million) in the same period was primarily due to certain non-cash items, primarily consisting of (i) share-based compensation of RMB340.9 million (US\$49.4million), (ii) amortization of right-of-use assets of RMB168.4 million (US\$24.4 million), (iii) depreciation of property and equipment of RMB114.0 million (US\$16.5 million), (iv) impairment of and loss on disposal of property and equipment of RMB80.3 million (US\$11.6 million) and (v) amortization of intangible assets of RMB56.8 million (US\$8.2 million). The adjustment for changes in operating assets and liabilities primarily consisted of (i) a decrease of RMB278.0 million (US\$40.3 million) in inventories, (ii) a decrease of RMB155.0 million (US\$22.5 million) in accounts receivable, (iii) a decrease of RMB167.0 million (US\$24.2 million) in lease liabilities, (iv) a decrease of RMB121.0 million (US\$17.5 million) in accounts payable, and (v) a decrease of RMB65.9 million (US\$9.6 million) in prepayments and other current assets.

Net cash used in operating activities in 2021 was RMB1.02 billion, which was mainly attributable to (i) the large amount of sales and marketing expenses we spent on promoting our existing Color Cosmetics Brands and (ii) the increase in brand marketing activities for our newly launched and acquired Skincare Brands. The difference between our net cash used in operating activities in 2021 of RMB1.02 billion and net loss of RMB1.55 billion in the same period was primarily due to certain non-cash items, primarily consisting of (i) share-based compensation of RMB530.4 million, (ii) amortization of right-of-use assets of RMB245.9 million, and (iii) depreciation of property and equipment of RMB130.7 million. This was partially offset by changes in certain working capital accounts that decreased operating cash flows, primarily consisting of (i) a decrease of RMB244.4 million in accounts payable, (ii) a decrease of RMB238.4 million in lease liabilities, (iii) an increase of RMB109.0 million in inventories, and (iv) a decrease in accrued expenses and other liabilities of RMB63.7 million, which was partially offset by (i) a decrease of RMB99.7 million in accounts receivable and (ii) an increase of RMB71.7 million in deferred income.

Net cash used in operating activities in 2020 was RMB983.4 million, as compared to net loss of RMB2.69 billion in the same period. The difference was primarily due to certain non-cash items, primarily consisting of (i) share-based compensation of RMB1.90 billion and (ii) amortization of right-of-use assets of RMB185.8 million. This was partially offset by changes in certain working capital accounts that decreased operating cash flows, primarily consisting of (i) a decrease of RMB197.0 million in lease liabilities, (ii) an increase of RMB190.6 million in prepayments and other current assets, (iii) an increase of RMB154.0 million in accounts receivable and (iv) an increase of RMB134.3 million in inventories, which was partially offset by an increase in accrued expenses and other liabilities of RMB174.7 million.

Investing activities

Net cash used in investing activities in 2022 was RMB1.16 billion (US\$167.5 million), primarily due to (i) purchase of short-term investments of RMB2.42 billion (US\$351.1 million), (ii) investments on equity investments of RMB135.8 million (US\$19.7 million) mainly related to the funding of our joint venture with Cosmax and our participation as a limited partner in a venture capital fund, and (iii) purchase of property and equipment of RMB50.8 million (US\$7.4 million), which was partially offset by sales of short-term investments of RMB1.46 billion (US\$211.6 million).

Net cash used in investing activities in 2021 was RMB1.48 billion, primarily due to (i) acquisition of businesses of RMB989.7 million mainly related to the acquisition of *Eve Lom*, (ii) investments on equity investments of

RMB322.8 million mainly related to our participation as an limited partner in a venture capital fund and the funding of our joint venture with Cosmax, and (iii) purchase of property and equipment of RMB141.4 million, which was mainly due to capital expenditure incurred for the development of our experience stores, office spaces and self-operated warehouse.

Net cash used in investing activities in 2020 was RMB508.8 million, primarily due to (i) purchase of property and equipment of RMB225.6 million, which was mainly due to capital expenditure incurred for the development of our experience stores, office spaces and self-operated warehouse of RMB187.7 million, and (ii) purchase of intangible assets of RMB159.0 million.

Financing activities

Net cash used by financing activities in 2022 was RMB654.5 million (US\$94.9 million), primarily attributable to payments for repurchases of ordinary shares of RMB654.7 million (US\$94.9 million).

Net cash used by financing activities in 2021 was RMB1.7 million, primarily attributable to payments for repurchases of ordinary shares of RMB15.2 million, partially offset by a repayment of a shareholder receivable resulting from our repurchases of ordinary shares of RMB13.0 million.

Net cash provided by financing activities in 2020 was RMB6.68 billion, primarily attributable to proceeds from equity financing activities of RMB8.25 billion, partially offset by (i) repurchase of preferred shares of RMB1.08 billion and (ii) repurchase of ordinary shares of RMB491.2 million.

Material Cash Requirements

Our material cash requirements as of December 31, 2022 and any subsequent interim period primarily include our capital expenditures, capital commitment, products and services purchase commitment and operating lease commitments.

Our capital expenditures are primarily incurred for purchases of property and equipment, as well as intangible assets. Our capital expenditures were RMB384.6 million in 2020, RMB166.7 million in 2021 and RMB59.3 million (US\$8.6 million) in 2022. We expect to moderate our spending on capital expenditures to reserve resources to support our strategic transformation.

Purchase Obligations and Lease

The following table sets forth our capital commitment, products and services purchase commitment and operating lease obligations as of December 31, 2022:

	Payment due by December 31,				
	Total	1 Year	1-3 Years	3-5 Years	Over 5 Years
	(RMB in thousands)				
Capital commitment	450,000	182,000	268,000	—	—
Products and services purchase commitment	88,675	88,675	—	—	—
Operating lease obligations ⁽¹⁾	141,921	85,082	41,088	14,744	1,007
Total	<u>680,596</u>	<u>355,757</u>	<u>309,088</u>	<u>14,744</u>	<u>1,007</u>

Note:

(1) Operating lease obligations consist of the obligations under the lease agreements covering our warehouses, stores and office spaces.

We intend to fund our existing and future material cash requirements with our existing cash balance and proceeds. We will continue to make cash commitments prudently, including capital expenditures, to meet the expected growth of our business.

We provide a financial guarantee to our depository bank for collection of minimum annual service fees until 2024 and place a security deposit of US\$6.0 million in the depository bank. The security bank deposit will be forfeited up to US\$6.0 million if the depository bank is not able to collect the contractual minimum annual service fees from ADR holders. As of December 31, 2022, the financial guarantee was still within the validity period of the contract and will persist until the guarantee period expired.

In addition, we provided financial guarantees to joint ventures for the purpose of obtaining bank loans. As of December 31, 2022, the total amount of financial guarantees provided to joint ventures was RMB8.2 million (US\$1.2 million). The guarantees are typically secured by the assets of the joint ventures, and we believe that the probability of having to make payments under the guarantees is remote. Nevertheless, we have assessed the associated risks and potential liabilities and have recognized a contingent liability in our financial statements. We will continue to monitor the performance of the joint ventures and assess the risks associated with the guarantees.

Except for the guarantees provided to the depository bank and a joint venture, we have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. In addition, we have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or product development services with us.

Other than as shown above, we did not have any significant capital and other commitments, long-term obligations or guarantees as of December 31, 2022.

Holding Company Structure

Yatsen Holding Limited is a holding company with no material operations of its own. We conduct our operations primarily through our PRC subsidiaries, the VIE and its subsidiaries in China. As a result, Yatsen Holding Limited's ability to pay dividends depends upon dividends paid by our PRC subsidiaries. If our existing PRC subsidiaries or any newly formed ones incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our wholly foreign-owned subsidiaries in China are permitted to pay dividends to us only out of its retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of our subsidiaries and the VIE in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of their registered capital. In addition, our wholly foreign-owned subsidiaries in China may allocate a portion of their after-tax profits based on PRC accounting standards to enterprise expansion funds and staff bonus and welfare funds at their discretion, and the VIE may allocate a portion of its after-tax profits based on PRC accounting standards to a surplus fund at its discretion. The statutory reserve funds and the discretionary funds are not distributable as cash dividends. Remittance of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by SAFE. Our PRC subsidiaries have not paid dividends and will not be able to pay dividends until they generate accumulated profits and meet the requirements for statutory reserve funds.

C. Research and Development, Patents and Licenses, etc.

See "Item 4. Information On the Company-B. Business Overview—Data and Technology," "—Data Security and Privacy" and "—Trademark and Intellectual Property."

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2022 to December 31, 2022 that are reasonably likely to have a material effect on our net sales or revenues, income from continuing operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial condition.

E. Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations relates to our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, costs and expenses, and related disclosures. On an on-going basis, we evaluate our estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Since our financial reporting process inherently relies on the use of estimates and assumptions, our actual results could differ from what we expect.

We consider an accounting estimate to be critical if: (i) the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and (ii) changes in the estimate that are reasonably likely to occur from period to period or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations. There are other items within our financial statements that require estimation but are not deemed critical, as defined above. Changes in estimates used in these and other items could have a material impact on our financial statements. For a detailed discussion of our significant accounting policies and related judgments, see Note 2 of the Notes to the Consolidated Financial Statements.

Inventory Valuation

We carry inventory on our balance sheet at the estimated lower of cost or market. Cost is determined by the weighted average method for our inventories. We carry obsolete, damaged and excess inventory at the net realizable value, which we determine by assessing historical recovery rates, current market conditions and our future marketing and sales plans. Because our assessment of net realizable value is made at a point in time, there are inherent uncertainties related to our value determination. Market factors and other conditions underlying the net realizable value may change, resulting in further reserve requirements. A reduction in the carrying amount of an inventory item from cost to market value creates a new cost basis for the item that cannot be reversed at a later period. While we believe that adequate write-downs for inventory obsolescence have been provided in the consolidated financial statements, consumer tastes and preferences will continue to change and we could experience additional inventory write-downs in the future.

Rebates, discounts and other cash consideration received from a vendor related to inventory purchases are reflected as reductions in the cost of the related inventory item, and are therefore reflected in the “Cost of Sales” line in our Consolidated Statements of Income when the related inventory item is sold. See Note 6 of the Notes to the Consolidated Financial Statements for information regarding inventory.

Goodwill

We review goodwill and indefinite-lived intangible assets for impairment annually in the fourth quarter of our fiscal year, or more frequently as warranted by events or changes in circumstances which indicate that the carrying amount may not be recoverable. We may first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit or indefinite-lived intangible asset is less than its carrying amount. If, based on the results of the qualitative assessment, it is concluded that it is not more likely than not that the fair value of a reporting unit or indefinite-lived asset exceeds its carrying value, a quantitative test is performed. Under the quantitative test, we compare the carrying value of the reporting unit or indefinite-lived intangible asset to its fair value, which we estimate using a discounted cash flow analysis or by comparison to the market values of similar assets. If the carrying value exceeds its fair value, we record an impairment charge equal to the excess of the carrying value over the related fair value. The assumptions used in such valuations such as projected future cash flows, discount rates, growth rates, and determination of appropriate market comparables and recent transactions, are subject to volatility and may differ from actual results. Under a qualitative assessment, we assess various factors including industry and market conditions, macroeconomic conditions and performance of our businesses.

Our goodwill of \$857.1 million as of December 31, 2022 was mainly related to the *Eve Lom*, *DR.WU*, and other reporting units. In connection with our annual goodwill impairment testing performed during 2022, we performed a

quantitative assessment utilizing an income approach to estimate the fair value of *Eve Lom*, and the fair value estimate exceeded its carrying amount. The most significant assumptions include revenue growth rates, gross profit ratios, the discount rates and terminal value, all of which are used to estimate the fair value of the reporting units. The tests indicated the reporting units had fair values that exceeded their carrying values, and no impairment of goodwill was identified as a result of our annual testing conducted in 2022. See Note 10 of the Notes to the Consolidated Financial Statements for information regarding goodwill.

Business Combinations

We allocate the fair value of purchase consideration to the tangible assets acquired, liabilities assumed, and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows and discount rates.

Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. Allocation of purchase consideration to identifiable assets and liabilities affects our amortization expense, as acquired finite-lived intangible assets are amortized over the useful life, whereas any indefinite lived intangible assets, including goodwill, are not amortized. Changes in these estimates and assumptions could materially affect the determination of the asset's fair value.

Valuation and recognition of share-based compensation arrangements

Compensation expense is recognized for all grants of share options and restricted share units. Determining the appropriate valuation model and estimating the fair values of share option grants requires the input of subjective assumptions, including risk-free interest rate, expected stock price volatility, dividend yields, expected term, and forfeiture rates. The expected volatility assumption is based partially upon the historical volatility of our ordinary shares, which may or may not be a true indicator of future volatility. The assumptions used in calculating the fair values of share option grants represent management's best estimates, but these estimates involve inherent uncertainties and the application of judgment. As a result, if factors change and different assumptions are used, share-based compensation expense could be significantly different from what we recorded in the current period. See Note 19 of the Notes to the Consolidated Financial Statements for information regarding share-based compensation arrangements.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Executive Officers

The following table sets forth information regarding our directors and executive officers as of the date of this annual report.

Directors and Executive Officers	Age	Position/Title
Jinfeng Huang	39	Chairman of the Board of Directors and Chief Executive Officer
Donghao Yang	51	Director and Chief Financial Officer
Jing Cheng	51	Chief Scientific Officer
Sidney Xuande Huang	57	Independent Director
Bonnie Yi Zhang	49	Independent Director
Jiming Ha	60	Independent Director

Jinfeng Huang is our founder and has served as our director and chief executive officer since our inception. Mr. Huang served as a vice president at Hunan Yujiahui Cosmetics Co., Ltd. from 2011 to 2016. Prior to that, Mr. Huang served as a market research manager at Guangzhou P&G Co., Ltd. from 2007 to 2010. Mr. Huang received his bachelor's degree in international commerce and trading from Sun Yat-sen University in 2007 and his MBA degree from Harvard Business School in 2017.

Donghao Yang has served as our director since July 2020 and our chief financial officer since November 2020. Mr. Yang served as the chief financial officer at Vipshop Holdings Ltd. (NYSE: VIPS) from August 2011 to November 2020. Prior to joining Vipshop, Mr. Yang held senior executive and managerial positions in several public and private companies, including serving as the chief financial officer of Synutra International Inc. (NASDAQ: SYUT) from May 2010 to August 2011, as the chief financial officer of Greater China of Tyson Foods, Inc. (NYSE: TSN) from March 2007 to April 2010, and as a finance director of Asia Pacific of Valmont Industries, Inc. (NYSE: VMI) from October 2003 to March 2007. Mr. Yang has been a member of the board of directors of XPeng, Inc. (NYSE: XPEV) since August 2020, and has joined the board of directors of Vipshop since November 2020. Mr. Yang received his bachelor's degree in international economics from Nankai University in 1993 and his MBA from Harvard Business School in 2003.

Jing Cheng has over 25 years of experience in research and development in the beauty industry. Prior to joining the Company, Ms. Cheng worked at Estee Lauder Companies (NYSE: EL) for 17 years, having served in a number of senior management and research positions, including as Vice President, APAC R&D, since July 2014. From July 2001 to January 2005, Ms. Cheng worked at Revlon, leading technical, quality control, regulatory and manufacturing organizations in China. Before 2001, she worked at several other companies, including Henkel from July 2000 to July 2001. Ms. Cheng received her bachelor's degree in polymer science from Shanghai Jiao Tong University, and her master's degree in fine chemistry from East China University of Science and Technology. She also completed the Fudan-Olin Executive MBA program co-held by Washington University in St. Louis and Fudan University in 2009.

Sidney Xuande Huang has served as our independent director since November 2020. Mr. Huang is currently a senior advisor to JD.Com, Inc. (NASDAQ: JD; HKSE: 9618) and was its chief financial officer from September 2013 until his retirement in September 2020, including the last three months as an executive coach to his successor. Mr. Huang has been a member of the board of directors of Kuaishou Technology (HKSE: 1024) since February 2021 and Tuya Inc. (NYSE: TUYA and HKSE: 2391) since June 2022. Prior to JD.com, Mr. Huang was the chief financial officer of VancelInfo Technologies Inc. (NYSE: VIT) and its successor company, Pactera Technology International Ltd., from July 2006 to September 2013. He also served as the co-president of VancelInfo Technologies Inc. from 2011 to 2012 and its chief operating officer from 2008 to 2010. Prior to VancelInfo Technologies Inc., he was the chief financial officer of two other China-based companies in technology and internet sectors between 2004 and 2006. Mr. Huang was an investment banker at Citigroup Global Markets Inc. in New York from 2002 to 2004. He held various positions including audit manager at KPMG LLP from 1996 to 2000 and was a Certified Public Accountant in the State of New York. Mr. Huang is currently a Foundation Fellow at St Antony's College of Oxford University, where he was an academic visitor focusing on geoeconomics from 2021 to 2022. He obtained his master's degree in business administration with distinction from the Kellogg School of Management at Northwestern University as an Austin Scholar. He received his bachelor's degree in accounting from Bernard M. Baruch College, where he graduated as class valedictorian.

Bonnie Zhang has served as our independent director since November 2020. Ms. Zhang has served as independent non-executive director of Swire Pacific Limited (HKSE: 0019), a Hong Kong based international conglomerate with a diversified portfolio of market leading businesses, since June 2022, and independent director of Hesai Group (NASDAQ: HSAI), a Chinese LiDAR manufacturing company, since February 2023. Ms. Zhang served as an independent director of TuSimple, Inc. (NASDAQ: TSP), an autonomous driving company from September 2020 to May 2022. Ms. Zhang served as independent director of Dada Nexus Limited (NASDAQ: DADA), a local on-demand retail and delivery platform in China, from June 2020 to August 2022. Ms. Zhang has served as the chief financial officer of Sina Corporation (formerly NASDAQ: SINA, taken private in 2021) since March 2015. From March 2014 to March 2015, Ms. Zhang served as the chief financial officer of Weibo Corporation (NASDAQ: WB and HKSE: 9898), a social media platform in China and one of Sina Corporation's subsidiaries. Before joining Weibo, Ms. Zhang was the chief financial officer of AdChina Ltd., an integrated internet advertising platform in China, from May 2011 to February 2014. Prior to that, Ms. Zhang was an audit partner of Deloitte Touche Tohmatsu based in Shanghai, with a focus on serving Chinese companies making initial public offerings in the United States and Chinese companies listed in the United States, from October 2007 to April 2011. Ms. Zhang served as a senior manager in the National Office SEC Services group of Deloitte & Touche, LLP from May 2005 to August 2007, where she was responsible for pre-issuance reviews of securities offering documents and periodic reports to be filed with the SEC with a focus on foreign private issuers. Ms. Zhang received a bachelor's degree in business administration from McDaniel College. Ms. Zhang is a member of the American Institution of Certified Public Accountants.

Jiming Ha has served as our independent director since March 2021. Dr. Ha was a visiting scholar at the University of Virginia from May 2019 to June 2021. From April 2018 to January 2021, Dr. Ha served as an independent director of Lufax Holding Ltd (NYSE: LU). From January 2018 to December 2019, he was an independent director of Luokung Technology Corp. (NASDAQ: LKCO). Prior to his directorship with Luokung Technology Corp., Dr. Ha was a senior fellow at China Finance 40 Forum from May 2017 to January 2018 and served as a managing director at Goldman Sachs (Asia) L.L.C. in investment banking services from October 2010 to April 2017. He was the chief economist at China International Capital Corporation from 2004 to 2010. Before that, Dr. Ha was a senior economist at the International Monetary Fund (IMF) from 1993 to 2004, and worked at the Hong Kong Monetary Authority within the IMF from 2001 to 2003. He also served as the IMF resident representative to Indonesia from 1999 to 2001. Dr. Ha received his Ph.D degree in economics from the University of Kansas, and his master's degree and bachelor's degree in science from Fudan University.

B. Compensation of Directors and Executive Officers

For the year ended December 31, 2022, we paid to our executive officers an aggregate of RMB3.0 million (US\$0.4 million) in cash and RMB0.4 million (US\$57 thousand) for benefits including certain contributions equal to certain percentages of each officer's salary for his or her pension insurance, medical insurance, supplementary medical insurance, unemployment insurance and other statutory benefits and a housing provident fund as required by PRC law, and US\$0.2 million to our independent directors. We did not make additional payments to our executive officers for their role as directors for the year ended December 31, 2022.

Share Incentive Plan

2018 Share Option Plan

Our shareholders and board of directors adopted the 2018 Share Option Plan in September 2018, which was amended and restated respectively in July 2019, March 2020, and September 2020, to attract and retain the best available personnel, provide additional incentives to employees and directors, and promote the success of our business. The maximum aggregate number of Class A ordinary shares which may be issued pursuant to all awards under the 2018 Share Option Plan is 249,234,508. As of December 31, 2022, options to purchase an aggregate amount of 182,363,958 Class A ordinary shares under the 2018 Share Option Plan had been granted, excluding awards that were forfeited or canceled after the relevant grant dates.

The following paragraphs describe the principal terms of the 2018 Share Option Plan.

Type of Awards. The 2018 Share Option Plan permits the awards of options.

Plan Administration. The chief executive officer and director of our company, Mr. Jinfeng Huang, was appointed as the administrator of the 2018 Share Option Plan. The administrator determines, among others, the employees eligible to receive awards, the number of options to be granted to each eligible employee, and the terms and conditions of each award grant.

Award Agreement. Awards granted under the 2018 Share Option Plan are evidenced by a letter of offer delivered by us and a letter of acceptance delivered by the award recipient, which sets forth the terms, conditions and limitations for each award, which may include the term of the award, restrictions on transfer of the award, and the provisions applicable in the event that the grantee's employment or service terminates.

Eligibility. We may grant awards to our directors, executive officers and employees.

Vesting Schedule. In general, the administrator for the 2018 Share Option Plan is authorized under the plan to determine the vesting schedule, which is specified in the relevant letter of offer.

Exercise of Awards. The 2018 Share Option Plan administrator determines the exercise or purchase price, as applicable, for each award, which is stated in the relevant letter of offer. Options that are vested and exercisable shall only be exercised after the initial public offering of our company and will terminate if they are not exercised prior to the time set by the plan administrator at the time of grant. However, the maximum exercisable term is ten years from the date on which any given option is fully vested.

Transfer Restrictions. Awards may not be assigned in any manner by the participant other than in accordance with the exceptions provided in the 2018 Share Option Plan.

Termination and Amendment of the Plan. Unless terminated earlier, the 2018 Share Option Plan has a term of ten years from September 11, 2020. Our board of directors has the authority to terminate, amend, suspend or modify the 2018 Share Option Plan, subject to shareholder approval to the extent necessary to comply with applicable law. However, without the prior written consent or sanction of such number of award recipients as shall together hold options in respect of not less than one half in nominal value of all Class A ordinary shares then subject to the then outstanding options, no alteration may adversely affect the terms of issue of any outstanding award previously granted or agreed to be granted pursuant to the 2018 Share Option Plan.

2022 Share Incentive Plan

Our shareholders and board of directors have approved and authorized the adoption of the 2022 Share Incentive Plan, effective on January 1, 2023. The 2022 Share Incentive Plan will expire on the tenth anniversary of its effective date. Under the 2022 Share Incentive Plan, the maximum aggregate number of ordinary shares of our company available for issuance is 1.5% of the total number of issued and outstanding shares (on an as-converted fully-diluted basis) as of December 31, 2022, plus an annual increase by (i) (A) 1.5% of the total number of issued and outstanding shares (on an as-converted fully-diluted basis) as of the last day of the immediately preceding fiscal year for each of the first two fiscal years of our company beginning January 1, 2024, and (B) 1.0% of the total number of issued and outstanding shares (on an as-converted fully-diluted basis) as of the last day of the immediately preceding fiscal year for each subsequent fiscal year of our company during the term of the 2022 Share Incentive Plan, or (ii) such fewer number of shares as may be determined our board of directors. As of December 31, 2022, no options, restricted shares or restricted share units had been granted under the 2022 Share Incentive Plan.

The following paragraphs describe the principal terms of the 2022 Share Incentive Plan.

Type of Awards. The 2022 Share Incentive Plan permits the awards of options, restricted shares, and restricted share units.

Plan Administration. Our chief executive officer and director, Mr. Jinfeng Huang, was appointed as the administrator of the 2022 Share Incentive Plan. In the event that Mr. Jinfeng Huang is unable to carry out his duties or in the event of conflict of interest, our board of directors or any committee authorized by our board would act as the administrator. The administrator determines, among others, the employees eligible to receive awards, the number of options to be granted to each eligible employee, and the terms and conditions of each award grant.

Award Agreement. Awards granted under the 2022 Share Incentive Plan are evidenced by an applicable award agreement, which sets forth the terms, conditions and limitations for each award, which may include the term of the award, restrictions on transfer of the award, and the provisions applicable in the event that the grantee's employment or service terminates.

Eligibility. We may grant awards to the employees (including officers and directors) of our company and any subsidiary of our company, and consultants.

Vesting Schedule. In general, the administrator for the 2022 Share Incentive Plan is authorized under the plan to determine the vesting schedule, which is specified in the relevant award agreement.

Exercise of Awards. The 2022 Share Incentive Plan administrator determines the exercise or purchase price, as applicable, for each award, which is stated in the relevant award agreement. The maximum exercisable term is ten years from the date on which any given award is fully vested.

Transfer Restrictions. Awards may not be assigned in any manner by the participant other than in accordance with the exceptions provided in the 2022 Share Incentive Plan.

Termination and Amendment of the Plan. Unless terminated earlier, the 2022 Share Incentive Plan has a term of ten years from January 1, 2023. Our board of directors has the authority to terminate, amend or modify the 2022 Share Incentive Plan, subject to shareholder approval to the extent necessary to comply with applicable law. However, without the prior written consent of the participant, no termination, amendment, or modification of the 2022 Share Incentive Plan shall adversely affect in any material way any award previously granted pursuant to the 2022 Share Incentive Plan. Historically, a total of 149,363,572 restricted Class A ordinary shares and 21,356,415 restricted Class B ordinary shares resulting from early exercise or modification of options granted to our employees, officers and directors had been issued to and were held by three trusts for the grantees' benefit. These shares have been and continue to be subject to satisfaction of the service conditions set forth in the applicable equity award agreements. As of February 28, 2023, a total of 123,561,172 Class A ordinary shares and 0 Class B ordinary shares related to options granted to our employees, officers and directors were held by the three trusts for the grantees' benefit, which have been and will continue to be subject to satisfaction of the service conditions set forth in the applicable equity award agreements.

The following table summarizes, as of February 28, 2023, the outstanding options that were granted to our directors and executive officers under the 2018 Share Option Plan and the 2022 Share Incentive Plan.

Name	Ordinary Shares Underlying Outstanding Options	Exercise Price (US\$/Share)	Grant Date	Expiration Date
Bonnie Yi Zhang	*	0.025	March 25, 2021	November 19, 2034
	*	0.025	March 1, 2022	November 18, 2035
Jiming Ha	*	0.025	March 25, 2021	March 11, 2035
	*	0.025	March 1, 2022	November 18, 2035
Sidney Xuande Huang	*	0.025	March 25, 2021	November 19, 2034
	*	0.025	March 1, 2022	November 18, 2035
Jing Cheng	*	0.025	February 28, 2023	February 1, 2037
Weihua Chen ⁽¹⁾	6,742,932	0.025	July 29, 2021	May 7, 2035
Total	21,972,144	-	-	-

Notes:

* The options held by each of these directors and executive officers represent less than 1% of our total Class A ordinary shares on an as-converted basis outstanding as of February 28, 2023.

(1) Mr. Weihua Chen, our previous chief technology officer, resigned effective as of March 8, 2023.

The following table summarizes, as of February 28, 2023, the number of restricted ordinary shares related to the options granted to our officers and directors under the 2018 Share Option Plan and the 2022 Share Incentive Plan.

Name	Number of Shares Underlying Options
Donghao Yang	44,820,112

Employment Agreements and Indemnification Agreements

We have entered into employment agreements with each of our executive officers. Under these agreements, each of our executive officers is employed for a specified time period. We may terminate employment for cause for certain acts of the executive officer, such as conviction or plea of guilty to a felony or any crime involving moral turpitude, negligent or dishonest acts to our detriment, or misconduct or a failure to perform agreed duties. We may also terminate an executive officer's employment without cause upon a 60-day advance written notice. In such case of termination by us, we will provide severance payments to the executive officer as expressly required by applicable law of the jurisdiction where the executive officer is based. The executive officer may resign at any time with a 60-day advance written notice.

Each executive officer has agreed to hold, both during and after the termination or expiry of his or her employment agreement, in strict confidence and not to use, except as required in the performance of his or her duties in connection with the employment or pursuant to applicable law, any of our confidential information or trade secrets, any confidential information or trade secrets of our customers or prospective customers, or the confidential or proprietary information of any third-party received by us and for which we have confidential obligations. The executive officers have also agreed to disclose in confidence to us all inventions, designs and trade secrets which they conceive, develop or reduce to practice during the executive officer's employment with us and to assign all right, title and interest in them to us, and assist us in obtaining and enforcing patents, copyrights and other legal rights for these inventions, designs and trade secrets.

In addition, each executive officer has agreed to be bound by non-competition and non-solicitation restrictions during the term of his or her employment and typically for one year following the last date of employment. Specifically, each executive officer has agreed not to (i) approach our suppliers, clients, customers or contacts or other persons or entities introduced to the executive officer in his or her capacity as a representative of us for the purpose of doing business with such persons or entities that will harm our business relationships with these persons or entities; (ii) assume employment with or provide services to any of our competitors, or engage, whether as principal, partner, licensor or otherwise, any of our competitors, without our express consent; or (iii) seek directly or indirectly, to solicit the services of any of our employees who is employed by us on or after the date of the executive officer's termination, or in the year preceding such termination, without our express consent.

We have also entered into indemnification agreements with each of our directors and executive officers. Under these agreements, we agree to indemnify our directors and executive officers against certain liabilities and expenses incurred by such persons in connection with claims made by reason of their being a director or officer of our company.

C. Board Practices

Board of Directors

Our board of directors consists of five directors. A director is not required to hold any shares in our company by way of qualification. A director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with our company is required to declare the nature of his or her interest at a meeting of our directors. A director may vote with respect to any contract, proposed contract or arrangement notwithstanding that he or she may be interested therein, and if he or she does so his or her vote shall be counted and he or she may be counted in the quorum at any meeting of our directors at which any such contract or proposed contract or arrangement is considered. Our directors may exercise all the powers of our company to borrow money, mortgage or charge its undertaking, property and uncalled capital, and to issue debentures or other securities whenever money is borrowed or as security for any debt, liability or obligation of our company or of any third party. None of our non-executive directors has a service contract with us that provides for benefits upon termination of service.

Committees of the Board of Directors

We have established three committees under the board of directors: an audit committee, a compensation committee and a nominating and corporate governance committee. We have adopted a charter for each of the three committees. Each committee's members and functions are described below.

Audit Committee. Our audit committee consists of Sidney Xuande Huang, Bonnie Yi Zhang and Jiming Ha. Sidney Xuande Huang is the chairman of our audit committee. We have determined that Sidney Xuande Huang, Bonnie Yi Zhang and Jiming Ha satisfy the "independence" requirements of Section 303A of the Corporate Governance Rules of the New York Stock Exchange and Rule 10A-3 under the Exchange Act. We have determined that each of Sidney Xuande Huang and Bonnie Yi Zhang qualifies as an "audit committee financial expert." The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- appointing the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management's response;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing the adequacy and effectiveness of our accounting and internal control policies and procedures and any steps taken to monitor and control major financial risk exposures;
- reviewing and approving all proposed related party transactions;
- meeting separately and periodically with management and the independent auditors; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

Compensation Committee. Our compensation committee consists of Bonnie Yi Zhang, Sidney Xuande Huang and Jiming Ha. Bonnie Yi Zhang is the chairman of our compensation committee. We have determined that Bonnie Yi Zhang, Sidney Xuande Huang and Jiming Ha satisfy the "independence" requirements of Section 303A of the Corporate Governance Rules of the New York Stock Exchange. The compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors

and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- reviewing and approving, or recommending to the board for its approval, the compensation for our chief executive officer and other executive officers;
- reviewing and recommending to the board for determination with respect to the compensation of our non-employee directors;
- reviewing periodically and approving any incentive compensation or equity plans, programs or similar arrangements; and
- selecting compensation consultant, legal counsel or other adviser only after taking into consideration all factors relevant to that person's independence from management.

Nominating and Corporate Governance Committee. Our nominating and corporate governance committee consists of Jiming Ha, Sidney Xuande Huang and Bonnie Yi Zhang. Jiming Ha is the chairman of our nominating and corporate governance committee. Jiming Ha, Bonnie Yi Zhang and Sidney Xuande Huang satisfy the "independence" requirements of Section 303A of the Corporate Governance Rules of the New York Stock Exchange. The nominating and corporate governance committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee is responsible for, among other things:

- selecting and recommending to the board nominees for election by the shareholders or appointment by the board;
- reviewing annually with the board the current composition of the board with regards to characteristics such as independence, knowledge, skills, experience and diversity;
- making recommendations on the frequency and structure of board meetings and monitoring the functioning of the committees of the board; and
- advising the board periodically with regards to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any remedial action to be taken.

Duties of Directors

Under Cayman Islands law, our directors owe fiduciary duties to our company, including a duty of loyalty, a duty to act honestly, and a duty to act in what they consider in good faith to be in our best interests. Our directors must also exercise their powers only for a proper purpose. Our directors also owe to our company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his or her duties a greater degree of skill than may reasonably be expected from a person of his or her knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time, and the class rights vested thereunder in the holders of the shares. In certain limited exceptional circumstances, a shareholder may have the right to seek damages in our name if a duty owed by our directors is breached.

Our board of directors has all the powers necessary for managing, and for directing and supervising, our business affairs. The functions and powers of our board of directors include, among others:

- convening shareholders' annual and extraordinary general meetings and reporting its work to shareholders at such meetings;
- declaring dividends and distributions;
- appointing officers and determining the term of office of the officers;

- exercising the borrowing powers of our company and mortgaging the property of our company; and
- approving the transfer of shares in our company, including the registration of such shares in our share register.

Terms of Directors and Officers

Our directors may be appointed by the affirmative vote of a simple majority of our board of directors present and voting at a board meeting, or by an ordinary resolution of our shareholders. Our directors are not subject to a term of office unless otherwise agreed between us and the directors. A director may be removed from office by the affirmative vote of two thirds (2/3) of the directors then in office (except with regard to the removal of the chairman, who may be removed from office by the affirmative vote of all directors), or by an ordinary resolution of our shareholders (except with regard to the removal of the chairman, who may be removed from office by a special resolution). A director will cease to be a director if, among other things, the director (i) becomes bankrupt or makes any arrangement or composition with his creditors, (ii) dies or is found by our company to be or becomes of unsound mind, (iii) resigns his or her office by notice in writing to the company, or (iv) without special leave of absence from our board, is absent from three consecutive board meetings and our directors resolve that his or her office be vacated.

Our officers are elected by and serve at the discretion of our board of directors.

D. Employees

We had 1,837 full-time employees as of December 31, 2022 and most of our full-time employees are located in China. The following table sets forth the number of our full-time employees as of December 31, 2022:

Function	Number of Employees
R&D, Product Development and Production Management	198
Marketing	231
Online Operation	532
New Retail Business Development and Management	65
Data and Technology Engineers	104
Online Sales and Customer Service	147
Offline Beauty Advisors	334
Others	226
Total	1,837

Our success depends on our ability to attract, motivate, train and retain qualified personnel. We believe we offer our employees competitive compensation packages and an environment that encourages self-development and creativity. As a result, we have generally been able to attract and retain high-quality and qualified personnel. We believe that we maintain a good working relationship with our employees, and we have not experienced any material labor disputes in the past.

As required by regulations in China, we participate in various employee social security plans that are organized by municipal and provincial governments for our PRC-based employees, including pension, unemployment insurance, childbirth insurance, work-related injury insurance, medical insurance, supplementary medical insurance for executives, and housing provident fund. We are required under PRC law to make contributions from time to time to employee benefit plans for our PRC-based employees at specified percentages of the salaries, bonuses and certain allowances of such employees, up to a maximum amount specified by the local governments in China.

We enter into standard employment agreements with our employees. Our employment agreements with our senior management include standard confidentiality and non-compete clauses.

E. Share Ownership

Except as specifically noted, the following table sets forth information with respect to the beneficial ownership of our ordinary shares on an as-converted basis as of February 28, 2023 by:

- each of our directors and executive officers; and
- each of our principal shareholders who beneficially owns 5% or more of our total outstanding shares.

The calculations in the table below are based on 2,030,600,883 Class A ordinary shares and 666,572,880 Class B ordinary shares (inclusive of the 123,561,172 Class A ordinary shares and 0 Class B ordinary shares held under the trusts for the benefit of certain employees, directors and officers of our company as disclosed in “Item 6. Directors, Senior Management and Employees—B. Compensation of Directors and Executive Officers—Share Incentive Plan”) outstanding on an as-converted basis as of February 28, 2023.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

	Ordinary Shares Beneficially Owned				
	Class A Ordinary Shares	Class B Ordinary Shares	Total Ordinary Shares	% of Beneficial Ownership	% of Aggregate Voting Power***
Directors and Executive Officers**:					
Jinfeng Huang ⁽¹⁾	5,736,314	666,572,880	672,309,194	24.9%	86.8%
Donghao Yang	33,615,080	—	33,615,080	1.2%	0.2%
Jing Cheng	—	—	—	—	—
Sidney Xuande Huang	*	—	*	*	*
Bonnie Yi Zhang	*	—	*	*	*
Jiming Ha	*	—	*	*	*
Weihua Chen ⁽²⁾	*	—	*	*	*
All Directors and Executive Officers as a Group	47,228,062	666,572,880	713,800,942	26.4%	87.0%
Principal Shareholders:					
Entities affiliated with Jinfeng Huang ⁽¹⁾	5,736,314	666,572,880	672,309,194	24.9%	86.8%
Hillhouse Entities ⁽³⁾	300,560,602	—	300,560,602	11.1%	2.0%
ZhenFund Entities ⁽⁴⁾	224,286,241	—	224,286,241	8.3%	1.5%
Banyan Partners Entities ⁽⁵⁾	185,495,825	—	185,495,825	6.9%	1.2%

Notes:

* Less than 1% of our total Class A ordinary shares on an as-converted basis outstanding as of February 28, 2023.

** Except as indicated otherwise below, the business address of our directors and executive officers is Building No. 35, Art Port International Creation Center, No. 2519 Xingang East Road, Haizhu District, Guangzhou 510330, Guangdong Province, People’s Republic of China.

*** For each person or group included in this column, percentage of voting power is calculated by dividing the voting power beneficially owned by such person or group by the voting power of all of our Class A and Class B ordinary shares as a single class. Each holder of Class B ordinary shares is currently entitled to twenty votes per share, and each holder of our Class A ordinary shares is entitled to one vote per share on all matters submitted to them for a vote. Our Class A ordinary shares and Class B ordinary shares vote together as a single class on all matters submitted to a vote of our shareholders, except as may otherwise be required by law. Our Class B ordinary shares are convertible at any time by the holder thereof into Class A ordinary shares on a one-for-one basis.

- (1) Represents (i) 666,572,880 Class B ordinary shares held by Slumdunk Holding Limited, a British Virgin Islands business company, and (ii) 5,736,314 Class A ordinary shares held by Yellow Bee Limited, a British Virgin Islands business company. Slumdunk Holding Limited owns the entire voting shares of Yellow Bee Limited and Mr. Jinfeng Huang is the sole director of Yellow Bee Limited. The business address of Yellow Bee Limited is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. The business address of Slumdunk Holding Limited is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG 1110, British Virgin Islands.
- (2) Mr. Weihua Chen, our previous chief technology officer, resigned effective as of March 8, 2023.
- (3) Represents (i) 1,003,056 Class A ordinary shares in the form of ADSs held by funds managed by HHLR Advisors, Ltd., a Cayman Islands company, and (ii) 299,557,546 Class A ordinary shares held by funds managed by Hillhouse Investment Management, Ltd., a Cayman Islands company, based on the information contained in the Schedule 13G/A filed by HHLR Advisors, Ltd. and Hillhouse Investment

Management, Ltd. with the SEC on February 14, 2023. HHLR Advisors, Ltd. and Hillhouse Investment Management, Ltd. are under common control and share certain policies, personnel and resources. The business address of each of HHLR Advisors, Ltd. and Hillhouse Investment Management, Ltd. is Office #122, Windward 3 Building, Regatta Office Park, West Bay Road, Grand Cayman, Cayman Islands, KY1-9006.

- (4) Represents (i) 166,673,701 Class A ordinary shares and 55,557,900 Class A ordinary shares in the form of ADSs held by Zhen Partners Fund IV, L.P., (ii) 637,328 Class A ordinary shares in the form of ADSs held by Zhen Advisors Ltd., and (iii) 1,417,312 Class A ordinary shares in the form of ADSs held by Success Origin Limited, based on the information contained in the Schedule 13G/A filed by the relevant reporting persons with the SEC on February 14, 2023. The general partner of Zhen Partners Fund IV, L.P. is Zhen Partners Management (MTGP) IV, L.P., whose general partner is Zhen Partners Management (TTGP) IV, Ltd. Zhen Advisors Ltd. is wholly owned by Zhen International Ltd., which holds 51% equity interest in Zhen Partners Management (TTGP) IV, Ltd. Zhen International Ltd. and Success Origin Limited are wholly owned by Rosy Glow Holdings Limited. Best Belief PTC Limited, trustee of The Best Belief Family Trust, holds 100% equity interest in Rosy Glow Holdings Limited. Mr. Xu Xiaoping is the settlor of the Best Belief Family Trust and has the shared voting and investment control over these shares. The business address of Zhen Fund entities is P.O. Box 10008, Willow House, Cricket Square, Grand Cayman, KY1-1001, Cayman Islands.
- (5) Represents 158,223,822 Class A ordinary shares directly held by Banyan Fund III and 27,272,003 Class A ordinary shares directly held by Banyan Fund III-A, based on the information contained in the Schedule 13G/A filed by the relevant reporting persons with the SEC on February 13, 2023. Banyan Partners Fund III, L.P. and Banyan Partners Fund III-A, L.P. are incorporated in the Cayman Islands and Banyan Partners III Ltd., a Cayman Islands company, is their general partner. The business address of both Banyan Partners Fund III, L.P. and Banyan Partners Fund III-A, L.P. is Walkers Corporate Limited, 190 Elgin Avenue, George Town, Grand Cayman, KY1-9008, Cayman Islands.

To our knowledge, as of February 28, 2023, 1,440,154,430 of our Class A ordinary shares were held by three record holders in the United States, among which, one is the depository of our ADS program that held 1,440,154,428 Class A ordinary shares. As of February 28, 2023, none of our Class B ordinary shares were held by U.S. record holders. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

F. Disclosure of A Registrant's Action to Recover Erroneously Awarded Compensation

Not applicable.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

See "Item 6. Directors, Senior Management and Employees—E. Share Ownership."

B. Related Party Transactions

Contractual Arrangements with The VIE

See "Item 4. Information on the Company—C. Organizational Structure."

Employment Agreements and Indemnification Agreements

See "Item 6. Directors, Senior Management and Employees—B. Compensation of Directors and Executive Officers—Employment Agreements and Indemnification Agreements."

Share Incentive Plans

See "Item 6. Directors, Senior Management and Employees—B. Compensation of Directors and Executive Officers—Share Incentive Plan."

Other Related Party Transactions

We purchased inventories and services from companies over which we exercise significant control in the amount of RMB15.2 million, RMB38.3 million and RMB137.5 million (US\$19.9 million) in 2020, 2021 and 2022, respectively. As of December 31, 2020, 2021 and 2022, the amount due to companies over which we exercise significant control was RMB11.8 million, RMB14.0 million and RMB27.2 million (US\$4.0 million) respectively, which were unsecured and interest free. Our sales of inventories to a company controlled by our chief executive officer was RMB11.4 million (US\$1.7 million) for the year ended December 31, 2022. As of December 31, 2022, the amount due from a company controlled by our chief executive officer was RMB5.6 million (US\$0.8 million).

Shareholders Agreement

We entered into our seventh amended and restated shareholders agreement on September 11, 2020 with our shareholders, which consist of holders of ordinary shares and preferred shares. The shareholders agreement provides for certain shareholders' rights, including information rights, right of participation, right of first refusal and co-sale rights and drag-along rights, and contains provisions governing our board of directors and other corporate governance matters. Certain special rights have automatically terminated upon the completion of our initial public offering.

Registration Rights

We have granted certain registration rights to our shareholders. Set forth below is a description of the registration rights granted under the shareholders agreement.

Demand Registration Rights. At any time after the earlier of (i) the fourth anniversary of September 11, 2020 or (ii) the closing of our initial public offering, holders of at least 30% of the registrable securities then outstanding may request in writing that we effect a registration of all registrable securities that the holders request to be registered and included in such registration by written notice. We are not obligated to effect a demand registration, however, if we have, within six months preceding the date of such request, already effected a demand registration or a Form F-3 registration, or a piggyback registration in which the current initiating holders could participate and, in case they participated, none of their registrable securities were excluded. We also have a right to defer filing of a registration statement for the period of not more than 90 days after the receipt of the request of the initiating holders if our board of directors determines in good faith that filing of a registration at such time will be materially detrimental to us and our shareholders. However, we cannot exercise the deferral right more than once during any 12-month period and cannot register any other securities during such period. In addition, we are not obligated to effect more than two demand registrations. Further, if the registrable securities are offered by means of an underwritten offering and the managing underwriter advises us that marketing factors require a limitation of the number of securities to be underwritten, a maximum of 75% of such registrable securities may be reduced as required by the underwriters and the number of the registrable securities will be allocated among the holders on a pro rata basis according to the number of registrable securities then outstanding held by each holder requesting registration, provided that in no event may any registrable securities be excluded from such underwriting unless all other securities are first excluded.

Registration on Form F-3. Holders of at least 30% of the registrable securities then outstanding have the right to request that we effect registration statements on Form F-3. We, however, are not obligated to effect such registration if, among other things, (i) Form F-3 is not available for such offering by the holders of registrable securities, (ii) the aggregate price of such offering is less than US\$1.0 million, and (iii) we have, within the 12-month period preceding the date of such request for Form F-3 registration, effected two registrations in which none of the current initiating holders' registrable securities were excluded. We have the right to defer filing of a Form F-3 registration statement for a period of not more than 60 days after the receipt of the request of the initiating holders if our board of directors determines in good faith that filing of such registration at such time will be materially detrimental to us and our shareholders, but we cannot exercise the deferral right more than once in any 12-month period and cannot register any other securities during such 60-day period.

Piggyback Registration Rights. If we propose to file a registration statement for a public offering of our securities other than relating to any employee benefit plan or a corporate reorganization, we must offer holders of our registrable securities an opportunity to include in the registration all or any part of their registrable securities. If the managing underwriters of any underwritten offering determine in good faith that marketing factors require a limitation

of the number of shares to be underwritten, the managing underwriters may decide to exclude shares from the registration and the underwriting and to allocate the number of securities first to us and second to each of the holders requesting the inclusion of their registrable securities on a pro rata basis based on the total number of registrable securities held by each such holder and third, to holders of other securities of our company, provided that (i) in no event may any registrable securities be excluded from such offering unless all other securities are first excluded, and (ii) in no event may the amount of the holders' registrable securities included in such registration be reduced below 25% of the aggregate number of registrable securities requested to be included in such offering.

Expenses of Registration. We will bear all registration expenses, other than underwriting discounts and selling commissions incurred in connection with any demand, piggyback or Form F-3 registration, except each holder that exercised its demand, Form F-3 or piggyback registration rights will bear such holder's proportionate share (based on the total number of shares sold in such registration other than for our account) of all underwriting discounts and selling commissions or other amounts payable to underwriters or brokers. We are also not required to pay for any expenses of any registration proceeding begun in response to holders' exercise of their demand registration rights if the registration request is subsequently withdrawn at the request of the holders of a majority of the registrable securities to be registered, subject to a few exceptions.

Termination of Obligations. We have no obligation to effect any demand, Form F-3 or piggyback registration on the fifth anniversary of the date of completion of our initial public offering.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

Legal Proceedings

We may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of our business. For example, on September 23, 2022, a putative securities class action lawsuit was filed against us, certain of our directors and officers, our authorized U.S. representative, a shareholder, and our November 2020 IPO underwriters in the U.S. District Court for the Southern District of New York (captioned *Maeshiro v. Yatsen Holding Limited et al.*, No. 1:22-cv-08165). Plaintiff in this case alleges, in sum and substance, that our registration statement filed in connection with our November 2020 initial public offering and other public disclosures contained false or misleading statements in violation of the U.S. federal securities laws. The case remains in its preliminary stage. We are currently unable to estimate the potential loss, if any, associated with the resolution of such lawsuits.

Litigation or any other legal or administrative proceeding, regardless of the outcome, is likely to result in substantial costs and diversion of our resources, including our management's time and attention. For the potential impact of legal or administrative proceedings on us, see "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—We may from time to time become a party to litigation, legal disputes, claims or administrative proceedings that may materially and adversely affect us."

Dividend Policy

Our board of directors has discretion on whether to distribute dividends, subject to certain requirements of Cayman Islands law. All dividends are subject to certain restrictions under Cayman Islands law, namely that our company may only pay dividends out of profits or share premium account, and provided always that in no circumstances may a dividend be paid if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business. Even if we decide to pay dividends, the form, frequency and amount will

depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant.

We do not have any present plan to pay any cash dividends on our Class A ordinary shares or Class B ordinary shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

We are a holding company incorporated in the Cayman Islands. We may rely on dividends from our subsidiary in China for our cash requirements, including any payment of dividends to our shareholders. PRC regulations may restrict the ability of our PRC subsidiary to pay dividends to us. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Dividend Distributions.”

If we pay any dividends on our Class A ordinary shares, we will pay those dividends which are payable in respect of the Class A ordinary shares underlying the ADSs to the depositary, as the registered holder of such Class A ordinary shares, and the depositary then will pay such amounts to the ADS holders in proportion to the Class A ordinary shares underlying the ADSs held by such ADS holders, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our Class A ordinary shares, if any, will be paid in U.S. dollars.

B. Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details.

See “—C. Markets.”

B. Plan of Distribution

Not applicable.

C. Markets

The ADSs, each representing four of our Class A ordinary shares, have been listed on the New York Stock Exchange under the symbol “YSG” since November 19, 2020.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The following are summaries of material provisions of our ninth amended and restated memorandum and articles of association that we have adopted and of the Companies Act, insofar as they relate to the material terms of our ordinary shares.

Objects of Our Company. Under our memorandum and articles of association, the objects of our company are unrestricted and we have the full power and authority to carry out any object not prohibited by the Cayman Islands law.

Ordinary Shares. Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of our Class A ordinary shares and Class B ordinary shares will have the same rights except for voting and conversion rights. Our ordinary shares are issued in registered form and are issued when registered in our register of members. We may not issue shares to bearer. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares.

Conversion. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any sale, transfer, assignment or disposition of any Class B ordinary shares by a holder thereof to any person or entity other than such person or such entity's affiliate, or upon a change of control of the ultimate beneficial ownership of any Class B ordinary shares to any person or entity who is not an affiliate of the registered holder of such Class B ordinary shares, such Class B ordinary shares will be automatically and immediately converted into an equal number of Class A ordinary shares.

Dividends. The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors or declared by our shareholders by ordinary resolution (provided that no dividend may be declared by our shareholders which exceeds the amount recommended by our directors). Our memorandum and articles of association provide that dividends may be declared and paid out of funds of our Company lawfully available therefor. Under the laws of the Cayman Islands, our company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business.

Voting Rights. Voting at any meeting of shareholders is by show of hands unless a poll is demanded. A poll may be demanded by the chairman of such meeting or any one shareholder present in person or by proxy. In respect to all matters subject to a shareholders' vote, each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to twenty votes, voting together as one class.

An ordinary resolution to be passed at a meeting by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast at a meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes cast attaching to the outstanding ordinary shares at a meeting. A special resolution will be required for important matters such as a change of name or making changes to our memorandum and articles of association. Our shareholders may, among other things, divide or combine their shares by ordinary resolution.

General Meetings of Shareholders. As a Cayman Islands exempted company, we are not obliged by the Companies Act to call shareholders' annual general meetings. Our memorandum and articles of association provide that we may (but are not obliged to) in each year hold a general meeting as our annual general meeting in which case we shall specify the meeting as such in the notices calling it, and the annual general meeting shall be held at such time and place as may be determined by our directors.

Shareholders' general meetings may be convened by the chairman of our board of directors or by our directors. Advance notice of at least seven calendar days is required for the convening of our annual general shareholders' meeting (if any) and any other general meeting of our shareholders. A quorum required for any general meeting of shareholders consists of at least one shareholder present or by proxy, representing not less than one-third of all votes attaching to the issued and outstanding shares in our company entitled to vote at general meeting.

The Companies Act provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. Our memorandum and articles of association provide that upon the requisition of any one or more of our shareholders who together hold shares which carry in aggregate not less than one-third of all votes attaching to the issued and outstanding shares of our company entitled to vote at general meetings, our board will convene an extraordinary general meeting and put the resolutions so requisitioned to a vote at such meeting. However, our memorandum and articles of association do not provide our shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders.

Transfer of Ordinary Shares. Subject to the restrictions set out in our memorandum and articles of association as set out below, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board of directors.

Our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which we have a lien. Our board of directors may also decline to register any transfer of any ordinary share unless:

- the instrument of transfer is lodged with us, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is properly stamped, if required;
- in the case of a transfer to joint holders, the number of joint holders to whom the ordinary share is to be transferred does not exceed four; and
- a fee of such maximum sum as the New York Stock Exchange may determine to be payable or such lesser sum as our directors may from time to time require is paid to us in respect thereof.

If our directors refuse to register a transfer they shall, within three months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on ten calendar days' notice being given by advertisement in such one or more newspapers, by electronic means or by any other means in accordance with the rules of the New York Stock Exchange, be suspended and the register of members closed at such times and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register of members closed for more than 30 days in any year as our board may determine.

Liquidation. On the winding up of our company, if the assets available for distribution among our shareholders shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus shall be distributed among our shareholders in proportion to the par value of the shares held by them at the commencement of the winding up, subject to a deduction from those shares in respect of which there are monies due, of all monies payable to our company for unpaid calls or otherwise. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders in proportion to the par value of the shares held by them.

Calls on Shares and Forfeiture of Shares. Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least 14 days prior to the specified time and place of payment. The shares that have been called upon and remain unpaid are subject to forfeiture.

Redemption, Repurchase and Surrender of Shares. We may issue shares on terms that such shares are subject to redemption, at our option or at the option of the holders of these shares, on such terms and in such manner as may be determined by our board of directors. Our company may also repurchase any of our shares on such terms and in such manner as have been approved by our board of directors. Under the Companies Act, the redemption or repurchase of any share may be paid out of our Company's profits or out of the proceeds of a new issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption

reserve) if our company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Act no such share may be redeemed or repurchased (a) unless it is fully paid up, (b) if such redemption or repurchase would result in there being no shares outstanding or (c) if the company has commenced liquidation. In addition, our company may accept the surrender of any fully paid share for no consideration.

Variations of Rights of Shares. If at any time, our share capital is divided into different classes or series of shares, the rights attached to any class or series of shares (unless otherwise provided by the terms of issue of the shares of that class or series), whether or not our company is being wound-up, may be materially adversely varied with the consent in writing of at least two-thirds of the holders of the issued shares of that class or series or with the sanction of an ordinary resolution passed by a majority of the votes cast at a separate meeting of the holders of the shares of the class or series. The rights conferred upon the holders of the shares of any class issued shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with such existing class of shares.

Issuance of Additional Shares. Our memorandum and articles of association authorize our board of directors to issue additional ordinary shares from time to time as our board of directors shall determine, to the extent of available authorized but unissued shares.

Our memorandum and articles of association also authorize our board of directors to establish from time to time one or more series of preference shares and to determine, with respect to any series of preference shares, the terms and rights of that series, including:

- the designation of the series;
- the number of shares of the series;
- the dividend rights, dividend rates, conversion rights, voting rights; and
- the rights and terms of redemption and liquidation preferences.

Our board of directors may issue preference shares without action by our shareholders to the extent authorized but unissued. Issuance of these shares may dilute the voting power of holders of ordinary shares.

Inspection of Books and Records. Holders of our ordinary shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records (other than copies of our memorandum and articles of association, our register of mortgages and charges and any special resolutions passed by our shareholders). Under Cayman Islands law, the names of our current directors can be obtained from a search conducted at the Registrar of Companies. However, we will provide our shareholders with annual audited financial statements.

Anti-Takeover Provisions. Some provisions of our memorandum and articles of association may discourage, delay or prevent a change of control of our company or management that shareholders may consider favorable, including provisions that:

- authorize our board of directors to issue preference shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preference shares without any further vote or action by our shareholders; and
- limit the ability of shareholders to requisition and convene general meetings of shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our memorandum and articles of association for a proper purpose and for what they believe in good faith to be in the best interests of our company.

Exempted Company. We are an exempted company with limited liability incorporated under the Companies Act. The Companies Act distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except that an exempted company:

- does not have to file an annual return of its shareholders with the Registrar of Companies;
- is not required to open its register of members for inspection;
- does not have to hold an annual general meeting;
- may issue negotiable or bearer shares or shares with no par value;
- may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- may register as a limited duration company; and
- may register as a segregated portfolio company.

“Limited liability” means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of the company (except in exceptional circumstances, such as involving fraud, the establishment of an agency relationship or an illegal or improper purpose or other circumstances in which a court may be prepared to pierce or lift the corporate veil).

Exclusive Forum. Unless we consent in writing to the selection of an alternative forum, the United States District Court for the Southern District of New York (or, if the United States District Court for the Southern District of New York lacks subject matter jurisdiction over a particular dispute, the state courts in New York County, New York) shall be the exclusive forum within the United States for the resolution of any complaint asserting a cause of action arising out of or relating in any way to the federal securities laws of the United States, regardless of whether such legal suit, action, or proceeding also involves parties other than us. Any person or entity purchasing or otherwise acquiring any of our shares, ADSs or other securities shall be deemed to have notice of and consented to the provisions of our memorandum and articles of association. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our ADSs—Forum selection provisions in our memorandum and articles of association and our deposit agreement with the depositary bank could limit the ability of holders of our Class A ordinary shares, ADSs or other securities to obtain a favorable judicial forum for disputes with us, our directors and officers, the depositary bank, and potentially others.”

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in “Item 4. Information on the Company,” “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions,” this “Item 10. Additional Information—C. Material Contracts” or elsewhere in this annual report on Form 20-F.

D. Exchange Controls

See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations Relating to Foreign Exchange.”

E. Taxation

The following summary of Cayman Islands, PRC and U.S. federal income tax considerations of an investment in the ADSs or Class A ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This summary does not deal with all possible tax considerations relating to an investment in the ADSs or Class A ordinary shares, such as the tax considerations under U.S. state and local tax laws or under the tax laws of jurisdictions other than the Cayman Islands, the People’s Republic of China and the United States.

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or, after execution, brought within the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties that are applicable to any payments made to or by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Payments of dividends and capital in respect of our ordinary shares or ADSs will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of a dividend or capital to any holder of our ordinary shares or ADSs, nor will gains derived from the disposal of our ordinary shares or ADSs be subject to Cayman Islands income or corporate tax.

People's Republic of China Taxation

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside of the PRC with a “de facto management body” within the PRC is considered a resident enterprise and will be subject to the enterprise income tax at the rate of 25% on its global income. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control over and overall management of the business, productions, personnel, accounts and properties of an enterprise. In April 2009, the SAT issued a circular, known as SAT Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect the SAT’s general position on how the “de facto management body” test should be applied in determining the tax resident status of all offshore enterprises. According to SAT Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

We believe that Yatsen Holding Limited is not a PRC resident enterprise for PRC tax purposes. Yatsen Holding Limited is not controlled by a PRC enterprise or PRC enterprise group, and we do not believe that Yatsen Holding Limited meets all of the conditions above. Yatsen Holding Limited is a company incorporated outside of the PRC. For the same reasons, we believe our other entities outside of China are not PRC resident enterprises either. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body.” There can be no assurance that the PRC government will ultimately take a view that is consistent with us.

If the PRC tax authorities determine that Yatsen Holding Limited is a PRC resident enterprise for enterprise income tax purposes, we may be required to withhold a 10% withholding tax from dividends we pay to our shareholders that are non-resident enterprises, including the holders of the ADSs. In addition, non-resident enterprise shareholders (including the ADS holders) may be subject to a 10% PRC tax on gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is treated as sourced from within the PRC. It is unclear whether our non-PRC individual shareholders (including the ADS holders) would be subject to any PRC tax on dividends or gains obtained by such non-PRC individual shareholders in the event we are determined to be a PRC resident enterprise. If any PRC tax were to apply to such dividends or gains, it would generally apply at a rate of 20% unless a reduced rate is available under an applicable tax treaty. It is also unclear whether non-PRC shareholders of Yatsen Holding Limited would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that Yatsen Holding Limited is treated as a PRC resident enterprise.

Provided that our Cayman Islands holding company, Yatsen Holding Limited, is not deemed to be a PRC resident enterprise, holders of the ADSs and ordinary shares who are not PRC residents will not be subject to PRC

income tax on dividends distributed by us or gains realized from the sale or other disposition of our ordinary shares or ADSs. However, under SAT Bulletin 7 and SAT Bulletin 37, where a non-resident enterprise conducts an “indirect transfer” by transferring taxable assets, including, in particular, equity interests in a PRC resident enterprise, indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise, being the transferor, or the transferee or the PRC entity which directly owned such taxable assets may report to the relevant tax authority such indirect transfer. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. We and our non-PRC resident investors may be at risk of being required to file a return and being taxed under SAT Bulletin 7 and SAT Bulletin 37, and we may be required to expend valuable resources to comply with SAT Bulletin 7 and SAT Bulletin 37, or to establish that we should not be taxed under these circulars.

United States Federal Income Tax Considerations

The following discussion is a summary of U.S. federal income tax considerations generally applicable to the ownership and disposition of our ADSs or Class A ordinary shares by a U.S. Holder (as defined below) that holds our ADSs or Class A ordinary shares as “capital assets” (generally, property held for investment) under the U.S. Internal Revenue Code of 1986, as amended, or the “Code.” This discussion is based upon existing U.S. federal tax law, which is subject to differing interpretations or change, possibly with retroactive effect, and there can be no assurance that the IRS or a court will not take a contrary position. This discussion, moreover, does not address the U.S. federal estate, gift, Medicare, and minimum tax considerations, or any state, local and non-U.S. tax considerations, relating to the ownership or disposition of our ADSs or Class A ordinary shares. The following summary does not address all aspects of U.S. federal income taxation that may be important to particular investors in light of their individual circumstances or to persons in special tax situations such as:

- banks and other financial institutions;
- insurance companies;
- pension plans;
- cooperatives;
- regulated investment companies;
- real estate investment trusts;
- broker-dealers;
- traders that elect to use a mark-to-market method of accounting;
- certain former U.S. citizens or long-term residents;
- tax-exempt entities (including private foundations);
- persons liable for alternative minimum tax;
- persons who acquire their ADSs or Class A ordinary shares pursuant to any employee share option or otherwise as compensation;
- investors that will hold their ADSs or Class A ordinary shares as part of a straddle, hedge, conversion, constructive sale or other integrated transaction for U.S. federal income tax purposes;
- investors that have a functional currency other than the U.S. dollar;
- persons that actually or constructively own ADSs or Class A ordinary shares representing 10% or more of our stock (by vote or value); or
- partnerships or other entities taxable as partnerships for U.S. federal income tax purposes, or persons holding ADSs or Class A ordinary shares through such entities;

all of whom may be subject to tax rules that differ significantly from those discussed below.

Each U.S. Holder is urged to consult its tax advisor regarding the application of U.S. federal taxation to its particular circumstances, and the state, local, non-U.S. and other tax considerations of the ownership and disposition of our ADSs or Class A ordinary shares.

General

For purposes of this discussion, a “U.S. Holder” is a beneficial owner of our ADSs or Class A ordinary shares that is, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created in, or organized under the laws, of the United States or any state thereof or the District of Columbia;
- an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust (A) the administration of which is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust or (B) that has otherwise validly elected to be treated as a U.S. person under the Code.

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of our ADSs or Class A ordinary shares, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Partnerships holding our ADSs or Class A ordinary shares and their partners are urged to consult their tax advisors regarding an investment in our ADSs or Class A ordinary shares.

For U.S. federal income tax purposes, a U.S. Holder of ADSs generally will be treated as the beneficial owner of the underlying shares represented by the ADSs. The remainder of this discussion assumes that a U.S. Holder of our ADSs will be treated in this manner. Accordingly, deposits or withdrawals of Class A ordinary shares for ADSs generally will not be subject to U.S. federal income tax.

Passive Foreign Investment Company Considerations

A non-U.S. corporation, such as our company, will be classified as a PFIC for U.S. federal income tax purposes for any taxable year if either (i) 75% or more of its gross income for such year consists of certain types of “passive” income or (ii) 50% or more of the value of its assets (generally determined on the basis of a quarterly average) during such year is attributable to assets that produce or are held for the production of passive income, or the “asset test.” For this purpose, cash and assets readily convertible into cash are categorized as passive assets and the company’s goodwill and other unbooked intangibles not reflected on its balance sheet are taken into account. Passive income generally includes, among other things, dividends, interest, rents, royalties, and gains from the disposition of passive assets. We will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation in which we own, directly or indirectly, 25% or more (by value) of the stock.

Although the law in this regard is not entirely clear, we intend to treat the VIE (including its subsidiaries) as being owned by us for U.S. federal income tax purposes, not only because we exercise effective control over the operation of such entities but also because we are entitled to substantially all of their economic benefits, and, as a result, we consolidate their results of operations in our consolidated financial statements.

Based upon the nature and composition of our assets (in particular, the retention of substantial amounts of cash and investments), and the market price of our ADSs, we believe that we were a PFIC for the taxable year ended December 31, 2022 and we will likely be a PFIC for our current taxable year unless the market price of our ADSs increases and/or we invest a substantial amount of the cash and other passive assets we hold in assets that produce or are held for the production of active income.

If we are a PFIC for any year during which a U.S. Holder holds our ADSs or Class A ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. Holder holds our ADSs or Class A ordinary shares. However, if we cease to be a PFIC, provided that you have not made a mark-to-market election, as described below, you may avoid some of the adverse effects of the PFIC regime by making a “deemed sale” election with respect to the ADSs or Class A ordinary shares, as applicable. If such election is made, you will be deemed to have sold our ADSs or Class A ordinary shares you hold at their fair market value and any gain from such deemed sale would be subject to the rules described below under “Passive Foreign Investment Company Rules.” After the deemed sale election, so long as we do not become a PFIC in a subsequent taxable year, your ADSs or Class A ordinary shares with respect to which such election was made will not be treated as shares in a PFIC and you will not be subject to the rules described below with respect to any “excess distribution” you receive from us or any gain from an actual sale or other disposition of the ADSs or Class A ordinary shares. The rules dealing with deemed sale elections are very complex. Each U.S. Holder should consult its tax advisors regarding the possibility and considerations of making a deemed sale election.

Dividends

Subject to the discussion below under “Passive Foreign Investment Company Rules,” the gross amount of any distributions paid on our ADSs or Class A ordinary shares (including the amount of any PRC tax withheld) out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles, will generally be includible in the gross income of a U.S. Holder as dividend income on the day actually or constructively received by the U.S. Holder, in the case of Class A ordinary shares, or by the depository, in the case of ADSs. Because we do not intend to determine our earnings and profits on the basis of U.S. federal income tax principles, any distribution we pay will generally be treated as a “dividend” for U.S. federal income tax purposes. Dividends received on our ADSs or Class A ordinary shares will not be eligible for the dividends received deduction allowed to corporations in respect of dividends received from U.S. corporations.

Individuals and other non-corporate U.S. Holders will be subject to tax on any such dividends at the lower capital gains tax rate applicable to “qualified dividend income,” provided that certain conditions are satisfied, including that (1) our ADSs or Class A ordinary shares on which the dividends are paid are readily tradable on an established securities market in the United States, or, in the event that we are deemed to be a PRC resident enterprise under the PRC tax law, we are eligible for the benefit of the U.S.-PRC income tax treaty, or the “Treaty,” (2) we are neither a PFIC nor treated as such with respect to a U.S. Holder (as discussed below) for the taxable year in which the dividend is paid or the preceding taxable year, and (3) certain holding period requirements are met. For this purpose, ADSs listed on the New York Stock Exchange will generally be considered to be readily tradable on an established securities market in the United States. U.S. Holders are urged to consult their tax advisors regarding the availability of the lower rate for dividends paid with respect to our ADSs or Class A ordinary shares. In the event that we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law (see “Item 10. Additional Information—E. Taxation—People’s Republic of China Taxation”), we may be eligible for the benefits of the Treaty. If we are eligible for such benefits, dividends we pay on our Class A ordinary shares, regardless of whether such shares are represented by the ADSs, and regardless of whether our ADSs are readily tradable on an established securities market in the United States, would potentially be eligible for the reduced rate of taxation described above in this paragraph.

For U.S. foreign tax credit purposes, dividends paid on our ADSs or Class A ordinary shares will generally be treated as income from foreign sources and will generally constitute passive category income. In the event that we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law, a U.S. Holder may be subject to PRC withholding taxes on dividends paid on our ADSs or Class A ordinary shares (see “Item 10. Additional Information—E. Taxation—People’s Republic of China Taxation”). Depending on the U.S. Holder’s particular facts and circumstances and subject to a number of complex 120 conditions and limitations, PRC withholding taxes on dividends that are non-refundable under the Treaty may be treated as foreign taxes eligible for credit against a U.S. Holder’s U.S. federal income tax liability. A U.S. Holder who does not elect to claim a foreign tax credit for foreign tax withheld may instead claim a deduction for U.S. federal income tax purposes, in respect of such withholding, but only for a year in which such holder elects to do so for all creditable foreign income taxes. The rules governing the foreign tax credit are complex and U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

As discussed above, we believe that we were a PFIC for the taxable year ended December 31, 2022, and we will likely be classified as a PFIC for our current taxable year. U.S. Holders are urged to consult their tax advisors regarding the availability of the reduced rate of taxation on dividends with respect to our ADSs or Class A ordinary shares under their particular circumstances.

Sale or Other Disposition

Subject to the discussion below under “Passive Foreign Investment Company Rules,” a U.S. Holder will generally recognize gain or loss upon the sale or other disposition of ADSs or Class A ordinary shares in an amount equal to the difference between the amount realized upon the disposition and the holder’s adjusted tax basis in such ADSs or Class A ordinary shares. The gain or loss will generally be capital gain or loss. Any capital gain or loss will be long term if the ADSs or Class A ordinary shares have been held for more than one year at the time of disposition. The deductibility of a capital loss may be subject to limitations.

Any such gain or loss that the U.S. Holder recognizes will generally be treated as U.S. source income or loss for foreign tax credit limitation purposes, which will generally limit the availability of foreign tax credits.

In the event that we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law, gains from the disposition of the ADSs or Class A ordinary shares may be subject to PRC income tax and will generally be U.S. source, which may limit the ability to receive a foreign tax credit. If a U.S. Holder is eligible for the benefits of the Treaty, such holder may be able to elect to treat such gain as PRC source income under the Treaty. Pursuant to recently issued U.S. Treasury regulations, however, if a U.S. Holder is not eligible for the benefits of the Treaty or does not elect to apply the Treaty, then such holder may not be able to claim a foreign tax credit arising from any PRC tax imposed on the disposition of the ADSs or Class A ordinary shares. The rules regarding foreign tax credits and deduction of foreign taxes are complex. U.S. Holders are urged to consult their tax advisors regarding the availability of a foreign tax credit or deduction in light of their particular circumstances, including their eligibility for benefits under the Treaty, and the potential impact of the recently issued U.S. Treasury regulations.

As discussed above, we believe that we were a PFIC for the taxable year ended December 31, 2022, and we will likely be classified as a PFIC for our current taxable year. U.S. Holders are urged to consult their tax advisors regarding the tax considerations of the sale or other disposition of our ADSs or Class A ordinary shares under their particular circumstances.

Passive Foreign Investment Company Rules

As discussed above, we believe that we were a PFIC for the taxable year ended December 31, 2022, and we will likely be classified as a PFIC for our current taxable year. If we are classified as a PFIC for any taxable year during which a U.S. Holder holds our ADSs or Class A ordinary shares, and unless the U.S. Holder makes a mark-to-market election (as described below), the U.S. Holder will generally be subject to special tax rules on (i) any excess distribution that we make to the U.S. Holder (which generally means any distribution paid during a taxable year to a U.S. Holder that is greater than 125 percent of the average annual distributions paid to the U.S. Holder in the three preceding taxable years or, if shorter, the U.S. Holder’s holding period for the ADSs or Class A ordinary shares), and (ii) any gain recognized on the sale or other disposition (including, under certain circumstances, a pledge) of ADSs or Class A ordinary shares. Under the PFIC rules:

- the excess distribution or gain will be allocated ratably over the U.S. Holder’s holding period for the ADSs or Class A ordinary shares;
- the amount allocated to the taxable year of the distribution or gain and any taxable years in the U.S. Holder’s holding period prior to the first taxable year in which we are classified as a PFIC (each, a “pre-PFIC year”), will be taxable as ordinary income; and
- the amount allocated to each prior taxable year, other than a pre-PFIC year, will be subject to tax at the highest income tax rate in effect for individuals or corporations, as appropriate, for that year, increased by an additional tax equal to the interest on the resulting tax deemed deferred with respect to each such taxable year.

If we are a PFIC for any taxable year during which a U.S. Holder holds our ADSs or Class A ordinary shares and any of our subsidiaries, the VIE or any of the subsidiaries of the VIE is also a PFIC, such U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. U.S. Holders are urged to consult their tax advisors regarding the application of the PFIC rules to any of our subsidiaries, the VIE or any of the subsidiaries of the VIE.

As an alternative to the foregoing rules, a U.S. Holder of “marketable stock” (as defined below) in a PFIC may make a mark-to-market election with respect to such stock. If a U.S. Holder makes this election with respect to our ADSs, the holder will generally (i) include as ordinary income for each taxable year that we are a PFIC the excess, if any, of the fair market value of ADSs held at the end of the taxable year over the adjusted tax basis of such ADSs and (ii) deduct as an ordinary loss the excess, if any, of the adjusted tax basis of the ADSs over the fair market value of such ADSs held at the end of the taxable year, but such deduction will only be allowed to the extent of the net amount previously included in income as a result of the mark-to-market election. The U.S. Holder’s adjusted tax basis in the ADSs would be adjusted to reflect any income or loss resulting from the mark-to-market election. If a U.S. Holder makes a mark-to-market election in respect of our ADSs and we cease to be classified as a PFIC, the holder will not be required to take into account the gain or loss described above during any period that we are not classified as a PFIC. If a U.S. Holder makes a mark-to-market election, any gain such U.S. Holder recognizes upon the sale or other disposition of our ADSs in a year when we are a PFIC will be treated as ordinary income and any loss will be treated as ordinary loss, but such loss will only be treated as ordinary loss to the extent of the net amount previously included in income as a result of the mark-to-market election.

The mark-to-market election is available only for “marketable stock,” which is stock that is regularly traded on a qualified exchange or other market, as defined in applicable United States Treasury regulations. Our ADSs, but not our ordinary shares, are listed on the New York Stock Exchange, which is a qualified exchange. We anticipate that our ADSs should qualify as being regularly traded, but no assurances may be given in this regard.

Because a mark-to-market election cannot technically be made for any lower-tier PFICs that we may own, a U.S. Holder who made a mark-to-market election with respect to our ADSs may continue to be subject to the PFIC rules with respect to such U.S. Holder’s indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes.

We do not intend to provide information necessary for U.S. Holders to make qualified electing fund elections which, if available, would result in tax treatment different from (and generally less adverse than) the general tax treatment for PFICs described above.

If a U.S. Holder owns our ADSs or Class A ordinary shares during any taxable year that we are a PFIC, the holder must generally file an annual IRS Form 8621. You should consult your tax advisor regarding the U.S. federal income tax considerations of owning and disposing of our ADSs or Class A ordinary shares if we are or become a PFIC. U.S. Holders are urged to consult their tax advisors regarding the reporting requirements that may apply and the U.S. federal income tax consequences of holding and disposing of our ADSs or Class A ordinary shares if we are treated as a PFIC, including the possibility of making a mark-to-market election and the unavailability of the election to treat us as a qualified electing fund.

F. Dividends and Paying Agents

Not Applicable.

G. Statement by Experts

Not Applicable.

H. Documents on Display

We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F no later than four months after the close of each fiscal year, which is December 31. The SEC maintains a web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

We will furnish Deutsche Bank Trust Company Americas, the depositary of the ADSs, with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders' meetings and other reports and communications that are made generally available to our shareholders. The depositary will make such notices, reports and communications available to holders of ADSs and, upon our request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depositary from us.

I. Subsidiary Information

Not applicable.

J. Annual Report to Security Holders

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign exchange risk

Substantially all of our revenues and expenses are denominated in Renminbi. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge exposure to such risk. Although our exposure to foreign exchange risks should be limited in general, the value of your investment in our ADSs will be affected by the exchange rate between U.S. dollar and Renminbi because the value of our business is effectively denominated in RMB, while our ADSs will be traded in U.S. dollars.

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. The value of the Renminbi against the U.S. dollar and other currencies is affected by changes in China's political and economic conditions and by China's foreign exchange policies, among other things. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between Renminbi and the U.S. dollar in the future.

To date, we have not entered into any material hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. To the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of Renminbi against the U.S. dollar would reduce the Renminbi amount we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs, servicing our outstanding debt, or for other business purposes, appreciation of the U.S. dollar against the Renminbi would reduce the U.S. dollar amounts available to us.

Interest rate risk

Our exposure to interest rate risk primarily relates to the interest income generated by excess cash, which is mostly held in interest-bearing bank deposits and short-term investments. Interest-earning instruments carry a degree of interest rate risk. We have not been exposed to material risks due to changes in interest rates, and we have not used any derivative financial instruments to manage our interest risk exposure. However, our future interest income may fall short of expectations due to changes in market interest rates.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Fees and Charges Our ADS holders May Have to Pay

Deutsche Bank Trust Company Americas, as depositary, will register and deliver the ADSs. Each ADS will represent ownership of four Class A ordinary shares, deposited with Deutsche Bank AG, Hong Kong Branch, as custodian for the depositary. Each ADS will also represent ownership of any other securities, cash or other property which may be held by the depositary. The depositary's corporate trust office at which the ADSs will be administered is located at 60 Wall Street, New York, NY 10005, USA. The principal executive office of the depositary is located at 60 Wall Street, New York, NY 10005, USA.

Our ADS holders will be required to pay the following service fees to the depositary bank and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of the ADSs held):

Service	Fees
<ul style="list-style-type: none">• To any person to which ADSs are issued or to any person to which a distribution is made in respect of ADS distributions pursuant to stock dividends or other free distributions of stock, bonus distributions, stock splits or other distributions (except where converted to cash)	Up to US\$0.05 per ADS issued
<ul style="list-style-type: none">• Cancellation of ADSs, including the case of termination of the deposit agreement	Up to US\$0.05 per ADS cancelled
<ul style="list-style-type: none">• Distribution of cash dividends	Up to US\$0.05 per ADS held
<ul style="list-style-type: none">• Distribution of cash entitlements (other than cash dividends) and/or cash proceeds from the sale of rights, securities and other entitlements	Up to US\$0.05 per ADS held
<ul style="list-style-type: none">• Distribution of ADSs pursuant to exercise of rights	Up to US\$0.05 per ADS held
<ul style="list-style-type: none">• Distribution of securities other than ADSs or rights to purchase additional ADSs	Up to US\$0.05 per ADS held
<ul style="list-style-type: none">• Depositary services	Up to US\$0.05 per ADS held on the applicable record date(s) established by the depositary bank

Our ADS holder will also be responsible for paying certain fees and expenses incurred by the depositary bank and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of the ADSs held) such as:

- Fees for the transfer and registration of ordinary shares charged by the registrar and transfer agent for the ordinary shares in the Cayman Islands (i.e., upon deposit and withdrawal of ordinary shares).

- Expenses incurred for converting foreign currency into U.S. dollars.
- Expenses for cable, telex and fax transmissions and for delivery of securities.
- Taxes and duties upon the transfer of securities, including any applicable stamp duties, any stock transfer charges or withholding taxes (i.e., when ordinary shares are deposited or withdrawn from deposit).
- Fees and expenses incurred in connection with the delivery or servicing of ordinary shares on deposit.
- Fees and expenses incurred in connection with complying with exchange control regulations and other regulatory requirements applicable to ordinary shares, deposited securities, ADSs and ADRs.
- Any applicable fees and penalties thereon.

The depositary fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary bank by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depositary bank and by the brokers (on behalf of their clients) delivering the ADSs to the depositary bank for cancellation. The brokers in turn charge these fees to their clients. Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary bank to the holders of record of ADSs as of the applicable ADS record date.

The depositary fees payable for cash distributions are generally deducted from the cash being distributed or by selling a portion of distributable property to pay the fees. In the case of distributions other than cash (i.e., share dividends, rights), the depositary bank charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depositary bank sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via DTC), the depositary bank generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depositary banks.

In the event of refusal to pay the depositary fees, the depositary bank may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary fees from any distribution to be made to the ADS holder.

Fees and Other Payments Made by the Depositary to Us

The depositary may make payments to us or reimburse us for certain costs and expenses, by making available a portion of the ADS fees collected in respect of the ADR program or otherwise, upon such terms and conditions as we and the depositary bank agree from time to time. For the year ended December 31, 2022 we did not receive such reimbursement from the depositary

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Material Modifications to the Rights of Security Holders

See “Item 10. Additional Information—B. Memorandum and Articles of Association—Ordinary Shares” for a description of the rights of securities holders, which remain unchanged.

Use of Proceeds

The following “Use of Proceeds” information relates to the registration statement on Form F-1, as amended (File Number 333-249747) (the “F-1 Registration Statement”) in relation to our initial public offering of 58,750,000 ADSs representing 235,000,000 Class A ordinary shares, at an initial offering price of US\$10.50 per ADS. Our initial public offering closed in November 2020. Morgan Stanley & Co. LLC, Goldman Sachs (Asia) L.L.C., and China International Capital Corporation Hong Kong Securities Limited were the representatives of the underwriters for our initial public offering.

The F-1 Registration Statement was declared effective by the SEC on November 18, 2020. For the period from the effective date of the F-1 Registration Statement to December 31, 2022, the total expenses incurred for our company’s account in connection with our initial public offering was approximately US\$44.7 million, which included US\$39.0 million in underwriting discounts and commissions for the initial public offering and approximately US\$5.7 million in other costs and expenses for our initial public offering. We received net proceeds of approximately US\$664.7 million from our initial public offering and exercise of over-allotment option. None of the transaction expenses included payments to directors or officers of our company or their associates, persons owning more than 10% or more of our equity securities or our affiliates. None of the net proceeds from the initial public offering were paid, directly or indirectly, to any of our directors or officers or their associates, persons owning 10% or more of our equity securities or our affiliates.

For the period from November 18, 2020, the date that the F-1 Registration Statement was declared effective by the SEC, to December 31, 2022, US\$241.7 million of the net proceeds received from our initial public offering were used for strategic investments and acquisitions, as well as for business operations and general corporate purpose. There is no material change in the use of proceeds as described in the F-1 Registration Statement. We still intend to use the remainder of the proceeds from our initial public offering, as disclosed in our registration statements on Form F-1.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we carried out an evaluation of the effectiveness of our disclosure controls and procedures, which is defined in Rules 13a-15(e) of the Exchange Act, as of December 31, 2022. Disclosure controls and procedures means controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rule and forms and that such information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosures.

Based upon that evaluation, our management, with the participation of our chief executive officer and chief financial officer, has concluded that, as of the end of the period covered by this annual report, our disclosure controls and procedures were effective.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended.

Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of our company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with GAAP, and that receipts and expenditures of our company are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of the unauthorized acquisition, use or disposition of our company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules as promulgated by the Securities and Exchange Commission, our management including our Chief Executive Officer and Chief Financial Officer assessed the effectiveness of internal control over financial reporting as of December 31, 2022 using the criteria set forth in the report "Internal Control-Integrated Framework (2013)" published by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2022.

Attestation Report of the Independent Registered Public Accounting Firm

Our independent registered public accounting firm, PricewaterhouseCoopers Zhong Tian LLP, has audited the effectiveness of our company's internal control over financial reporting as of December 31, 2022, as stated in its report, which appears on page F-2 of this annual report on Form 20-F.

Changes in Internal Control over Financial Reporting

As of December 31, 2022, based on an assessment performed by our management on the performance of certain remediation measures (specified below), we concluded that the material weakness in our internal control over financial reporting previously identified by us and our independent registered public accounting firm in connection with the audit of the effectiveness of internal control over financial reporting as of December 31, 2021 has been remediated.

As defined in the standards established by the U.S. Public Company Accounting Oversight Board, a "material weakness" is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness that had been identified related to our lack of sufficient financial reporting and accounting personnel with appropriate knowledge and experience to (i) establish and implement key controls over period-end closing and financial reporting, and (ii) handle complex accounting issues and properly prepare and review financial statements and related disclosures in accordance with U.S. GAAP and SEC reporting requirements.

We have implemented several measures, including, among other things:

- Hired additional competent and qualified accounting and reporting personnel with appropriate knowledge and experience of U.S. GAAP and SEC financial reporting;
- Formulated a formal and regular training program for accounting personnel to equip them with sufficient knowledge and practical experience of preparing financial statements under U.S. GAAP and SEC

reporting requirements, including mandatory requirements for accounting staff to attend U.S. GAAP course programs offered by third-party organization or accounting firm on a periodically basis; and

- Established clear roles and responsibilities to develop and implement formal comprehensive financial period-end closing policies and procedures to ensure all transactions are properly recorded and disclosed; and
- Prepared accounting memorandum for complex accounting matters.

Other than as described above, there were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

See “Item 6. Directors, Senior Management and Employees—C. Board Practices.”

ITEM 16B. CODE OF ETHICS

Our board of directors has adopted a code of ethics that applies to all of the directors, officers and employees. We have posted a copy of our code of business conduct and ethics on our website at <https://ir.yatsenglobal.com/Corporate-Governance>.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by PricewaterhouseCoopers Zhong Tian LLP and its affiliates, our principal external auditors, for the periods indicated. We did not pay any other fees to our auditors during the periods indicated below.

	For the Year Ended December 31,	
	2021	2022
	(RMB in thousands)	
Audit fees ⁽¹⁾	9,500	9,200
Tax fees ⁽²⁾	102	1,645
All other fees ⁽³⁾	3,374	—

Notes:

- (1) “Audit fees” means the aggregate fees billed for professional services rendered by our principal auditors for the audit of our annual financial statements and the review of our comparative interim financial statements, including audit fees relating to our initial public offering in 2020.
- (2) “Tax fees” represents the aggregate fees billed in each of the fiscal years listed for the professional tax services rendered by our principal auditors.
- (3) “All Other Fees” represents the aggregate fees billed in each of the fiscal years listed for services rendered by our principal auditors other than services reported under “Audit Fees” and “Tax Fees.”

The policy of our audit committee is to pre-approve all audit and other service provided by PricewaterhouseCoopers Zhong Tian LLP and its affiliates as described above, other than those for *de minimis* services which are approved by our audit committee prior to the completion of the audit.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

On November 17, 2021, our board of directors approved a share repurchase program whereby we are authorized to repurchase up to US\$100.0 million worth of our ordinary shares (including in the form of ADSs) over the next 24 months. On August 26, 2022, our board of directors authorized a change to the term and size of the share repurchase program, increasing the aggregate value of shares that may be repurchased under the share repurchase program from US\$100.0 million to US\$150.0 million and extending the effective term of the share repurchase program through August 25, 2024.

As of December 31, 2022, we had repurchased 74,472,586 ADSs under this share repurchase program. The table below is a summary of the shares repurchased by us in 2022. All shares were repurchased in the open market pursuant to the share repurchase program announced on November 18, 2021 and amended on August 26, 2022.

Period	Total Number of ADSs Purchased	Average Price Paid Per ADS (US\$)	Total Number of ADSs Purchased as Part of the Publicly Announced Program	Approximate Dollar Value of ADSs that May Yet Be Purchased Under the Program (US\$, in millions)
Month #1 (April 1, 2022 - April 30, 2022)	8,608,321	\$ 0.74	8,608,321	140.1
Month #2 (May 1, 2022 - May 31, 2022)	4,558,487	\$ 0.51	4,558,487	137.8
Month #3 (June 1, 2022 - June 30, 2022)	21,220,939	\$ 0.94	21,220,939	117.9
Month #4 (July 1, 2022 - July 31, 2022)	38,204,589	\$ 1.78	38,204,589	50.0
Month #5 (October 1, 2022 - October 31, 2022)	33,427	\$ 0.99	33,427	50.0

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

As a Cayman Islands company listed on the New York Stock Exchange, we are subject to the New York Stock Exchange corporate governance listing standards, which requires listed companies to have, among other things, a majority of their board members to be independent and independent director oversight of executive compensation and nomination of directors. However, New York Stock Exchange rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the New York Stock Exchange listing standards.

We are permitted to elect to rely on home country practice to be exempted from the corporate governance requirements. Section 303A.01 of the NYSE Listed Company Manual requires a listed company to have a majority of independent directors. Section 302.00 of the NYSE Listed Company Manual requires a listed company to hold an annual shareholders' meeting during each fiscal year. Section 303A.08 requires that shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, subject to limited exemptions. Section 303A.09 requires that listed companies must adopt and disclose corporate governance guidelines. We currently follow our home country practice in lieu of these requirements. We may also continue to rely on these and other exemptions available to foreign private issuers in the future. As a result, our shareholders may be afforded less protection than they otherwise would under the NYSE corporate governance listing standards applicable to U.S. domestic issuers. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our ADS—As a company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the New York Stock Exchange listing standards."

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

In May 2022, Yatsen Holding Limited was conclusively listed by the SEC as a Commission-Identified Issuer under the HFCAA following the filing of our annual report on Form 20-F for the fiscal year ended December 31, 2021. Our auditor, a registered public accounting firm that the PCAOB was unable to inspect or investigate completely in 2021 because of a position taken by an authority in the foreign jurisdiction, issued the audit report for us for the fiscal year ended December 31, 2021. On December 15, 2022, the PCAOB issued a report that vacated its December 16, 2021 determination and removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. For this reason, we do not expect to be identified as a Commission-Identified Issuer under the HFCAA after we file this annual report on Form 20-F.

To our knowledge, no governmental entities in the Cayman Islands own shares of Yatsen Holding Limited, and no governmental entities in China own shares of any of the VIE or the subsidiaries of the VIE in China, as of the date of this annual report.

To our knowledge, the governmental entities in China do not have a controlling financial interest in our company or any of the VIE or the subsidiaries of the VIE as of the date of this annual report.

To our knowledge, none of the members of the board of directors of our company or our operating entities, including the VIE and the subsidiaries of the VIE, is an official of the Chinese Communist Party as of the date of this annual report.

To our knowledge, none of the currently effective memorandum and articles of association (or equivalent organizing document) of our company or the VIE and the subsidiaries of the VIE contains any charter of the Chinese Communist Party.

ITEM 16J. INSIDER TRADING POLICIES

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

The consolidated financial statements of Yatsen Holding Limited and its subsidiaries are included at the end of this annual report.

ITEM 19. EXHIBITS

Exhibit Number	Description of Document
1.1	<u>Ninth Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated herein by reference to Exhibit 3.2 to the registration statement on Form F-1, as amended (File No. 333-249747), initially filed with the Securities and Exchange Commission on October 30, 2020)</u>
2.1	<u>Registrant's Specimen American Depositary Receipt (included in Exhibit 2.3) (incorporated herein by reference to Exhibit 4.3 to the registration statement on Form F-1, as amended (File No. 333-249747), initially filed with the Securities and Exchange Commission on October 30, 2020)</u>
2.2	<u>Registrant's Specimen Certificate for Class A Ordinary Shares (incorporated herein by reference to Exhibit 4.2 to the to the registration statement on Form F-1, as amended (File No. 333-249747), initially filed with the Securities and Exchange Commission on October 30, 2020)</u>
2.3	<u>Form of Deposit Agreement, among the Registrant, the depositary and holder of the American Depositary Receipts (incorporated herein by reference to Exhibit 4.3 to the registration statement on Form F-1, as amended (File No. 333-249747), initially filed with the Securities and Exchange Commission on October 30, 2020)</u>
2.4	<u>Description of Securities (incorporated herein by reference to Exhibit 2.4 to the Form 20-F filed on April 21, 2021 (File No. 001-39703))</u>
2.5	<u>The Seventh Amended and Restated Shareholders Agreement between the Registrant and other parties thereto dated September 11, 2020 (incorporated herein by reference to Exhibit 4.4 to the registration statement on Form F-1, as amended (File No. 333-249747), initially filed with the Securities and Exchange Commission on October 30, 2020)</u>
4.1	<u>2018 Share Option Plan (incorporated herein by reference to Exhibit 10.1 to the registration statement on Form F-1, as amended (File No. 333-249747), initially filed with the Securities and Exchange Commission on October 30, 2020)</u>
4.2*	<u>2022 Share Incentive Plan</u>
4.3	<u>Form of Indemnification Agreement between the Registrant and its directors and executive officers (incorporated herein by reference to Exhibit 10.2 to the registration statement on Form F-1, as amended (File No. 333-249747), initially filed with the Securities and Exchange Commission on October 30, 2020)</u>
4.4	<u>Form of Employment Agreement between the Registrant and its executive officers (incorporated herein by reference to Exhibit 10.3 to the registration statement on Form F-1, as amended (File No. 333-249747), initially filed with the Securities and Exchange Commission on October 30, 2020)</u>
4.5	<u>English translation of the executed Second Amended and Restated Proxy Agreement and Powers of Attorney granted to our WFOE by shareholders of the VIE dated October 28, 2020 (incorporated herein by reference to Exhibit 10.4 to the registration statement on Form F-1, as amended (File No. 333-249747), initially filed with the Securities and Exchange Commission on October 30, 2020)</u>
4.6	<u>English translation of the Second Amended and Restated Equity Pledge Agreement among our WFOE, the VIE and shareholders of the VIE dated October 28, 2020 (incorporated herein by reference to Exhibit 10.5 to the registration statement on Form F-1, as amended (File No. 333-249747), initially filed with the Securities and Exchange Commission on October 30, 2020)</u>
4.7	<u>English translation of the Exclusive Business Cooperation Agreement between our WFOE and the VIE dated July 26, 2019 (incorporated herein by reference to Exhibit 10.6 to the registration statement on Form F-1, as amended (File No. 333-249747), initially filed with the Securities and Exchange Commission on October 30, 2020)</u>
4.8	<u>English translation of the Second Amended and Restated Exclusive Call Option Agreement among our WFOE, the VIE and shareholders of the VIE dated October 28, 2020 (incorporated herein by reference to Exhibit 10.7 to the registration statement on Form F-1, as amended (File No. 333-249747), initially filed with the Securities and Exchange Commission on October 30, 2020)</u>
4.9	<u>English translation of executed Spousal Consent Letter granted by the spouse of the individual shareholder of the VIE dated October 28, 2020 (incorporated herein by reference to Exhibit 10.8 to the registration statement on Form F-1, as amended (File No. 333-249747), initially filed with the Securities and Exchange Commission on October 30, 2020)</u>
8.1*	<u>List of Principal Subsidiaries and Consolidated Variable Interest Entity of the Registrant</u>

Exhibit Number	Description of Document
11.1	Code of Business Conduct and Ethics of the Registrant (incorporated herein by reference to Exhibit 99.1 to the registration statement on Form F-1, as amended (File No. 333-249747), initially filed with the Securities and Exchange Commission on October 30, 2020)
12.1*	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1**	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2**	CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of Zhong Lun Law Firm
15.2*	Consent of PricewaterhouseCoopers Zhong Tian LLP
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Scheme Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed with this Annual Report on Form 20-F

** Furnished with this Annual Report on Form 20-F

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing its annual report on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Yatsen Holding Limited

By: /s/ Jinfeng Huang
Name: Jinfeng Huang
Title: Chairman of the Board of Directors
and Chief Executive Officer

Date: April 26, 2023

YATSEN HOLDING LIMITED

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Yatsen Holding Limited

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Yatsen Holding Limited and its subsidiaries (the “Company”) as of December 31, 2022 and 2021, and the related consolidated statements of operations, of comprehensive income (loss), of changes in shareholders’ equity (deficit) and of cash flows for each of the three years in the period ended December 31, 2022, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Annual Report on Internal Control over Financial Reporting appearing under Item 15. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Goodwill Impairment Assessment – Determining Fair Values for Eve Lom Reporting Unit

As described in Notes 2(n) and 10 to the consolidated financial statements, the Company's consolidated goodwill balance was RMB857 million as of December 31, 2022, and the goodwill associated with the Eve Lom reporting unit was RMB694 million. Management conducts an impairment test as of December 31 of each year, or more frequently if events or circumstances indicate that the carrying value of goodwill may be impaired. Potential impairment is identified by comparing the fair value of a reporting unit to the unit's carrying value, including goodwill. An impairment charge is recorded, when necessary, for the amount by which the carrying amount exceeds the reporting unit's fair value, up to a maximum amount of the goodwill balance for the reporting unit. Fair value is estimated by management using a discounted cash flow model. Management's cash flow projections used in the model for the Eve Lom reporting unit included significant judgments and assumptions relating to revenue growth rates, gross profit ratios, the discount rate and terminal value. Management utilized the services of an independent valuation firm to assist with the determination of the fair value of the reporting unit.

The principal considerations for our determination that performing procedures relating to the goodwill impairment assessment of the Eve Lom reporting unit is a critical audit matter are (i) the significant judgment utilized by management when developing the fair value of the reporting unit which in turn led to a high degree of auditor judgment, subjectivity, and effort in designing and applying procedures relating to evaluating the reasonableness of management's estimates and assumptions; and (ii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's goodwill impairment assessment, including controls over the valuation of the Eve Lom reporting unit. These procedures also included, among others (i) testing management's process for developing the fair value estimate; (ii) evaluating the competence, capability and objectivity of the independent valuation firm engaged by the Company; (iii) evaluating the appropriateness of the discounted cash flow model; (iv) testing the completeness and accuracy of underlying data used in the model; and (v) evaluating the reasonableness of the significant assumptions used by management related to the revenue growth rates, gross profit ratios, the discount rate and terminal value. Evaluating management's assumptions related to the revenue growth rates, profit ratios and terminal value involved evaluating whether the assumptions used by management were reasonable considering (i) the current and past performance of the reporting unit; (ii) the consistency with external market and industry forecasts; and (iii) whether these assumptions were consistent with evidence obtained in other areas of the audit. The discount rate was evaluated by comparing it to the cost of capital of comparable businesses and other industry factors. Professionals with specialized skill and knowledge were used to assist in the evaluation of the appropriateness of the Company's discounted cash flow model and the discount rate assumption.

Impairment of Inventories

As of December 31, 2022, the Company's net balance of inventories was RMB423 million, which represented approximately 7.2% of the total assets. As described in Notes 2(k) and 6 to the consolidated financial statements, the Company recorded an impairment allowance of RMB105 million as of December 31, 2022 for excessive, slow moving, expired and obsolete inventories, to adjust the carrying value of such inventories to the lower of their cost or estimated net realizable value. The estimate requires management to make significant assumptions relating to the demand forecast for inventories, including potential product obsolescence, sales strategy, and marketability of inventories.

The principal considerations for our determination that performing procedures relating to impairment of inventories is a critical audit matter are the significant judgment by management to estimate the demand forecast, which in turn led to a high degree of auditor judgment, subjectivity and effort in performing audit procedures and in evaluating audit evidence relating to the assumptions underlying the demand forecast.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the impairment of inventories. These procedures also included, among others, (i) evaluating the appropriateness of management's estimation process of the net realizable value of inventory; (ii) testing the completeness and accuracy of underlying data used in the model, including historical sales performance and turnover of individual stock-keeping units ("SKUs") and the aging and expiration dates of inventory on hand at December 31, 2022; and (iii) evaluating the reasonableness of the significant assumptions used by management related to potential product obsolescence, sales strategy and marketability underlying the demand forecast by (i) reviewing the actual subsequent sales volume to corroborate management's judgements applied over the indicators of excessive, slow moving and obsolete SKUs; (ii) testing net realizable value by comparing the actual selling prices of certain SKUs subsequent to the year end to their carrying amounts at the year end, and (iii) performing retrospective reviews by comparing actual inventory write-downs with previously established historical estimates, to evaluate management's ability to establish reasonable estimates.

/s/ PricewaterhouseCoopers Zhong Tian LLP
Guangzhou, the People's Republic of China
April 26, 2023

We have served as the Company's auditor since 2019.

YATSEN HOLDING LIMITED
CONSOLIDATED BALANCE SHEETS

(All amounts in thousands, except for share, per share data or otherwise noted)

	As of December 31,		
	2021 RMB	2022 RMB	2022 US\$ (Note2(e))
Assets			
Current assets			
Cash and cash equivalents	3,138,008	1,512,945	219,356
Short-term investment	-	1,072,867	155,551
Accounts receivable	355,837	200,843	29,119
Inventories	695,761	423,287	61,371
Prepayments and other current assets	366,191	292,825	42,456
Amounts due from related parties	60	5,654	820
Total current assets	4,555,857	3,508,421	508,673
Non-current assets			
Restricted cash	-	41,383	6,000
Investments	350,380	502,579	72,867
Property and equipment, net	245,314	75,619	10,964
Goodwill	869,421	857,145	124,274
Intangible assets, net	745,851	689,669	99,993
Deferred tax assets	2,000	1,951	283
Right-of-use assets, net	422,966	133,004	19,284
Other non-current assets	80,220	52,885	7,668
Total non-current assets	2,716,152	2,354,235	341,333
Total assets	7,272,009	5,862,656	850,006
Liabilities, redeemable non-controlling interests and shareholders' equity (deficit)			
Current liabilities			
Accounts payable (including accounts payable of the consolidated VIEs without recourse to the Group of RMB11,765 and RMB8,813 as of December 31, 2021 and 2022, respectively)	240,815	119,847	17,376
Advances from customers (including advances from customers of the consolidated VIEs without recourse to the Group of RMB14,262 and RMB5,892 as of December 31, 2021 and 2022, respectively)	20,680	16,652	2,414
Accrued expenses and other liabilities (including accrued expenses and other liabilities of the consolidated VIEs without recourse to the Group of RMB18,727 and RMB16,624 as of December 31, 2021 and 2022, respectively)	370,531	323,259	46,868
Amounts due to related parties	13,967	27,242	3,950
Income tax payables (including income tax payables of the consolidated VIEs without recourse to the Group of RMB1,005 and RMB929 as of December 31, 2021 and 2022, respectively)	16,747	21,826	3,164
Lease liabilities due within one year (including lease liabilities of the consolidated VIEs without recourse to the Group of RMB74 and RMB78 as of December 31, 2021 and 2022, respectively)	214,843	79,586	11,539
Total current liabilities	877,583	588,412	85,311
Non-current liabilities			
Deferred tax liabilities	124,450	113,441	16,447
Deferred income-non current	56,180	45,280	6,565
Lease liabilities (including lease liabilities of the consolidated VIEs without recourse to the Group of RMB78 and nil as of December 31, 2021 and 2022, respectively)	206,303	52,997	7,684
Total non-current liabilities	386,933	211,718	30,696
Total liabilities	1,264,516	800,130	116,007
Commitments and contingencies			

YATSEN HOLDING LIMITED

CONSOLIDATED BALANCE SHEETS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

	As of December 31,		
	2021 RMB	2022 RMB	2022 US\$ (Note2(e))
Redeemable non-controlling interests	338,587	339,924	49,284
Shareholders' equity (deficit)			
Ordinary shares (US\$0.00001 par value; 10,000,000,000 ordinary shares authorized, comprising of 6,000,000,000 Class A ordinary shares, 960,852,606 Class B ordinary shares and 3,039,147,394 shares each of such classes to be designated; 1,938,303,919 Class A shares and 758,869,844 Class B ordinary shares issued; 1,789,239,887 Class A ordinary shares and 737,513,429 Class B ordinary shares outstanding as of December 31, 2021; 10,000,000,000 ordinary shares authorized, comprising of 6,000,000,000 Class A ordinary shares, 960,852,606 Class B ordinary shares and 3,039,147,394 shares each of such classes to be designated; 2,030,600,883 Class A shares and 666,572,880 Class B ordinary shares issued; 1,569,677,384 Class A ordinary shares and 666,572,880 Class B ordinary shares outstanding as of and December 31, 2022)	173	173	25
Treasury shares	(22,330)	(669,150)	(97,018)
Additional paid-in capital	11,697,942	12,038,802	1,745,462
Statutory reserves	21,352	24,177	3,505
Accumulated deficit	(5,782,169)	(6,600,365)	(956,963)
Accumulated other comprehensive loss	(255,780)	(74,195)	(10,754)
Total Yatsen Holding Limited shareholders' equity	5,659,188	4,719,442	684,257
Non-controlling interests	9,718	3,160	458
Total shareholders' equity	5,668,906	4,722,602	684,715
Total liabilities, redeemable non-controlling interests and shareholders' equity	7,272,009	5,862,656	850,006

The accompanying notes are an integral part of these consolidated financial statements.

YATSEN HOLDING LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS

(All amounts in thousands, except for share, per share data or otherwise noted)

	Year ended December 31,			
	2020 RMB	2021 RMB	2022 RMB	2022 US\$ (Note2(e))
Total net revenues	5,233,170	5,839,973	3,706,122	537,337
Total cost of revenues	(1,869,145)	(1,941,177)	(1,187,370)	(172,152)
Gross profit	3,364,025	3,898,796	2,518,752	365,185
Operating expenses:				
Fulfilment expenses	(425,052)	(434,018)	(269,886)	(39,130)
Selling and marketing expenses	(3,412,159)	(4,005,589)	(2,330,480)	(337,888)
General and administrative expenses	(2,142,973)	(941,347)	(720,409)	(104,449)
Research and development expenses	(66,512)	(142,086)	(126,875)	(18,395)
Total operating expenses	(6,046,696)	(5,523,040)	(3,447,650)	(499,862)
Loss from operations	(2,682,671)	(1,624,244)	(928,898)	(134,677)
Financial income	14,313	45,658	34,656	5,025
Foreign currency exchange losses	(2,774)	(1,751)	(35,357)	(5,126)
Income (loss) from equity method investments, net	(293)	5,978	12,548	1,819
Impairment loss of investments	-	(1,375)	(5,078)	(736)
Other (expenses) income, net	(10,020)	27,775	103,501	15,006
Loss before income tax expenses	(2,681,445)	(1,547,959)	(818,628)	(118,689)
Income tax (expenses) benefits	(6,970)	921	(2,705)	(392)
Net loss	(2,688,415)	(1,547,038)	(821,333)	(119,081)
Less: Net loss attributable to non-controlling interests and redeemable non-controlling interests	(608)	(6,304)	(5,962)	(864)
Net loss attributable to the Yatsen Holding Limited's shareholders	(2,687,807)	(1,540,734)	(815,371)	(118,217)
Accretion to preferred shares	(242,209)	-	-	-
Deemed dividends due to modification of preferred shares	(1,054,220)	-	-	-
Net loss attributable to ordinary shareholders of Yatsen Holding Limited	(3,984,236)	(1,540,734)	(815,371)	(118,217)
Net loss per ordinary share				
Net loss per ordinary share-basic	(4.78)	(0.61)	(0.34)	(0.05)
Net loss per ordinary share-diluted	(4.78)	(0.61)	(0.34)	(0.05)
Weighted average number of ordinary shares used in computing net loss per ordinary share				
Ordinary shares—basic	833,714,126	2,526,833,201	2,372,728,777	2,372,728,777
Ordinary shares—diluted	833,714,126	2,526,833,201	2,372,728,777	2,372,728,777

The accompanying notes are an integral part of these consolidated financial statements.

YATSEN HOLDING LIMITED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(All amounts in thousands, except for share, per share data or otherwise noted)

	Year ended December 31,			
	2020 RMB	2021 RMB	2022 RMB	2022 US\$ (Note2(e))
Net loss	(2,688,415)	(1,547,038)	(821,333)	(119,081)
Other comprehensive income (loss)				
Foreign currency translation adjustment, net of nil tax	(111,697)	(158,515)	181,585	26,327
Total comprehensive loss	<u>(2,800,112)</u>	<u>(1,705,553)</u>	<u>(639,748)</u>	<u>(92,754)</u>
Less: Comprehensive loss attributable to the non-controlling interests	(608)	(6,304)	(5,962)	(864)
Comprehensive loss attributable to the Yatsen Holding Limited's shareholders	<u>(2,799,504)</u>	<u>(1,699,249)</u>	<u>(633,786)</u>	<u>(91,890)</u>

The accompanying notes are an integral part of these consolidated financial statements.

YATSEN HOLDING LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

(All amounts in thousands, except for share, per share data or otherwise noted)

	Ordinary Shares		Treasury Shares		Additional	Statutory	Accumulated	Accumulated	Non-	Total
	Shares	Amount	Shares	Amount	Paid-in	Reserves	Deficit	Other	controlling	Shareholders'
		RMB		RMB	Capital			Comprehensive	interests	Equity (Deficit)
					RMB	RMB	RMB	Income (Loss)		RMB
Balance as of January 1, 2020	914,575,197	56	(347,239,975)	(20)	-	19,322	(89,590)	14,432	-	(55,800)
Issuances of restricted shares to founders	93,753,239	6	(93,753,239)	(6)	-	-	-	-	-	-
Share-based compensation of founders' restricted shares	-	-	440,993,214	26	1,030,152	-	-	-	-	1,030,178
Repurchases of ordinary shares	(62,388,247)	(4)	-	-	(351,328)	-	(132,290)	-	-	(483,622)
Deemed share-based compensation related to repurchases of ordinary shares	-	-	-	-	146,294	-	-	-	-	146,294
Issuances of shares due to exercise of share options	15,518,385	1	-	-	(1)	-	-	-	-	-
Share-based compensation related to accelerated vesting of share options	-	-	-	-	138,729	-	-	-	-	138,729
Share-based compensation related to vesting of share options	-	-	-	-	279,908	-	-	-	-	279,908
Issuances of shares to Share Incentive Plan Trust	170,719,987	12	(170,719,987)	(12)	-	-	-	-	-	-
Deemed dividend to preferred shareholders due to modification of preferred shares	-	-	-	-	-	-	(1,054,220)	-	-	(1,054,220)
Deemed repurchase of ordinary shares resulting from redesignation of founder's ordinary shares to preferred shares	(6,443,998)	(1)	-	-	-	-	(33,289)	-	-	(33,290)
Accretion on preferred shares to redemption value	-	-	-	-	-	-	(242,209)	-	-	(242,209)
Net loss	-	-	-	-	-	-	(2,687,807)	-	(608)	(2,688,415)
Foreign currency translation adjustment	-	-	-	-	-	-	-	(111,697)	-	(111,697)
Appropriation to statutory reserves	-	-	-	-	-	729	(729)	-	-	-
Conversion of convertible redeemable preferred shares	1,301,189,200	85	-	-	5,569,233	-	-	-	-	5,569,318
Issuance of ordinary shares upon initial public offering	270,250,000	18	-	-	4,352,710	-	-	-	-	4,352,728
Capital injection from non-controlling interests	-	-	-	-	-	-	-	-	15,692	15,692
Balance as of December 31, 2020	2,697,173,763	173	(170,719,987)	(12)	11,165,697	20,051	(4,240,134)	(97,265)	15,084	6,863,594
Net loss	-	-	-	-	-	-	(1,540,734)	-	(6,304)	(1,547,038)
Foreign currency translation adjustment	-	-	-	-	-	-	-	(158,515)	-	(158,515)
Share-based compensation related to vesting of share options	-	-	-	-	464,011	-	-	-	-	464,011
Share-based compensation related to accelerated vesting of share options	-	-	-	-	66,429	-	-	-	-	66,429
Repurchase of ordinary shares	-	-	(7,387,292)	(22,319)	-	-	-	-	-	(22,319)
Capital injection from non-controlling interests	-	-	-	-	-	-	-	-	596	596
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	228	228
Exercise of share options	-	-	7,686,832	1	1,919	-	-	-	-	1,920
Transaction with non-controlling interests	-	-	-	-	(114)	-	-	-	114	-
Appropriation to statutory reserves	-	-	-	-	-	1,301	(1,301)	-	-	-
Balance as of December 31, 2021	2,697,173,763	173	(170,420,447)	(22,330)	11,697,942	21,352	(5,782,169)	(255,780)	9,718	5,668,906

YATSEN HOLDING LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT) (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

	Ordinary Shares		Treasury Shares		Additional Paid-in Capital	Statutory Reserves	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non- controlling interests	Total Shareholders' Equity (Deficit)
	Shares	Amount RMB	Shares	Amount RMB	RMB	RMB	RMB	RMB	RMB	RMB
Balance as of December 31, 2021	2,697,173,763	173	(170,420,447)	(22,330)	11,697,942	21,352	(5,782,169)	(255,780)	9,718	5,668,906
Net loss	-	-	-	-	-	-	(815,371)	-	(5,962)	(821,333)
Foreign currency translation adjustment	-	-	-	-	-	-	-	181,585	-	181,585
Share-based compensation related to vesting of share options	-	-	-	-	392,727	-	-	-	-	392,727
Share-based compensation related to accelerated vesting of share options	-	-	-	-	(64,660)	-	-	-	-	(64,660)
Related to modification of exercise price of share options on modification day	-	-	-	-	12,793	-	-	-	-	12,793
Repurchase of ordinary shares	-	-	(290,503,052)	(646,820)	-	-	-	-	-	(646,820)
Appropriation to statutory reserves	-	-	-	-	-	2,825	(2,825)	-	-	-
Others	-	-	-	-	-	-	-	-	(596)	(596)
Balance as of December 31, 2022	<u>2,697,173,763</u>	<u>173</u>	<u>(460,923,499)</u>	<u>(669,150)</u>	<u>12,038,802</u>	<u>24,177</u>	<u>(6,600,365)</u>	<u>(74,195)</u>	<u>3,160</u>	<u>4,722,602</u>

The accompanying notes are an integral part of these consolidated financial statements.

YATSEN HOLDING LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS

(All amounts in thousands, except for share, per share data or otherwise noted)

	Year ended December 31,			
	2020	2021	2022	2022
	RMB	RMB	RMB	US\$
	(Note 2(e))			
Cash Flows from Operating Activities				
Net loss	(2,688,415)	(1,547,038)	(821,333)	(119,081)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation of property and equipment	74,551	130,666	114,047	16,535
Amortization of intangible assets	3,476	50,705	56,848	8,242
Share-based compensation	1,900,588	530,440	340,860	49,420
Amortization of right-of-use assets	185,843	245,893	168,369	24,411
Recognition of deferred income	-	(14,515)	(14,934)	(2,165)
Impairment allowance of inventory	21,496	87,045	(3,079)	(446)
Deferred income tax expenses (benefits)	3,451	(5,428)	(8,360)	(1,212)
Impairment of and loss on disposal of property and equipment	15,072	36,231	80,288	11,641
Loss on disposal of intangible assets	27	2,672	920	133
Gain from acquisition of a joint venture	-	(2,094)	-	-
Impairment of investments	-	1,375	5,078	736
Share of (income) loss from equity investments	293	(5,978)	(12,548)	(1,819)
Provision for expected credit loss	2,643	-	-	-
Changes in operating assets and liabilities:				
Accounts receivable	(154,015)	99,745	154,995	22,472
Interest receivables on short-term investments	-	-	319	46
Prepayments and other current assets	(190,621)	(42,715)	65,916	9,557
Inventories	(134,255)	(109,930)	277,997	40,306
Other non-current assets	(25,752)	(18,961)	27,335	3,963
Amounts due from related parties	(564)	1,260	(5,594)	(811)
Amounts due to related parties	11,814	2,153	13,275	1,925
Accounts payable	66,163	(244,444)	(120,970)	(17,539)
Accrued expenses and other liabilities	174,698	(63,683)	(17,303)	(2,509)
Advances from customers	3,051	14,376	(4,028)	(584)
Deferred income	-	71,668	-	-
Income tax payables	(55,958)	(1,437)	5,079	736
Lease liabilities	(196,954)	(238,447)	(166,969)	(24,208)
Net Cash provided by (used in) Operating Activities	(983,368)	(1,020,441)	136,208	19,749
Cash Flows from Investing Activities				
Purchases of intangible assets	(159,010)	(25,304)	(8,550)	(1,240)
Purchases of property and equipment	(225,569)	(141,433)	(50,778)	(7,362)
Proceeds from disposal of property and equipment	471	-	4,099	594
Purchases of short-term investments	-	-	(2,421,802)	(351,128)
Sales of short-term investments	10,000	-	1,459,564	211,617
Acquisition of businesses, net of cash and cash equivalents acquired	(3,196)	(989,652)	(2,107)	(305)
Investments on equity investments	(35,552)	(322,825)	(135,842)	(19,695)
Pre-paid consideration for an acquisition	(95,976)	(5,043)	-	-
Net Cash used in Investing Activities	(508,832)	(1,484,257)	(1,155,416)	(167,519)
Cash Flows from Financing Activities				
Proceeds from short-term borrowings	10,000	-	-	-
Repayments for short-term borrowings	(10,000)	(100)	-	-
Proceeds from issuance of preferred shares, net of issuance costs	3,868,594	-	-	-
Proceeds from issuance of ordinary shares, net of issuance costs	4,380,213	-	-	-
Repayment of a shareholder receivable resulting from Repurchases of Ordinary Shares	-	12,959	-	-
Capital contributions from non-controlling interests	-	596	-	-
Issuance costs of issuance of Ordinary Shares in IPO	-	-	(1,706)	(247)
Proceeds from exercise of vested share options	-	-	1,906	276
Repurchases of ordinary shares	(491,167)	(15,161)	(654,650)	(94,915)
Repurchases of preferred shares	(1,076,771)	-	-	-
Net Cash provided by (used in) Financing Activities	6,680,869	(1,706)	(654,450)	(94,886)
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(131,856)	(88,980)	89,978	13,044
Net increase (decrease) in cash and cash equivalents and restricted cash	5,056,813	(2,595,384)	(1,583,680)	(229,612)
Cash and cash equivalents and restricted cash at the beginning of the year	676,579	5,733,392	3,138,008	454,968
Cash and cash equivalents and restricted cash at the end of the year	5,733,392	3,138,008	1,554,328	225,356
Supplemental disclosures of cash flow information				
Income taxes paid	(59,437)	(6,190)	(6,108)	(886)
Cash paid for interest	(93)	-	-	-
Supplemental schedule of non-cash investing and financing activities				
Purchases of property and equipment	40,412	19,709	10,607	1,538
Purchases of intangible assets	-	2,999	282	41
Receivables of exercise price of share options	-	1,920	-	-
Payable for repurchases of Ordinary Shares	-	7,166	-	-
Deemed repurchase of ordinary shares resulting from redesignation of Founder's ordinary shares to preferred shares	35,142	-	-	-
Capital injection from non-controlling interests	15,692	338,587	1,337	194

The accompanying notes are an integral part of these consolidated financial statements.

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except for share, per share data or otherwise noted)

1. PRINCIPAL ACTIVITIES AND REORGANIZATION

(a) Principal activities

Yatsen Holding Limited (the “Company”) was incorporated in the Cayman Islands on September 12, 2016. The Company, through its consolidated subsidiaries, the variable interest entities (“VIEs”) and VIE’s subsidiaries (collectively referred to as the “Group”), is primarily engaged in selling beauty products and is a consumer-centric, technology-and data-driven beauty platform in the People's Republic of China (“the PRC”). The Company was listed on the New York Stock Exchange on November 19, 2020.

As of December 31, 2022, details of the Company's principal subsidiaries and VIE were as follows:

	Place of incorporation	Date of incorporation	Percentage of beneficial ownership	Principal activities
Principal subsidiaries:				
Guangzhou Yatsen Global Co., Ltd.(“Guangzhou Yatsen”)	PRC	July 29, 2015	100%	Cosmetics Sales
Guangzhou Yatsen Cosmetics Co., Ltd.	PRC	March 24, 2017	100%	Cosmetics Sales
Guangzhou Yiyao Cosmetics Co., Ltd.	PRC	April 15, 2019	100%	Cosmetics Sales
Galenic (Shanghai) E-commerce Co., Ltd.	PRC	January 28, 2021	90%	Cosmetics Sales
Guangzhou DR.WU Cosmetics Co., Ltd.	PRC	January 5, 2021	90%	Cosmetics Sales
SNK (Shanghai) Limited	PRC	July 31, 2018	90%	Cosmetics Sales
VIE:				
Huizhi Weimei (Guangzhou) Trading Co., Ltd.(“HZ VIE”)	PRC	February 22, 2019	100%	Cosmetics Sales

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

1. PRINCIPAL ACTIVITIES AND REORGANIZATION (Continued)

(b) VIE Arrangements between the VIEs and the Company's PRC subsidiary

To comply with the relevant PRC laws and regulations, the Group operates its internet-based business, in which foreign investment is restricted or prohibited, through the VIEs. The Group obtained the control of the VIEs by entering into a series of contractual arrangements with the VIEs or their equity holders as follows:

Powers of Attorney

The shareholders of VIEs, have each executed a power of attorney to irrevocably appoint Guangzhou Yatsen or its designated person as their attorney-in-fact to exercise all of their rights as shareholders of VIEs, including, but not limited to, the right to convene and attend shareholder meetings, vote on any resolution that requires a shareholder vote, such as the appointment or removal of directors and executive officers, and other voting rights pursuant to the then-effective articles of association of VIEs. The power of attorney will remain in force for so long as the controlling shareholders remain the shareholders of VIEs.

Exclusive Technology Consulting and Service Agreement

Under the exclusive technology consulting and service agreement between Guangzhou Yatsen and VIEs, Guangzhou Yatsen has the exclusive right to provide to VIEs technology consulting and services related to, among other things, research and development, system operation, advertising, internal training and technical support. Guangzhou Yatsen has the exclusive ownership of intellectual property rights created as a result of the performance of this agreement. In exchange, VIEs agree to pay Guangzhou Yatsen an annual service fee, at an amount that is agreed by Guangzhou Yatsen. Unless Guangzhou Yatsen provides valid notice of termination 30 days prior to the term of agreement ending, this agreement will remain effective for 10 years to be automatically renewed for another 10 years thereafter.

Equity Pledge Agreement

Pursuant to the equity pledge agreement among Guangzhou Yatsen, VIEs, and the shareholders of VIEs, the shareholders pledged all of their equity interests in VIEs to guarantee their and VIEs' performance of their obligations under the contractual arrangements including the exclusive technology consulting and service agreement, the exclusive option agreement and the power of attorney. In the event of a breach by VIEs or their shareholders of contractual obligations under these agreements, Guangzhou Yatsen, as pledgee, will have the right to dispose of the pledged equity interests in VIEs. The shareholders of VIEs also undertake that, during the term of the equity pledge agreement, they will not dispose of the pledged equity interests or create or allow any encumbrance on the pledged equity interests. During the term of the equity pledge agreement, Guangzhou Yatsen has the right to receive all of the dividends and profits distributed on the pledged equity interests. As of the date of this annual report, the equity pledge for the variable interest equity has been registered with local PRC authorities.

Exclusive Call Option Agreement

Pursuant to the exclusive call option agreement between Guangzhou Yatsen, VIEs and their shareholders, the shareholders of VIEs irrevocably grant Guangzhou Yatsen an exclusive option to purchase, at its discretion, or have its designated person to purchase, to the extent permitted under PRC law, all or part of the equity interests in VIEs. The purchase price shall be the lowest price permitted by applicable PRC law. In addition, VIEs have granted Guangzhou Yatsen an exclusive option to purchase, at its discretion, or have its designated person to purchase, to the extent permitted under PRC law, all or part of VIEs' assets at the book value of such assets, or at the lowest price permitted by applicable PRC law, whichever is higher. The shareholders of VIEs undertake that, without the Company's prior written consent or the prior written consent of Guangzhou Yatsen, they may not increase or decrease the registered capital, dispose of its assets, incur any debt or guarantee liabilities, enter into any material purchase agreements, conduct any merger, acquisition or investments, amend its articles of association or provide any loans to third parties. The exclusive call option agreement will remain effective until all equity interest in VIEs held by their shareholders and all assets of VIEs are transferred or assigned to Guangzhou Yatsen or its designated representatives.

Under accounting principles generally accepted in the United States of America ("U.S. GAAP"), a VIE is consolidated if the Company bears the risks and enjoys the rewards normally associated with, ownership of the entity. Through these contractual agreements, the Company has the power to direct the activities that most significantly impact the VIEs' economic performance, bears the risks of and enjoys the rewards normally associated with ownership of the VIEs. Therefore, the Company is the ultimate primary beneficiary of the VIEs and the financial results of the VIEs are included in the Group's consolidated financial statements. The PRC variable interest entity, HZ VIE, developed e-commerce platforms for the business and holds an ICP license.

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

1. PRINCIPAL ACTIVITIES AND REORGANIZATION (Continued)

(b) VIE Arrangements between the VIEs and the Company's PRC subsidiary (Continued)

The following consolidated financial information of the consolidated VIEs is included in the accompanying consolidated financial statements as of and for the year ended:

	As of December 31,	
	2021	2022
	RMB	RMB
Cash and cash equivalents	27,539	8,924
Accounts receivable	8,109	2,047
Inventories, net	1,006	1,080
Prepayments and other current assets	17,525	9,723
Total current assets	54,179	21,774
Investments	118,862	161,640
Property and equipment, net	11,106	5,745
Intangible assets, net	38	2
Right-of-use assets, net	143	74
Total non-current assets	130,149	167,461
Total assets	184,328	189,235
Accounts payable	11,765	8,813
Advances from customers	14,262	5,892
Accrued expenses and other liabilities	18,727	16,624
Income tax payables	1,005	929
Lease liabilities due within one year	74	78
Amounts due to non-VIE subsidiaries	193,917	195,389
Total current liabilities	239,750	227,725
Lease liabilities	78	-
Total liabilities	239,828	227,725

	Year ended December 31,		
	2020	2021	2022
	RMB	RMB	RMB
Net revenues	907,735	521,835	323,246
Net income (loss)	(176,187)	(27,886)	16,624
Net cash provided by operating activities	47,830	17,178	17,306
Net cash used in investing activities	(17,102)	(121,236)	(30,277)
Net cash provided by (used in) financing activities	(2,603)	100,450	(5,644)
Net increase (decrease) in cash and cash equivalents	28,125	(3,608)	(18,615)

(1) During years ended December 31, 2020, 2021 and 2022, the consolidated VIEs earned inter-company revenues in the amounts of RMB11,665, nil and nil, respectively. In addition, the proceeds from advances from Group companies to the consolidated VIEs in 2020, 2021 and 2022 are in the amount of RMB303,913, RMB129,664, and nil, respectively and the repayment of advances to Group companies by the consolidated VIEs in 2020, 2021 and 2022 are in the amount of RMB303,913, RMB36,664 and nil, respectively. All of these transactions have been eliminated in consolidation.

(2) As at December 31, 2021 and 2022, amounts due to non-VIE subsidiaries included RMB93,000 and RMB93,000 for debt financing from Group companies to the consolidated VIEs not yet returned.

(3) Aoyan Shanghai Cosmetics Trading Co., Ltd. ("Aoyan") was acquired through a series of contractual arrangements entered on June 4, 2019 that enabled the Group to control Aoyan and to receive all rewards associated with equity ownership. The Group subsequently entered a series of VIE arrangements described in Note 1.(b) to replace the above contracts on May 8, 2020. The Group acquired 100% of the equity interest of Aoyan for no consideration on July 17, 2020 and terminated all VIE arrangements for Aoyan. Therefore, Aoyan was treated as one of the consolidated VIEs for the period from June 4, 2019 to July 17, 2020. Financial information of Aoyan after July 17, 2020 was excluded from the consolidated financial information of the consolidated VIEs disclosed above.

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

1. PRINCIPAL ACTIVITIES AND REORGANIZATION (Continued)

(b) VIE Arrangements between the VIEs and the Company's PRC subsidiary (Continued)

In accordance with the aforementioned agreements, the Company has the power to direct activities of the VIEs, and can have assets transferred out of VIEs. Therefore, the Company considers that there is no asset in VIEs that can be used only to settle obligations of the VIEs, except for registered capital, as of December 31, 2022. As VIEs were incorporated as limited liability companies under the PRC Company Law, the creditors do not have recourse to the general credit of the Company for all the liabilities of VIEs. There is currently no contractual arrangement that would require the Company to provide additional financial support to the VIEs. As the Group is conducting certain businesses in the PRC through the VIEs, the Group may provide additional financial support on a discretionary basis in the future, which could expose the Group to a loss. There is no VIEs where the Company has variable interest but is not the primary beneficiary. The Group believes that the contractual arrangements among its shareholders and Guangzhou Yatsen comply with PRC law and are legally enforceable. However, uncertainties in the PRC legal system could limit the Company's ability to enforce these contractual arrangements and if the shareholders of VIEs were to reduce their interest in the Company, their interests may diverge from that of the Company and that may potentially increase the risk that they would seek to act contrary to the contractual terms. The Company's ability to control the VIEs also depends on the voting rights proxy and the effect of the share pledge under the Equity Pledge Agreement and Guangzhou Yatsen has to vote on all matters requiring shareholder approval in VIEs. As noted above, the Company believes this voting right proxy is legally enforceable but may not be as effective as direct equity ownership.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with U.S. GAAP. Significant accounting policies followed by the Group in the preparation of the consolidated financial statements are summarized below.

(b) Basis of consolidation

The Group's consolidated financial statements include the financial statements of the Company, its subsidiaries and VIEs for which the Company or its subsidiary is the primary beneficiary.

A subsidiary is an entity in which the Company, directly or indirectly, controls more than one half of the voting powers; or has the power to appoint or remove the majority of the members of the board of directors; or to cast a majority of votes at the meeting of directors; or has the power to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

A VIE is an entity in which the Company, or its subsidiary, through contractual agreements, bears the risks of, and enjoys the rewards normally associated with ownership of the entity, and therefore the Company or its subsidiary is the primary beneficiary of the entity.

All transactions and balances among between the Company, its subsidiaries and VIEs have been eliminated upon consolidation.

(c) Use of estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and accompanying notes. Significant accounting estimates reflected in the Group's consolidated financial statements include inventory valuation, goodwill impairment assessment, valuation and recognition of share-based compensation arrangements, and fair value of assets and liabilities acquired in business combinations. The management bases the estimates and judgments on historical information and on various other assumptions that management believes are reasonable under the circumstances. Actual results could differ materially from such estimates.

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) *Functional currency and foreign currency translation*

The Group uses Renminbi (“RMB”) as its reporting currency. The functional currency of the Company and its subsidiaries incorporated in Cayman Islands is United States dollar (“US\$”), in Hong Kong is US\$ or Hong Kong dollar (“HKD”), in United Kingdom is Great Britain Pound (“GBP”), in France is Euro (“EUR”), and in Japan is Japanese Yen (“JPY”) while the functional currency of the Group’s entities in PRC is RMB, which is their respective local currency. In the consolidated financial statements, the financial information of the Company and its subsidiaries, which use foreign currency as their functional currency, have been translated into RMB. Assets and liabilities are translated at the exchange rates on the balance sheet date, equity amounts are translated at historical exchange rates, and revenues, expenses, gains, and losses are translated using the average exchange rate for the period. Translation adjustments arising from these are reported as foreign currency translation adjustments and are shown as a component of other comprehensive income (loss) in the consolidated statement of comprehensive income (loss).

Foreign currency transactions denominated in currencies other than functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are remeasured at the applicable rates of exchange in effect at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from remeasurement at year-end are recognized in foreign currency exchange gains (losses), net in the consolidated statement of operations.

(e) *Convenience translation*

Translations of balances in the consolidated balance sheets, consolidated statements of operations, consolidated statements of comprehensive income (loss) and consolidated statements of cash flows from RMB into US\$ as of and for the year ended December 31, 2022 are solely for the convenience of the reader and were calculated at the noon buying rate of US\$ 1.00 = RMB 6.8972 on December 30, 2022 as set forth in the H.10 statistical release of the U.S. Federal Reserve Board. No representation is made that the RMB amounts could have been, or could be, converted, realized or settled into US\$ at that rate on December 31, 2022, or at any other rate.

(f) *Cash and cash equivalents*

Cash and cash equivalents consist of cash on hand, demand deposits and highly liquid investments with original maturity of less than three months. Cash and cash equivalents are placed with financial institutions with high-credit ratings and quality.

(g) *Restricted cash*

Restricted cash primarily represents cash reserved in relation to litigations and security deposits held in the depository bank account for financial guarantee. As at December 31, 2021 and 2022, the restricted cash amounted to nil and RMB 41,383 , respectively.

(h) *Short-term investment*

Short-term investment represent time deposits placed with banks with original maturities between three months and one year. Interest earned is recorded as interest income in the consolidated statements of operations during the periods presented.

(i) *Accounts receivable*

Accounts receivable are stated at the historical carrying amount net of allowance for doubtful accounts. The accounts receivable mainly include receivables from platform distributor customers, wholesale customers and independent payment channels or payment channel functions operated by platforms, who collect from end customers on behalf of the Group before the Group’s delivery of products (“Payment Channels”). The receivables from platform distributor customers and wholesale customers are settled in accordance with credit terms mutually agreed. The receivable from Payment Channels is settled upon pre-agreed days after the Group delivers products to end customers, or when customers confirm their receipts of products, whichever is earlier.

The allowance for doubtful accounts reflects the Group’s best estimate of expected losses. Before January 1, 2020, the Group determines the allowance for doubtful accounts based on an assessment of historical collection activity, the current business environment and forecasts that may affect the customers' ability to pay. From January 1, 2020, the Group determines the expected credit loss provisions based on ASC Topic 326, detailed as Note 2(j).

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

(j) *Expected credit losses*

The Group adopted the accounting standards update of ASC Topic 326 and several associated ASUs related to the measurement of credit losses on January 1, 2020 using a modified retrospective approach, which did not have a material impact on retained earnings (accumulated deficit).

The Group's accounts receivable and other receivables classified as other current assets and other non-current assets are within the scope of ASC Topic 326. The Group has identified the relevant risk characteristics of its customers and the related receivables and other receivables which include size, type of the services or products the Group provides, or a combination of these characteristics. Receivables with similar risk characteristics have been grouped into pools. For each pool, the Group considers the historical credit loss experience, current economic conditions, supportable forecasts of future economic conditions, and any recoveries in assessing the lifetime expected credit losses. Other key factors that influence the expected credit loss analysis include customer demographics, payment terms offered in the normal course of business to customers, and industry-specific factors that could impact the Group's receivables. The Group also provides specific provisions for allowance when facts and circumstances indicate that the receivable is unlikely to be collected. Expected credit losses for accounts receivable are recorded as general and administrative expenses on the consolidated statements of operations.

The Group's accounts receivable primarily include (i) receivables from the e-commerce platform distributors who sell products to their end customers on prepayment term and therefore are subject to limited credit loss risk from their customers, and (ii) receivables from Payment Channels who collect from the Group's end customers on behalf of the Group before the delivery of products, and (iii) receivables from wholesale customers. Based on such industry practice and considering no significant bad debt expense incurred historically, the Group expected no significant credit losses will be incurred for accounts receivable due from these three types of customers.

(k) *Inventories*

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the weighted average method. Impairment is made for excessive, slow moving, expired and obsolete inventories as well as for inventories with carrying values in excess of market. Certain factors could impact the realizable value of inventory, so the Group continually estimated the net realizable value based on assumptions relating to the demand forecast for inventories, including potential product obsolescence, sales strategy, and marketability of inventories. The estimation may take into consideration historical usage, inventory aging, expiration date, expected demand, anticipated sales price, new product development schedules, the effect new products might have on the sale of existing products, product obsolescence, customer concentrations, and other factors. The impairment is equal to the difference between the cost of inventory and the estimated net realizable value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory impairment may be required that could negatively impact the Group's gross margin and operating results. If actual market conditions are more favorable, the Group may have higher gross margin when products that have been previously provided for are eventually sold.

(l) *Property and equipment, net*

Property and equipment is carried at cost less accumulated depreciation and impairment, if any. Depreciation is calculated on a straight-line basis over the following estimated useful lives.

Category	Estimated useful lives
Machinery	3-10 years
Electronic equipment	3 years
Office furniture and equipment	3 -5 years
Vehicles	4 years
Leasehold improvements	Shorter of the term of the lease or the estimated useful lives of the assets

Repairs and maintenance costs are charged to expenses as incurred, whereas the costs of renewals and betterment that extend the useful lives of property and equipment are capitalized as additions to the related assets. The Group recognizes the gain or loss on the disposal of property and equipment in the consolidated statements of operations.

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

Construction in progress represents direct costs that are related to the construction of property and equipment and incurred in connection with bringing the assets to their intended use. The costs of construction in progress are transferred to specific property and equipment accounts and the depreciation of these assets commences when the assets are ready for their intended use.

(m) Intangible assets, net

Intangible assets purchased from third parties are initially recorded at cost and amortized on a straight-line basis over the estimated economic useful lives. The acquired intangible assets are recognized and measured at fair value and are expensed or amortized using the straight-line approach over the estimated economic useful lives of the assets.

The estimated useful lives of intangible assets are as follows:

Category	Estimated useful lives
Trademarks	9-20 years
Software	5-10 years
Customer Relationship	10 years
Techniques	10 years
Non-compete	5 years

(n) Goodwill

Goodwill represents the excess of the purchase price over the amounts assigned to the fair value of the identifiable assets acquired and the liabilities assumed of an acquired business. The Group conducts an impairment test as of December 31 of each year, or more frequently if events or circumstances indicate that the carrying value of goodwill may be impaired.

In accordance with ASC 350, the Group does not amortize goodwill, but tests it for impairment. The Group tests goodwill for impairment at the reporting unit level on an annual basis as of December 31 of each year, or more frequently if events or circumstances indicate that the carrying value of goodwill may be impaired. The Group adopted ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, and in accordance with the FASB, pursuant to which the Group has the option to choose whether it will apply a qualitative assessment first and then a quantitative assessment, if necessary, or to apply a quantitative assessment directly. For reporting units applying a qualitative assessment first, the Group starts the goodwill impairment test by assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is mandatory. Otherwise, no further testing is required. The quantitative impairment test consists of a comparison of the fair value of the reporting unit with its carrying value, including goodwill. If the carrying value of each reporting unit, including goodwill, exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, but limited to the total amount of goodwill allocated to that reporting unit.

Application of a goodwill impairment test requires significant management judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. The Group estimates fair value using the income approach and the market approach. The fair value determined using the income approach is compared with comparable market data and reconciled, as necessary. The judgment in estimating the fair value of reporting units includes revenue growth rates and profitability in estimating future cash flows; determining appropriate discount rates and earnings multipliers based on market data of comparable companies engaged in a similar business under the market approach; and making other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

No impairment provision was made for the years ended December 31, 2020, 2021 and 2022.

(o) Business combination

Business combinations are recorded using the purchase method of accounting, and the cost of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, and equity instruments issued as well as the contingent considerations and all contractual contingencies as of the acquisition date. The costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

fair value as of the acquisition date, irrespective of the extent of any non-controlling interests. The excess of the (i) the total of consideration paid, fair value of the non-controlling interests and acquisition date fair value of any previously held equity interest in the subsidiary acquired over (ii) the fair value of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If the consideration of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statements of comprehensive income.

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Business combination (Continued)

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in additional paid-in capital.

(p) Investments

1) Equity investments accounted for using the equity method

The Group accounts for its equity investments over which it has significant influence but does not own a majority equity interest or otherwise control using the equity method. The Group adjusts the carrying amount of the investment and recognizes investment income or loss for its share of the earnings or losses of the investee after the date of investment.

2) Equity investments without readily determinable fair values

The Group elected to record equity investments without readily determinable fair values and not accounted for by the equity method at cost, less impairment, adjusted for subsequent observable price changes, and will report changes in the carrying value of the equity investments in current earnings. Changes in the carrying value of the equity investment will be required to be made whenever there are observable price changes in orderly transactions for the identical or similar investment of the same issuer.

The Group monitors its investments for other-than-temporary impairment by considering factors including, but not limited to, current economic and market conditions, the operating performance of the companies including current earnings trends and other company-specific information.

(q) Impairment of long-lived assets

Long-lived assets are evaluated for impairment whenever events or changes in circumstances (such as a significant adverse change to market conditions that will impact the future use of the assets) indicate that the carrying value of an asset may not be fully recoverable or that the useful life is shorter than the Group had originally estimated. When these events occur, the Group evaluates the impairment for the long-lived assets by comparing the carrying value of the assets to an estimate of future undiscounted cash flows expected to be generated from the use of the assets and their eventual disposition. If the sum of the expected future undiscounted cash flows is less than the carrying value of the assets, the Group recognizes an impairment loss based on the excess of the carrying value of the assets over the fair value of the assets.

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Leases

In February 2016, the FASB issued ASC 842, Leases, to require lessees to recognize all leases, with certain exceptions, on the balance sheet, while recognition on the operations will remain similar to lease accounting under ASC 840. Subsequently, the FASB issued ASU No. 2018-10, Codification Improvements to Topic 842, Leases, ASU No. 2018-11, Targeted Improvements, ASU No. 2018-20, Narrow-Scope Improvements for Lessors, and ASU 2019-01, Codification Improvements, to clarify and amend the guidance in ASU No. 2016-02.

As a lessee

Operating lease

The Group early adopted the ASUs as of January 1, 2018 using the modified retrospective approach. The adoption impact was immaterial. Upon adoption, the Group elected the package of practical expedients permitted under the transition guidance within the new standard, which allowed the Group to carry forward the historical determination of contracts as leases, lease classification and not reassess initial direct costs for historical lease arrangements. In addition, the Group also elected the practical expedient to apply consistently to all of the Group's leases to use hindsight in determining the lease term (that is, when considering lessee options to extend or terminate the lease and to purchase the underlying asset) and in assessing impairment of the Group's right-of-use assets.

The Group includes a right-of-use asset and lease liability related to substantially all of the Group's lease arrangements in the consolidated balance sheets. All of the Group's leases are operating leases. Operating lease assets are included within right-of-use assets, and the corresponding lease liabilities are included in either current or long-term liabilities.

The Group has elected not to present short-term leases on the consolidated balance sheet as these leases have a lease term of 12 months or less at commencement date of the lease and do not include options to purchase or renew that the Group is reasonably certain to exercise. The Group recognizes lease expenses for such short-term lease generally on a straight-line basis over the lease term. All other lease assets and lease liabilities are recognized based on the present value of lease payments over the lease term at commencement date. Because most of the Group's leases do not provide an implicit rate of return, the Group uses the Group's incremental borrowing rate based on the information available at adoption date or lease commencement date in determining the present value of lease payments.

(s) Redeemable non-controlling interests

The Group determined that the non-controlling interest with redemption rights should be classified as redeemable non-controlling interest since they are contingently redeemable upon the occurrence of certain conditional events, which are not solely within the control of the Group.

The redeemable non-controlling interests is recognized at fair value on the acquisition date. The Group records accretion on the redeemable non-controlling interest to the redemption value over the period from the date of the acquisition to the date of earliest redemption. The accretion using the effective interest method, is recorded as deemed dividends to preferred shareholders, which reduce retained earnings and equity classified non-controlling interests, and earnings available to common shareholders in calculating basic and diluted earnings per share.

The process of adjusting redeemable non-controlling interests to its redemption value (the "Mezzanine Adjustment") should be performed after attribution of the subsidiary's net income or loss pursuant to ASC 810, Consolidation. The carrying amount of redeemable non-controlling interests will equal the higher of the amount resulting from application of ASC 810 or the amount resulting from the Mezzanine Adjustment. As the expected redemption value is less than the carrying value of redeemable non-controlling interests, there is nil mezzanine adjustment recognized for the year ended December 31, 2022.

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) *Revenue recognition*

The Group adopted ASC 606 for all periods presented. According to ASC 606, revenue is recognized when control of the promised good or service is transferred to the customer in an amount that reflects the consideration the Group expects to receive in exchange for those goods or services, after considering estimated sales return allowances, price concessions, discount and value added tax (“VAT”). Consistent with the criteria of Topic 606, the Group follows five steps for its revenue recognition: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation.

The Group’s revenues are primarily derived from (i) sales of the Group’s products to third party platform distributor customers and wholesale customers who then sell to end customers and (ii) sales of the Group’s products to end customers directly through the Group’s online stores run on third party e-commerce platforms and through offline stores operated by the Group. Refer to Note 15 to the consolidated financial statements for disaggregation of the Group’s revenues for the years ended December 31, 2020, 2021 and 2022.

The Group enters into two types of agreements with third party e-commerce platforms:

1) Distribution Agreements

Under the distribution agreements, the platform distributor customers purchase products from the Group and sell to end customers under the platform distributor customer’s name. According to the agreements, the platform distributor customers take control of the products and are entitled to rights of return and price protection. After taking control of the products, the platform distributor customer is responsible for selling and fulfilling all obligations in its sales contracts with end customers, including delivering the products and providing customer support. Under the distribution agreement, the Group has a sale contract with the platform distributor customer and has no sales contract with the end customers. Based on these indicators, the Group determined the e-commerce platform distributors (as opposed to the end customers) as its customers according to ASC 606-10-55-39.

2) Platform Service Agreements

Under the platform service agreements, the Group sets up online stores on the platforms to sell the Group’s product to end customers. The platforms provide services to support the operations of the online store including processing sales orders and collecting from end customers. The platforms charge the Group service fees based on the Group’s sales through the online stores. The Group enters sale contracts directly with the end customers. The platforms do not take control of the goods and do not include sales contracts with end customers. The Group is responsible for selling and fulfilling all obligations according to its sales contracts with end customers, including delivering products and providing customer support. Accordingly, the Group determined the end customers (as opposed to the platforms) as its customers according to ASC 606-10-55-39. The sales contracts with end customers normally include a customer’s right to return products within 7 days after receipt of goods.

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Revenue recognition (Continued)

2) Platform Service Agreements (Continued)

The Group identifies its performance obligation to both e-commerce platform distributor customers and end customers as to transfer the control of the products ordered to the customers. Contracts with customers may include multiple performance obligations if there is a need to separate one order into multiple deliveries. In those scenarios, transaction price will be allocated to different performance obligations based on relative standalone selling prices.

The Group recognizes revenue from sales to e-commerce platform distributors upon delivery of the products to e-commerce platform distributors' warehouses in an amount equal to the contract sales prices less estimated sales allowances for sales returns, rebates and price protection. The Group recognizes revenues from sales to end customers upon delivery of the product to end customers in an amount equal to the contract sales prices less estimated sales allowances for sales returns and sales incentives. Estimated sales allowances for sales returns, rebates, incentives and price protection are made based on contract terms and historical patterns.

Sales incentives

The Group grants points to customers when they purchase goods from its online platforms. The points can be used to offset against payments or exchanged for goods when customers make their future purchases. The Group considers the points as a separate performance obligation and allocates the transaction price proportionally between the product sold and the points granted on a relative standalone selling price basis in consideration of the likelihood of future redemption based on historical experience and the equivalent value per point when they are redeemed. The deferred income recorded for the point is considered as a contract liability. As of December 31, 2021 and 2022, the Group recorded contract liability related to the points of RMB11,722 and RMB3,814, respectively.

Contract balances

A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. A contract asset is recorded when the Group has transferred products to the customer before payment is received or is due, and the Group's right to consideration is conditional on future performance or other factors in the contract. No contract asset was recorded as of December 31, 2021 and 2022.

Sales to e-commerce platform distributor customers are on credit terms, and receivables are recorded upon recognizing revenues. Sales through online stores on platforms are paid by the end customers to Payment Channels before the Group delivers the products. Payment Channels settle with the Group based upon pre-agreed days after the Group delivers products to end customers, or when the end customers confirm their receipts of products, whichever is earlier.

A contract liability is recorded when the Group's obligation to transfer goods to a customer has not yet occurred but for which the Group has received consideration from the customer. The Group presents such amounts as advances from customers on the consolidated balance sheets.

As of December 31, 2021 and 2022, advances from customers were RMB20,680 and RMB16,652, respectively. All contract liability balances at the beginning of the years were recognized as revenue in the following years due to generally short-term duration of contracts.

During the years ended December 31, 2020, 2021 and 2022, the Group did not have any revenue recognized from performance obligations satisfied (or partially satisfied) in previous periods.

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) *Revenue recognition (Continued)*

Practical Expedients

The transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied has not been disclosed, as substantially all of the Group's contracts have a duration of one year or less.

Payment terms with platform distributor customers and Payment Channels generally require settlement within one year or less. The Group has determined that its contracts generally do not include a significant financing component.

The Group generally expenses sales commissions when incurred because the amortization period is one year or less. These costs are recorded within selling and marketing expenses.

(u) *Cost of revenues*

Cost of revenues consists primarily of material costs, consignment manufacturing cost and related costs that are directly attributable to the production of products.

(v) *Fulfilment expenses*

Fulfilment expenses primarily represent expenses incurred for warehousing, shipping and delivering products to customers, mainly including rental and personnel costs for warehouses as well as third party shipping costs.

(w) *Selling and marketing expenses*

Selling and marketing expenses primarily consist of (i) advertising and marketing promotion expenses, (ii) platform commission, (iii) personnel costs for sales and marketing staff, (iv) rental, depreciation expenses, personnel and other costs for offline experience stores and (v) share-based compensation expenses. For the years ended December 31, 2020, 2021 and 2022, advertising and marketing promotion expenses totaled to RMB2,215,074, RMB2,369,769 and RMB1,064,621, respectively.

(x) *Research and development expenses*

Research and development expenses primarily consist of personnel costs for research and development staff, general expenses and depreciation expenses associated with research and development activities.

(y) *General and administrative expenses*

General and administrative expenses consist of personnel costs including share-based compensation expenses and other expenses which are related to the general corporate functions, including accounting, finance, tax, legal and human relations, costs associated with use by these functions of facilities and equipment, such as depreciation expenses, rental and other general corporate related expenses.

(z) *Employee social security and welfare benefits*

Employees of the Group in the PRC are entitled to staff welfare benefits including pension, work-related injury benefits, maternity insurance, medical insurance, unemployment benefit and housing fund plans through a PRC government-mandated multi-employer defined contribution plan. The Group is required to accrue and pay the government for these benefits based on certain percentages of the employees' salaries, up to a maximum amount specified by the local government. The PRC government is responsible for the medical benefits and the pension liability to be paid to these employees, and the Group's obligations are limited to the amounts contributed with no legal obligation beyond the contributions made. Employee social security and welfare benefits, as part of the personnel costs, included as expenses in the accompanying consolidated statement of operations amounted to RMB41,719, RMB93,296 and RMB73,672 for the years ended December 31, 2020, 2021 and 2022, respectively.

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(aa) Share-based compensation

The Group grants restricted shares to the founders and share options to its management and other key employees (collectively, “Share-based Awards”). Such compensation is accounted for in accordance with ASC 718, Compensation—Stock Compensation. Share-based Awards with service conditions only are measured at the grant date fair value of the awards and recognized as expenses using the straight-line method, net of estimated forfeitures, if any, over the requisite service period. For awards with performance conditions, the Group would recognize compensation cost if and when it concludes that it is probable that the performance condition will be achieved.

The fair value of the restricted shares was assessed using the income approach/discounted cash flow method, with a discount for lack of marketability given that the shares underlying the awards were not publicly traded at the time of grant. This assessment requires complex and subjective judgments regarding the Group’s projected financial and operating results, its unique business risks, the liquidity of its ordinary shares and its operating history and prospects at the time the grants were made. The fair value of share options is estimated on the grant date using the Binomial option pricing model. The assumptions used in share-based compensation expense recognition represent management’s best estimates, but these estimates involve inherent uncertainties and application of management judgment. If factors change or different assumptions are used, the share-based compensation expenses could be materially different for any period. Moreover, the estimates of fair value of the awards are not intended to predict actual future events or the value that ultimately will be realized by grantees who receive these awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by the Group for accounting purposes.

(ab) Income taxes

Current income taxes are provided on the basis of net income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions. Deferred income taxes are accounted for using an asset and liability method. Under this method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purpose. The effect on deferred taxes of a change in tax rates is recognized in consolidated statement of operations in the period of change. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of the deferred tax assets will not be realized.

Uncertain tax positions

The guidance on accounting for uncertainties in income taxes prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Guidance also applies to the recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. Significant judgment is required in evaluating the Group's uncertain tax positions and determining its provision for income taxes. The Group recognizes interest and penalties, if any, under accrued expenses and other current liabilities on its balance sheet and under other expenses in its consolidated statement of operations. There were no interest and penalties associated with uncertain tax positions for the years ended December 31, 2020, 2021 and 2022. As of December 31, 2021 and 2022, the Group did not have any significant unrecognized uncertain tax positions.

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ac) Comprehensive income (loss)

Comprehensive income (loss) is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. During the periods presented, comprehensive income (loss) is reported in the consolidated statements of comprehensive income, and other comprehensive income (loss) includes foreign currency translation adjustments.

(ad) Statutory reserves

The Company's subsidiaries and the VIEs established in the PRC are required to make appropriations to certain non-distributable reserve funds.

In accordance with the laws applicable to the Foreign Investment Enterprises established in the PRC, the Company's subsidiaries registered as wholly-owned foreign enterprises are required to make appropriations from their annual after-tax profits (as determined under generally accepted accounting principles in the PRC ("PRC GAAP")) to reserve funds including a general reserve fund, an enterprise expansion fund and a staff bonus and welfare fund. The appropriation to the general reserve fund must be at least 10% of the annual after-tax profits calculated in accordance with PRC GAAP. Appropriation is not required if the general reserve fund has reached 50% of the registered capital of the company. Appropriations to the enterprise expansion fund and staff bonus and welfare fund are made at the respective company's discretion.

In addition, in accordance with the PRC Company Laws, the consolidated VIEs registered as Chinese domestic companies must make appropriations from annual after-tax profits as determined under the PRC GAAP to non-distributable reserve funds including statutory surplus fund and discretionary surplus fund. The appropriation to the statutory surplus fund must be 10% of the annual after-tax profits as determined under PRC GAAP. Appropriation is not required if the statutory surplus fund has reached 50% of the registered capital of the company. Appropriation to the discretionary surplus fund is made at the discretion of the Company.

The uses of the general reserve fund, enterprise expansion fund, statutory surplus fund and discretionary surplus fund are restricted to offsetting of losses or increasing of the registered capital of the respective company. The staff bonus and welfare fund is a liability in nature and is restricted to fund payments of special bonus to employees and for the collective welfare of all employees. None of these reserves is allowed to be transferred to the Company in terms of cash dividends, loans or advances, nor can the reserves be distributed except under liquidation.

For the years ended December 31, 2020, 2021 and 2022, the profit appropriation to statutory surplus fund for the Group's entities incorporated in the PRC was RMB729, RMB1,301 and RMB2,825, respectively. No appropriation to other reserve funds was made for any of the periods presented.

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ae) Income (loss) per share

Basic income (loss) per share is computed by dividing net income (loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted income (loss) per share reflect the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares. Ordinary equivalent shares are not included in the denominator of the diluted income (loss) per share calculation when inclusion of such share would be anti-dilutive.

(af) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or significant influence, such as a family member or relative, shareholder, or a related corporation.

(ag) Segment reporting

Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker (“CODM”), or decision-making group, in deciding how to allocate resources and in assessing performance. The Group’s CODM is the Chief Executive Officer.

The Group's principal operations are currently organized into three major segments on a product category basis, namely Color Cosmetics Brands, Skincare Brands and others.

(ah) Recent accounting pronouncements

In March 2022, the FASB issued ASU No. 2022-02, “Financial Instruments — Credit Losses (Topic 326) — Troubled Debt Restructurings and Vintage Disclosures.” This ASU eliminates the recognition and measurement guidance for troubled debt restructurings (TDRs) and requires enhanced disclosures about loan modifications for borrowers experiencing financial difficulty. This ASU also requires enhanced disclosure for loans that have been charged off. The ASU became effective in January 2023 under a prospective approach. The Group does not expect the adoption to have a material impact on its consolidated financial statements.

In March 2022, the SEC staff issued SAB 121 (SAB 121) — “Accounting for obligations to safeguard crypto-assets an entity holds for platform users.” SAB 121 adds interpretive guidance requiring an entity to recognize a liability on its balance sheet to reflect the obligation to safeguard the crypto-assets held for its platform users, along with a corresponding asset. The Group does not expect the adoption to have a material impact on its consolidated financial statements.

In June 2022, the FASB issued ASU No. 2022-03, “Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions.” This ASU clarifies that a contractual restriction on the sale of an equity security should not be considered in measuring its fair value. In addition, the ASU requires specific disclosures related to equity securities that are subject to contractual sale restrictions. The ASU is effective in January 2024 under a prospective approach. Early adoption is permitted. Adoption of this ASU is not expected to have a material impact on the Group’s consolidated financial statements.

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

3. CONCENTRATION AND RISKS

(a) Foreign exchange risk

The majority of the Group's operations were in RMB. The RMB is not freely convertible into foreign currencies. Remittances of foreign currencies into the PRC or remittances of RMB out of the PRC as well as exchange between RMB and foreign currencies require approval by foreign exchange administrative authorities and certain supporting documentation. The State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into other currencies.

(b) Credit risk

The Group's credit risk arises from cash and cash equivalents, restricted cash, short-term investments, prepayments and other current assets, amount due from related parties and accounts receivable. The carrying amounts of these financial instruments represent the maximum amount of loss due to credit risk.

The Group expects that there is no significant credit risk associated with cash and cash equivalents, restricted cash and short-term investments which are held by reputable financial institutions in the jurisdictions where the Company, its subsidiaries and the VIEs are located. The Group believes that it is not exposed to unusual risks as these financial institutions have high credit quality.

The Group has no significant concentrations of credit risk with respect to its prepayments and other current assets and amount due from related parties.

Accounts receivable are typically unsecured and are derived from revenue earned through third party consumers. The risk with respect to accounts receivable is mitigated by credit evaluations performed on them.

(c) Concentration of customers and suppliers

There were no customers which individually represented greater than 10% of the total net revenue for the years ended December 31, 2020, 2021 and 2022. There were accounts receivable due from two platform distributor customers which individually represented greater than 10% and totally contributed to 56% of the Group's total accounts receivable as of December 31, 2021. There was accounts receivable due from one of the platform distributor customers which individually represented greater than 10% and contributed to 21% of the Group's total accounts receivable as of December 31, 2022.

There were purchases from three suppliers which individually represented greater than 10% and totally contributed to 55% of the total purchases amount for the year ended December 31, 2020 and the corresponding accounts payable due to these three suppliers individually represented greater than 9% and totally contributed to 52% of the Group's total accounts payable as of December 31, 2020.

There were purchases from two suppliers which individually represented greater than 10% and totally contributed to 31% of the total purchases amount for the year ended December 31, 2021 and the corresponding accounts payable due to these two suppliers individually represented greater than 10% and totally contributed to 35% of the Group's total accounts payable as of December 31, 2021.

There were purchases from two suppliers which individually represented greater than 10% and totally contributed to 27% of the total purchases amount for the year ended December 31, 2022 and the corresponding accounts payable due to these two suppliers individually represented greater than 9% and totally contributed to 28% of the Group's total accounts payable and amounts due to related parties as of December 31, 2022.

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

4. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Cash and cash equivalents represent cash on hand and demand deposits placed with banks or other financial institutions, and all highly liquid investments with original maturities of three months or less. Cash and cash equivalents and restricted cash balances as of December 31, 2021 and 2022 primarily consist of the following currencies:

	As of December 31,			
	2021		2022	
	Amount	RMB	Amount	RMB
Cash and cash equivalents				
RMB	627,058	627,058	470,428	470,428
US\$	383,680	2,446,199	143,342	996,826
GBP	5,337	45,931	3,365	28,246
EUR	1,509	10,895	1,271	9,435
HKD	7,879	6,450	4,999	4,465
JPY	17,793	999	15,327	803
SGD	99	476	529	2,742
Total cash and cash equivalents		3,138,008		1,512,945
Restricted cash				
US\$	-	-	6,000	41,383
Total cash, cash equivalents and restricted cash		3,138,008		1,554,328

5. ACCOUNTS RECEIVABLE

	As of December 31,	
	2021	2022
	RMB	RMB
Accounts receivable, net	355,837	200,843

6. INVENTORIES

Inventories consisted of the following:

	As of December 31,	
	2021	2022
	RMB	RMB
Raw materials and packing materials	43,922	29,369
Products	759,832	498,832
Less: impairment allowance	(107,993)	(104,914)
Inventories	695,761	423,287

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

7. PREPAYMENTS AND OTHER CURRENT ASSETS

	As of December 31,	
	2021	2022
	RMB	RMB
Prepayments of promotion fees (a)	130,058	103,748
VAT recoverable (b)	95,899	75,049
Deposits, prepaid rental and property management fees	62,877	61,858
Prepayments for products procurement (c)	6,731	5,604
Others	70,626	46,566
	<u>366,191</u>	<u>292,825</u>

- (a) Prepayments of promotion fees mainly include prepayments made to online platforms for future services to promote the Group's products through online advertising and prepaid short-term service fees to celebrity agencies and key opinion leaders.
- (b) VAT recoverable represent the balances that the Group can utilize to deduct its value-added tax liabilities in the future.
- (c) Prepayments for products procurement represent cash prepaid to the Group's third-party suppliers for the procurement of products.

8. INVESTMENTS

The following sets forth the Group's investments:

	As of December 31,	
	2021	2022
	RMB	RMB
Equity method investments (a)	286,513	436,536
Equity investments without readily determinable fair values (b)	65,226	72,592
Total	351,739	509,128
Less: impairment on investments	(1,359)	(6,549)
Investment, net	<u>350,380</u>	<u>502,579</u>

- (a) As at December 31, 2022 and 2021, the balances represented the Group's investments made in six and five private entities respectively.
- (b) As at December 31, 2022 and 2021, the balances represented the Group's investments made in three private entities.

9. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

	As of December 31,	
	2021	2022
	RMB	RMB
Leasehold improvements	353,322	152,993
Electronic equipment	50,290	38,886
Machinery	22,103	10,911
Office furniture and equipment	10,719	9,037
Vehicles	4,317	4,412
Construction in progress	60	1,792
Total	440,811	218,031
Less: accumulated depreciation	(183,145)	(138,891)
Less: impairment charges	(12,352)	(3,521)
Property and equipment, net	<u>245,314</u>	<u>75,619</u>

The Group recorded depreciation expense of RMB74,551, RMB130,666 and RMB114,047 for the years ended December 31, 2020, 2021 and 2022, respectively.

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

The Group recorded impairment losses for property and equipment of nil, RMB12,352 and RMB72,629 for the years ended December 31, 2020, 2021 and 2022 respectively. The impairment losses were mainly charged for leasehold improvement of certain offline stores decided to close. The impairment losses were charged to selling and marketing expenses in the consolidated statements of operations.

10. GOODWILL

The changes in the carrying amount of goodwill by segment for the years ended December 31, 2020, 2021 and 2022 are as follows:

	Color Cosmetics Brands	Skincare Brands	Total
	RMB		
Balance as of December 31, 2020	20,596	-	20,596
Increase in goodwill related to acquisition	-	880,314	880,314
Foreign currency translation adjustments	-	(31,489)	(31,489)
Balance as of December 31, 2021	20,596	848,825	869,421
Increase in goodwill related to acquisition	5,266	-	5,266
Foreign currency translation adjustments	-	(17,542)	(17,542)
Balance as of December 31, 2022	25,862	831,283	857,145

As of December 31, 2022, the goodwill associated with the Eve Lom reporting unit was RMB694 million. The Group conducted an impairment test as of December 31, 2022 and the fair value is estimated by the Group using a discounted cash flow model. The Group's cash flow projections used in the model for the Eve Lom reporting unit included significant judgments and assumptions relating to revenue growth rates, gross profit ratios, the discount rates and terminal value. The Group utilized the services of an independent valuation firm to assist with the determination of the fair value of the reporting units.

No impairment charge was recognized for the years ended December 31, 2020, 2021 and 2022.

11. INTANGIBLE ASSETS, NET

	As of December 31,	
	2021	2022
	RMB	RMB
Cost:		
Trademark	625,715	618,893
Software	32,942	40,301
Customer relationship	90,479	88,138
Technique	43,085	41,971
Non-compete	6,900	6,900
Total cost	799,121	796,203
Less: accumulated amortization	(53,270)	(106,534)
Intangible assets, net	745,851	689,669

During the years ended December 31, 2020, 2021 and 2022, the Company acquired intangible assets amounting to nil, RMB622,151 and nil, respectively, in connection with business combinations, which were measured at fair value upon acquisition.

Amortization costs recognized for the years ended December 31, 2020, 2021 and 2022 were RMB3,476, RMB50,705 and RMB56,848, respectively.

No impairment was recorded for the years ended December 31, 2020, 2021 and 2022.

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

As of December 31, 2022, estimated amortization expenses for future periods are expected to be as follows:

	Year ended December 31, RMB
2023	53,717
2024	53,205
2025	52,812
2026	51,195
2027 and thereafter	478,740
Total expected amortization expense	<u>689,669</u>

The remaining weighted average amortization periods of intangible assets as of December 31, 2021 and 2022 are 16.3 years and 14.6 years, respectively.

12. OTHER NON-CURRENT ASSETS

	As of December 31,	
	2021	2022
	RMB	RMB
Long-term rental deposits	42,863	15,356
Prepaid service fees	14,250	16,119
Loans to employees	11,800	18,100
Prepaid consideration for an acquisition	5,040	-
Prepaid long-term celebrity endorsement fees	1,804	2,476
Others	4,463	834
	<u>80,220</u>	<u>52,885</u>

13. ACCRUED EXPENSES AND OTHER LIABILITIES

	As of December 31,	
	2021	2022
	RMB	RMB
Accrued payroll related expenses	114,496	108,868
Accrued advertising and marketing expenses	79,662	93,034
Accrued storage and transportation fees	38,269	31,264
Accrued leasehold improvement costs	33,370	12,621
Other taxes payable	22,886	17,863
Payable related to repurchase of ordinary shares	7,166	-
Refund obligation of sales return	4,530	3,739
Others	70,152	55,870
	<u>370,531</u>	<u>323,259</u>

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

14. LEASES

The Group has operating leases for warehouses, stores, office spaces, and delivery centers that the Group utilizes under lease arrangements.

A summary of supplemental information related to operating leases is as follows:

	As of December 31,	
	2021	2022
	RMB	RMB
Operating lease ROU assets	422,966	133,004
Operating lease liabilities-non-current	206,303	52,997
Operating lease liabilities-current	214,843	79,586
Total operating lease liabilities	421,146	132,583
Weighted average remaining lease term	1.94 years	2.39 years
Weighted average discount rate	5.06%	4.31%

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

14. LEASES (Continued)

A summary of lease cost recognized in the Group's consolidated statements of operations and supplemental cashflow information related to operating leases is as follows:

	Year ended December 31,		
	2020	2021	2022
	RMB	RMB	RMB
Operating lease cost	179,515	268,321	164,483
Short-term lease cost	4,249	420	275
Variable cost	6,396	9,166	973
Cash paid for operating leases	168,943	265,997	180,561
Right-of-use assets obtained in exchange for operating lease liabilities	448,148	269,601	76,040

A summary of maturity of operating lease liabilities under the Group's non-cancellable operating leases as of December 31, 2022 is as follows:

	As of December 31, 2022 RMB
2023	83,596
2024	31,318
2025	9,770
2026	8,654
2027	6,090
2028 and thereafter	1,007
Total lease payment	140,435
Less: interest	(7,852)
Present value of operating lease liability	132,583

15. REVENUES

The Group's revenue by channel for the respective periods are detailed as follows:

	Year ended December 31,		
	2020	2021	2022
	RMB	RMB	RMB
Sales of product by channel			
—Sales to end customers	4,548,804	4,878,453	3,145,807
—Sales to distributor customers	678,873	941,322	546,543
—Others	5,493	20,198	13,772
Total revenues	5,233,170	5,839,973	3,706,122

Please refer to Note 25 for the disclosure of the Group's revenues by product categories for the years ended December 31, 2020, 2021 and 2022.

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

16. INCOME TAX EXPENSES

Cayman Islands

Under the current tax laws of Cayman Islands, the Company and its subsidiaries are not subject to tax on income or capital gains. No Cayman Islands withholding tax is imposed upon payment of dividends by the Company to its shareholders.

Hong Kong

For the subsidiaries incorporated in Hong Kong, they were subject to Hong Kong profits tax at a rate of 16.5% for taxable income earned in Hong Kong. Commencing on April 1, 2018, the two-tiered profits tax regime took effect, under which the tax rate is 8.25% for assessable profits on the first HK\$2 million and 16.5% for any assessable profits in excess of HK\$2 million. The payments of dividends to shareholders are not subject to withholding tax in Hong Kong.

PRC

In accordance with the Enterprise Income Tax Law (“EIT Law”), Foreign Investment Enterprises (“FIEs”) and domestic companies are subject to Enterprise Income Tax (“EIT”) at a uniform rate of 25%. The subsidiaries of the Group and the consolidated VIEs in the PRC are subject to a uniform income tax rate of 25% for years presented. According to relevant policies promulgated by the State Tax Bureau of the PRC and effective from 2008 onwards, enterprises engaged in research and development activities are entitled to claim an additional tax deduction amounting to 75% or 100% of qualified research and development expenses incurred in determining its tax assessable profits for that year (“Super Deduction”). The additional deduction of 100% or 75% of qualified R&D expenses can only be claimed directly in the annual EIT filing and subject to the approval from the relevant tax authorities.

The EIT Law also provides that an enterprise established under the laws of a foreign country or region but whose “de facto management body” is located in the PRC be treated as a resident enterprise for PRC tax purposes and consequently be subject to the PRC income tax at the rate of 25% for its global income. The Implementing Rules of the EIT Law merely define the location of the “de facto management body” as “the place where the exercising, in substance, of the overall management and control of the production and business operation, personnel, accounting, properties, etc., of a non-PRC company is located.” Based on a review of surrounding facts and circumstances, the Group does not believe that it is likely that its entities registered outside of the PRC should be considered as resident enterprises for the PRC tax purposes.

The EIT Law also imposes a withholding income tax of 10% on dividends distributed by a FIE to its immediate holding company outside of China, if such immediate holding company is considered as a non-resident enterprise without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. The Cayman Islands, where the Company incorporated, does not have such tax treaty with China. According to the arrangement between the mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion issued in August 2006, dividends paid by an FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the immediate holding company in Hong Kong is the beneficial owner of the FIE and owns directly at least 25% of the shares of the FIE). In accordance with accounting guidance, all undistributed earnings are presumed to be transferred to the parent company and withholding taxes should be accrued accordingly. All FIEs are subject to the withholding tax from January 1, 2008. The presumption may be overcome if the Group has sufficient evidence to demonstrate that the undistributed dividends from its PRC subsidiaries will be re-invested and the remittance of the dividends from its PRC subsidiaries will be postponed indefinitely.

Aggregate undistributed earnings and reserves of the Group entities located in the PRC that are available for distribution to the Company as of December 31, 2021 and 2022 were approximately RMB54,822 and RMB65,976, respectively. The Group plans to indefinitely reinvested undistributed earnings earned from its PRC subsidiaries in its operations in PRC. Therefore, no withholding income tax for undistributed earnings of its subsidiaries were provided as at December 31, 2021 and 2022 respectively.

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

16. INCOME TAX EXPENSES (Continued)

Composition of income tax expense

The current and deferred components of income taxes appearing in the consolidated statements of operations are as follows:

	Year ended December 31,		
	2020	2021	2022
	RMB	RMB	RMB
Income (loss) before income tax expense	(2,681,445)	(1,547,959)	(818,628)
Current tax expense	3,519	4,507	11,065
Deferred tax expense (benefits)	3,451	(5,428)	(8,360)
Total income tax expense (benefits)	6,970	(921)	2,705

The income tax expense for each of the years ended December 31, 2020, 2021 and 2022 differs from the amount computed by applying the PRC statutory income tax rate of 25% to income before income tax expense due to the following:

	Year ended December 31,		
	2020	2021	2022
PRC statutory income tax rate	25%	25%	25%
Permanent differences	-17%	-9%	-12%
Tax effect of different tax rate of different jurisdictions	0%	0%	0%
Tax effect of Super Deduction and others	0%	1%	1%
Changes in valuation allowance	-8%	-17%	-14%
Effective tax rates	0%	0%	0%

Deferred tax assets

The significant components of the Group's deferred tax assets were as follows:

	As of December 31,	
	2021	2022
	RMB	RMB
Net operating loss carry forwards	470,227	578,992
Inventory valuation allowance	27,048	26,187
Accrued expenses and others	19,225	29,150
Total deferred tax assets	516,500	634,329
Less: valuation allowance	(514,500)	(632,378)
Deferred tax assets, net	2,000	1,951

Movement of valuation allowance

	Year ended December 31,	
	2021	2022
	RMB	RMB
Balance at beginning of the year	237,965	514,500
Additions	276,535	117,878
Balance at end of the year	514,500	632,378

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

16. INCOME TAX EXPENSES (Continued)

The valuation allowance is provided against deferred tax assets when the Group determines that it is more likely than not that the deferred tax assets will not be utilized in the future. In making such determination, the Group considered factors including future taxable income exclusive of reversing temporary differences and tax loss carry forwards. Valuation allowances as of December 31, 2021 and 2022 were mainly provided for net operating loss carry forward, because such deferred tax assets are not more likely than not to be realized based on the Group's estimate of its future taxable income. If events occur in the future that allow the Group to realize more of its deferred income tax than the presently recorded amounts, an adjustment to the valuation allowances will result in a decrease in tax expense when those events occur.

Deferred tax liabilities

The Group's deferred tax liability was as follows:

	As of December 31,	
	2021	2022
	RMB	RMB
Related to acquired intangible assets	124,450	113,441

Uncertain tax positions

The Group evaluates the level of authority for each uncertain tax position (including the potential application of interest and penalties) based on the technical merits, and measures the unrecognized benefits associated with the tax positions. As of December 31, 2021 and 2022, the Group did not have any significant unrecognized uncertain tax positions.

17. ORDINARY SHARES

On September 2016, the Company was incorporated as a limited liability company with authorized share capital of US\$ 50 divided into 5,000,000,000 ordinary shares of par value US\$ 0.00001 each. In July 2019, the Company adopted a dual voting structure on its shares and the Company's ordinary shares were divided into Class A and Class B ordinary shares, and all of the vested ordinary shares held by the founders were designated as Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share in all shareholders' meetings, while holders of Class B ordinary shares are entitled to ten votes per share. The number of the Company's authorized ordinary shares has been revised and reduced accordingly to 4,044,840,121 shares, including 3,130,264,924 Class A ordinary shares and 914,575,197 Class B ordinary shares. On same date, the Company issued 157,846,049 Class B ordinary shares to several founders, repurchased 7,713,574 ordinary shares and concurrently issued 7,713,574 Series C preferred shares to investors.

In 2020, the share capital transactions are summarized as below:

- (i) The Company newly authorized 46,277,409 Class B ordinary shares, 68,832,245 Series Seed preferred shares, 66,432,971 Series C preferred shares, 66,432,971 Series D preferred shares, and 144,331,134 Series E preferred shares of a nominal or par value of US\$ 0.00001 each, and reduced authorized Class A ordinary shares by 392,306,730 shares.
- (ii) The Company issued 93,753,239 Class B ordinary shares to several founders, which were subject to service conditions (Note 18(a)).
- (iii) The Company repurchased 62,388,247 Class B ordinary shares. Concurrently, the Company issued 62,388,247 Series Seed preferred shares to investors. 6,443,998 ordinary shares owned by one of founders were redesignated into preferred shares (Note 18(b)).
- (iv) The Company issued 15,518,385 Class A ordinary shares as a result of accelerated vesting and exercise of share options (Note 18(d)).
- (v) The Company issued 149,363,572 Class A ordinary shares and 21,356,415 Class B ordinary shares to share Incentive Plan Trust.

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

17. ORDINARY SHARES (Continued)

- (vi) On November 19, 2020, the Company completed its IPO on the New York Stock Exchange under the symbol of "YSG". The Company issued an aggregate 67,562,500 ADSs, representing 270,250,000 Class A ordinary shares for a total proceeds, net of issuance costs of \$664.7 million (RMB 4.35 billion).

Upon completion of the IPO, all convertible redeemable preferred shares were converted into ordinary shares.

During the year ended December 31, 2021, 7,686,832 share options were exercised. The Company also repurchased an aggregate of 1,846,823 ADSs, representing 7,387,292 Class A ordinary shares at an average price of RMB12.0848 per ADS or RMB3.0212 per Class A ordinary share, for aggregate consideration of RMB22,319.

During the year ended December 31, 2022, the Company further repurchased an aggregate of 72,625,763 ADSs, representing 290,503,052 Class A ordinary shares at an average price of RMB8.9062 per ADS or RMB2.2266 per Class A ordinary share, for aggregate consideration of RMB646,820.

Since the shares repurchased have not been cancelled, the excess of repurchase price over par value was recorded as treasury shares upon the repurchase date.

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except for share, per share data or otherwise noted)

18. SHARE-BASED COMPENSATION

Share-based compensation expenses recognized during the years presented are as follows:

	Year ended December 31,		
	2020	2021	2022
	RMB	RMB	RMB
Share-based compensation expenses			
- Share-based compensation of founders' restricted shares (a)	1,030,178	-	-
- Related to repurchase of founders' ordinary shares (b)	146,294	-	-
- Related to the issuances of preferred shares to investors (c)	303,627	-	-
- Related to redesignation of founder's ordinary shares to preferred shares	1,852	-	-
- Related to accelerated vesting of share options (d)	138,729	66,429	(64,660)
- Related to modification of exercise price of share options on modification day (e)	-	-	12,793
- Related to vesting of share options (f)	279,908	464,011	392,727
Total	1,900,588	530,440	340,860

(a) Founders' Restricted Shares

In September 2020, the Company granted 93,753,239 Ordinary shares to several founders, which were subjected to service conditions ("Third Series of Founders' Restricted Shares"). The Third Series of Founders' Restricted Shares vest annually in equal instalments over the next four years commencing from the September 11, 2020.

All of the Founders' Restricted Shares vested immediately upon IPO, regardless of the vesting schedule.

The fair value of the Founders' Restricted Shares was determined at the respective grant date by the Company, and was amortized over the respective vesting period on straight line basis. The share-based compensation expenses related to Founders' Restricted Shares for the years ended December 31, 2020 were RMB 1,030,178.

(b) Repurchase of ordinary shares from the Founders

For the year ended December 31, 2020, the Company repurchased 62,388,247 ordinary shares, from the founders for consideration of RMB483,622. The Company then re-designated these shares into preferred shares for issuances to other investors. Based on its assessment, the Company concluded that the repurchase did not constitute a cash settlement of any share-based awards.

As the respective repurchase price was greater than the fair value of ordinary shares as of the respective repurchase date, the difference between the repurchase price and the fair value was recognized as deemed share-based compensation expenses in the Group's consolidated statements of operations.

The share-based compensation expenses related to the repurchase of ordinary shares from the founders for the year ended December 31, 2020 were RMB 146,294.

(c) Issuances of preferred shares to investors

In April 2020 and September 2020, the Company issued 26,573,188 Series C preferred shares and 39,859,783 Series C preferred shares respectively to its certain existing investors at a price lower than the fair value of the shares, for their services to the Group. Accordingly, the difference of RMB 303,627 between the then fair value of Series C preferred shares issued and the issuance price was recorded as deemed share-based expense in the year ended December 31, 2020.

(d) Accelerated vesting of share options

In September 2020, 15,518,385 options were accelerated to vest immediately and were exercised on the same date, which was treated as an "improbable-to-probable" modification of equity-classified awards under ASC 718. RMB138,729, the fair value of modified options at the date of modification, was recognized in the Group's consolidated statement of operations immediately.

For the year ended December 31, 2021, 5,595,868 options were accelerated to vest immediately, which was treated as an "improbable to probable" modification of equity-classified awards under ASC 718. The previously recorded compensation expense for

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

the unvested options amounting to RMB 11,469 was reversed and RMB 77,898, the fair value of modified options at the date of modification, was recognized in the Group's consolidated statement of operations immediately.

For the year ended December 31, 2022, 17,863,616 options were accelerated to vest immediately, which was treated as an "improbable to probable" modification of equity-classified awards under ASC 718. The previously recorded compensation expense for the unvested options amounting to RMB77,039 was reversed and RMB12,379, the fair value of modified options at the date of modification, was recognized in the Group's consolidated statement of operations immediately.

(e) Related to modification of exercise price of share options on modification day

For the year ended December 31, 2022, exercise prices for certain share options were modified. Such modification of exercise price led to recognition of additional share-based compensation expenses, of which RMB12,793 was charged to the Group's consolidated statements of operations on the modification day for vested options.

(f) Vesting of share options

The Group have adopted a Share Option Plan in September 2018, which was amended and restated respectively in July 2019, March 2020 and September 2020. The Share Option Plan shall be valid and effective for ten years from September 11, 2020. The maximum aggregate number of ordinary shares which may be issued pursuant to all awards under Share Option Plan is 249,234,508.

(i) Options

Grant of options

During the year ended December 31, 2020, 2021 and 2022, the Company granted 136,230,857 share options, 55,388,338 share options and 85,357,994 share options respectively, to its management and other key employees.

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

18. SHARE-BASED COMPENSATION (Continued)

(f) Vesting of share options (Continued)

(i) Options (Continued)

Vesting of options

The share options include both service conditions and performance conditions. With respect to the service conditions, there are 4 types of vesting schedule, which are: (i) 25% of the share options shall become vested on each anniversary of the vesting commencement date for 4 years thereafter; (ii) 100% of the share options shall become vested on anniversary of the vesting commencement date for 1 year thereafter; (iii) three fourteenths of the share options shall become vested on each anniversary of the vesting commencement date for 4 years thereafter and one fourteenth of the share options become vested on each anniversary of the vesting commencement date for 2 years thereafter; (iv) immediate vesting of the share options on the grant date. Even though the service condition might have been satisfied, employees are required to provide continued service through the occurrence of change of control or an initial public offering, collectively, the Liquidity Event, in order to retain the award. Given the vesting of the share options granted is contingent upon the occurrence of the Liquidity Event, there is no share-based compensation expense is to be recognized until the date of consummation of Liquidity Event.

Movements in the number of share options granted and their related weighted average exercise prices are as follows:

	Number of options	Weighted average exercise price (US\$)	Weighted average remaining contractual life (years)	Aggregate intrinsic value (US\$'000)
As of January 1, 2020	68,589,097	0.0073	4.58	
Granted	136,230,857	0.2960		
Cancelled	(1,849,265)	0.0006		
Forfeited	(1,544,428)	0.2062		
Accelerated vesting and exercised	(15,518,385)	-		
As of December 31, 2020	185,907,876	0.2179	13.73	749,602
Granted	55,388,338	0.8790		
Forfeited	(4,570,510)	0.8782		
Exercised	(7,686,832)	0.0392		
As of December 31, 2021	229,038,872	0.3706	12.98	38,230
Granted	85,357,994	0.0250		
Forfeited	(27,297,153)	0.0250		
As of December 31, 2022	287,099,713	0.0448	11.99	91,942
Exercisable as of December 31, 2022	123,287,676			39,958

The Company has used binomial option-pricing model to determine the fair value of the share options as of the grant dates. Key assumptions are set as below:

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

18. SHARE-BASED COMPENSATION (Continued)

(f) Vesting of share options (Continued)

	Year ended December 31,		
	2020	2021	2022
	RMB	RMB	RMB
Weighted average fair value per option granted	7.3798	1.3882	0.2562
Weighted average exercise price	2.0418	5.6699	0.1659
Risk-free interest rate ⁽¹⁾	0.48%~1.01%	1.45%-1.97%	1.56%-4.04%
Expected term (in year) ⁽²⁾	10~16	14	14
Expected volatility ⁽³⁾		54.69%-	
	50.9%~55.9%	57.00%	53.62%-68.75%
Dividend yield ⁽⁴⁾	0%	0%	0%

- (1) The risk-free interest rates of periods within the contractual life of the share option are based on the daily treasury long-term rate of U.S. Department of the Treasury as of the valuation dates.
- (2) The expected term is the contract life of the option.
- (3) Expected volatility is estimated based on the average of historical volatilities of the comparable companies in the same industry as at the valuation dates.
- (4) The Company has no history or expectation of paying dividend on its ordinary shares. The expected dividend yield was estimated based on the Company's expected dividend policy over the expected term of the option.

For the years ended December 31, 2020, 2021 and 2022, RMB279,908, RMB464,011 and RMB392,727 share-based compensation expenses were recognized for share options.

As of December 31, 2022, there were RMB346,171 of unrecognized compensation expenses related to stock options for which the service conditions will be met over a weighted average period of 1.27 years.

(g) Share-based compensation expenses

For the years ended December 31, 2020, 2021 and 2022, share-based compensation expenses have been included in the following accounts in the consolidated statement of operations:

	Year ended December 31,		
	2020	2021	2022
	RMB	RMB	RMB
Fulfilment expenses	2,947	13,122	4,267
Selling and marketing expenses	54,332	80,558	62,231
General and administrative expenses	1,841,409	418,823	248,400
Research and development expenses	1,900	17,937	25,962

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

19. NET LOSS PER SHARE

Basic and diluted net loss per share for the years ended December 31, 2020, 2021 and 2022 are calculated as follow:

	Year ended December 31,		
	2020	2021	2022
	RMB	RMB	RMB
Numerator:			
Net loss attributable to the Yatsen Holding Limited's shareholders	(2,687,807)	(1,540,734)	(815,371)
Accretion to preferred shares redemption value	(242,209)	-	-
Deemed dividend due to modification of preferred shares	(1,054,220)	-	-
Net loss attributable to ordinary shareholders of Yatsen Holding Limited	(3,984,236)	(1,540,734)	(815,371)
Denominator:			
Denominator for basic and diluted calculation—weighted average number of ordinary shares outstanding	833,714,126	2,526,833,201	2,372,728,777
Net loss per ordinary share			
—Basic	(4.78)	(0.61)	(0.34)
—Diluted	(4.78)	(0.61)	(0.34)

For the years ended December 31, 2020, 2021 and 2022, the following shares outstanding were excluded from the calculation of diluted net loss per ordinary share, as their inclusion would have been anti-dilutive for the years prescribed.

	Year ended December 31,		
	2020	2021	2022
Shares issuable upon conversion of preferred shares	959,555,911	-	-
Shares issuable upon exercise of share options	113,142,382	209,409,699	280,482,617
Restricted shares become outstanding upon vesting	256,752,927	-	-

20. RELATED PARTY TRANSACTIONS

Major transactions and balances amount with related parties were as follows:

Transactions with related parties

	Year ended December 31,		
	2020	2021	2022
	RMB	RMB	RMB
Purchases of storage and transportation service from an affiliated company	15,183	13,843	-
Purchases of inventories and services from an affiliated company	-	24,472	137,476
Sales of inventories to a company controlled by the Chief Executive Officer of the Group	-	-	11,384

Affiliated company is a company over which the Group has significant influence.

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

Balance amounts with related parties

	As of December 31,	
	2021	2022
	RMB	RMB
Amounts due from a company controlled by the Chief Executive Officer of the Group	-	5,594
Amounts due from affiliated companies	60	60
	<u>60</u>	<u>5,654</u>
Amounts due to an affiliated company	<u>13,967</u>	<u>27,242</u>

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

21. FAIR VALUE MEASUREMENTS

Fair value reflects the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the assets or liabilities.

The Group applies a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. This guidance specifies a hierarchy of valuation techniques, which is based on whether the inputs into the valuation technique are observable or unobservable. The hierarchy is as follows:

Level 1—Valuation techniques in which all significant inputs are unadjusted quoted prices from active markets for assets or liabilities that are identical to the assets or liabilities being measured.

Level 2—Valuation techniques in which significant inputs include quoted prices from active markets for assets or liabilities that are similar to the assets or liabilities being measured and/or quoted prices for assets or liabilities that are identical or similar to the assets or liabilities being measured from markets that are not active. Also, model-derived valuations in which all significant inputs and significant value drivers are observable in active markets are Level 2 valuation techniques.

Level 3—Valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are valuation technique inputs that reflect the Group's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair value guidance describes three main approaches to measure the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

21. FAIR VALUE MEASUREMENTS (Continued)

Recurring

The Group has no financial instruments measured or disclosed at fair value on a recurring basis as at December 31, 2021 and 2022.

When available, the Group uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Group will measure fair value using valuation techniques that use, when possible, current market-based or independently sourced market parameters, such as interest rates and currency rates.

Non-Recurring

As of December 31, 2021 and 2022, the Group had no financial assets or financial liabilities that are measured in fair value on a non-recurring basis.

The equity securities without readily determinable fair value, equity method investments and certain non-financial assets are recorded at fair value only if an impairment or observable price adjustment is recognized in the current period. If an impairment or observable price adjustment is recognized on the equity securities during the period, the Group classify these assets as Level 3 within the fair value hierarchy based on the nature of the fair value inputs.

The Group reviews the long-lived assets and certain identifiable intangible assets other than goodwill for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. In accordance with the Group policy to perform an impairment assessment of its goodwill on an annual basis as of the balance sheet date or when facts and circumstances warrant a review, the Group performed an impairment assessment on its goodwill of reporting units annually. Other than the equity investments without readily determinable fair value (Note 8) and property and equipment, net (Note 9), the Group did not have any assets and liabilities that were measured at fair value on a nonrecurring basis.

22. COMMITMENTS AND CONTINGENCIES

(a) Capital commitment

As at December 31, 2022, the Group had capital commitments of RMB450,000 related to investments in a joint venture.

(b) Operating lease commitment

As at December 31, 2022, the Group's outstanding commitment of operating lease contracted but not yet reflected in the consolidated financial statements amounted to RMB1,486.

(c) Products and services purchase commitment

As at December 31, 2022, the Group's products and services purchase commitment amounted to RMB88,675.

(d) Legal proceedings

On September 23, 2022, the Group, certain of its current and former directors and officers were named as defendants in a class action filed in federal court, which was purportedly brought on behalf of a class of persons who allegedly suffered damages as a result of alleged misstatements and omissions in the Group's public disclosure documents. Currently, the case is under Lead Plaintiff selection process. During the selection of the Lead Plaintiff, the Group has no obligation to submit any documents to the court. It is estimated that the Group will submit the Motion Dismiss to the court by the end of 2023. As the case remain in its preliminary stages, the likelihood of any unfavorable outcome or the amount or range of any potential loss cannot be reasonably estimated at the issuance date of the consolidated financial statements. As a result, as of December 31, 2022, the Group did not record any liabilities for the loss contingencies pertaining to the case described above.

In addition to the above, from time to time, the Group is subject to legal proceedings, investigations and claims incidental to the conduct of its business. As of December 31, 2021 and 2022, the Group was not involved in any legal or administrative proceedings that the Group believes may have a material adverse impact on the Group's business, balance sheets or results of operations and cash flows.

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

(e) Financial guarantees

As at December 31, 2022, the Group provided guarantees up to a limit of approximately RMB98 million in respect of bank loans borrowed by an affiliated company over which the Group has significant influence, among which guarantees of approximately RMB8 million were utilized.

During the year ended December 31, 2022, the Group signed an agreement with and provided financial guarantee to a depository bank for collection of minimum annual service fees until 2024. According to the agreement, the Group placed a security deposit of US\$6 million, which was classified as restricted cash as at December 31, 2022, in the depository bank. The security bank deposit will be forfeited up to US\$6 million if the depository bank is not able to collect the contractual minimum annual service fees from ADR holders. As of December 31, 2022, the financial guarantee was still within the validity period of the contract and would persist till the guarantee period expired.

23. SUBSEQUENT EVENTS

In February and March 2023, the Company granted 65,662,949 shares of options to its management and other key employees pursuant to the Company's 2020 Share Incentive plan.

24. RESTRICTED NET ASSETS

Relevant PRC laws and regulations permit payment of dividends by the Group's entities incorporated in the PRC only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, the Group's entities in the PRC are required to annually appropriate 10% of their net after-tax income to the statutory surplus reserve fund prior to payment of any dividends, unless such reserve funds have reached 50% of their respective registered capital. As a result of these and other restrictions under PRC laws and regulations, the Group's entities and the VIEs subsidiary incorporated in the PRC are restricted in their ability to transfer a portion of their net assets to the Company either in the form of dividends, loans or advances, which restricted portion as calculated under U.S. GAAP amounted to RMB1,221,410 as of December 31, 2022. There is no significant difference between U.S. GAAP and PRC accounting standards in connection with the reported net assets of the legally owned subsidiaries in the PRC and the VIEs. Even though the Company currently does not require any such dividends, loans or advances from the PRC entities for working capital and other funding purposes, the Company may in the future require additional cash resources from them due to changes in business conditions, to fund future acquisitions and development, or merely to declare and pay dividends or distributions to its shareholders. Except for the above, there is no other restriction on the use of proceeds generated by the Group's subsidiaries and the VIEs to satisfy any obligations of the Company.

The Company performed a test on the restricted net assets of consolidated subsidiaries in accordance with Securities and Exchange Commission Regulation S-X Rule 4-08 (e) (3), "General Notes to Financial Statements" and concluded that the restricted net assets exceed 25% of the consolidated net assets of the Company as of December 31, 2022 and the condensed financial information of the Company are required to be presented.

Cash transfers from the Company's PRC subsidiaries to their parent companies outside of China are subject to PRC government control of currency conversion. Shortages in the availability of foreign currency may temporarily restrict the ability of the PRC subsidiaries and consolidated affiliated entities to remit sufficient foreign currency to pay dividends or other payments to the Company, or otherwise satisfy their foreign currency denominated obligations.

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

Schedule I—Condensed Financial Information of the Parent Company
Balance Sheets

(All amounts in thousands, except for share and per share data)

	As of December 31,		
	2021	2022	2022
	RMB	RMB	US\$
			(Note 2(e))
Assets			
Current assets			
Cash and cash equivalents	33,320	115,480	16,743
Short-term investments	-	345,171	50,045
Prepayments and other current assets	2,494	483	70
Amounts due from subsidiaries	6,157,680	5,550,398	804,735
Total current assets	6,193,494	6,011,532	871,593
Non-current assets			
Restricted cash	-	41,383	6,000
Total non-current assets	-	41,383	6,000
Total assets	6,193,494	6,052,915	877,593
Liabilities and shareholders' equity (deficit)			
Current liabilities			
Accrued expenses and other liabilities	19,766	6,689	970
Amounts due to subsidiaries	-	13,084	1,897
Total current liabilities	19,766	19,773	2,867
Non-current liabilities			
Deficit of investments in subsidiaries and VIE	458,360	1,268,420	183,904
Deferred income	56,180	45,280	6,565
Total non-current liabilities	514,540	1,313,700	190,469
Total liabilities	534,306	1,333,473	193,336
Shareholders' equity (deficit)			
Ordinary Shares (US\$0.00001 par value; 10,000,000,000 ordinary shares authorized, comprising of 6,000,000,000 Class A ordinary shares, 960,852,606 Class B ordinary shares and 3,039,147,394 shares each of such classes to be designated as of December 31, 2021 and December 31, 2022; 1,938,303,919 Class A shares and 758,869,844 Class B ordinary shares issued; 1,789,239,887 Class A ordinary shares and 737,513,429 Class B ordinary shares outstanding as of and December 31, 2021; 2,030,600,883 Class A shares and 666,572,880 Class B ordinary shares issued; 1,569,677,384 Class A ordinary shares and 666,572,880 Class B ordinary shares outstanding as of and December 31, 2022)	173	173	25
Treasury shares	(22,330)	(669,150)	(97,018)
Additional paid-in capital	11,697,942	12,038,802	1,745,462
Accumulated deficit	(5,760,817)	(6,576,188)	(953,458)
Accumulated other comprehensive income (loss)	(255,780)	(74,195)	(10,754)
Total shareholders' (deficit) equity	5,659,188	4,719,442	684,257
Total liabilities and shareholders' equity (deficit)	6,193,494	6,052,915	877,593

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

Schedule I—Condensed Financial Information of the Parent Company
Statements of Income and Comprehensive Income
(All amounts in thousands)

	As of December 31,			
	2020	2021	2022	2022
	RMB	RMB	RMB	US\$
				(Note 2(e))
General and administrative expenses	(9,871)	(28,484)	(19,329)	(2,802)
Loss from operations	(9,871)	(28,484)	(19,329)	(2,802)
Financial income	5,309	880	1,181	171
Foreign currency exchange losses	-	-	(6)	(1)
Loss from subsidiaries and VIE	(2,683,245)	(1,527,645)	(812,151)	(117,750)
Other income, net	-	14,515	14,934	2,165
Net loss attributable to Yatsen Holding Limited's shareholders	(2,687,807)	(1,540,734)	(815,371)	(118,217)
Accretion to Preferred Shares	(242,209)	-	-	-
Deemed dividends due to modification of Preferred Shares	(1,054,220)	-	-	-
Net loss attributable to ordinary shareholders of Yatsen Holding Limited	(3,984,236)	(1,540,734)	(815,371)	(118,217)
Net loss attributable to Yatsen Holding Limited's shareholders	(2,687,807)	(1,540,734)	(815,371)	(118,217)
Other comprehensive income (loss):				
Foreign currency translation adjustment, net of nil tax	(111,697)	(158,515)	181,585	26,327
Comprehensive loss attributable to Yatsen Holding Limited's shareholders	(2,799,504)	(1,699,249)	(633,786)	(91,890)

Schedule I—Condensed Financial Information of the Parent Company
Statements of Cash Flows
(All amounts in thousands)

	As of December 31,			
	2020	2021	2022	2022
	RMB	RMB	RMB	US\$
				(Note 2(e))
Net cash provided by (used in) operating activities	(20,890)	45,330	(25,271)	(3,664)
Capital contribution to Group companies	(624,978)	(25,856)	-	-
Purchases of short-term investments	-	-	(342,380)	(49,640)
Advances to Group companies	(5,487,408)	(2,060,287)	(1,396,460)	(202,468)
Receival of advances repayment from Group companies	840	1,165,010	2,539,576	368,204
Acquisition of businesses, net of cash and cash equivalents acquired	(3,196)	-	-	-
Net cash provided by (used in) investing activities	(6,114,742)	(921,133)	800,736	116,096
Proceeds from issuance of Preferred Shares, net of issuance costs	3,909,059	-	-	-
Proceeds from issuance of Ordinary Shares, net of issuance costs	4,389,910	-	-	-
Repurchases of Ordinary Shares	(491,167)	(15,161)	(654,650)	(94,915)
Repurchases of Preferred Shares	(1,076,771)	-	-	-
Issuance costs of issuance of Ordinary Shares in IPO	-	-	(1,706)	(247)
Repayment of a shareholder receivable resulting from Repurchases of Ordinary Shares	-	12,959	-	-
Proceeds from exercise of vested share options	-	-	1,906	276
Net cash provided by (used in) financing activities	6,731,031	(2,202)	(654,450)	(94,886)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(66,906)	(23,679)	2,528	366
Net increase in cash, cash equivalents and restricted cash	528,493	(901,684)	123,543	17,912
Cash and cash equivalents and restricted cash at the beginning of the year	406,511	935,004	33,320	4,831
Cash and cash equivalents and restricted cash at the end of the year	935,004	33,320	156,863	22,743

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

Schedule I—Condensed Financial Information of the Parent Company

Notes to Schedule I

(All amounts in thousands)

(1) BASIS FOR PREPARATION

The condensed financial information of the Company has been prepared using the same accounting policies as set out in the Group's consolidated financial statements except that the Company has used the equity method to account for investments in its subsidiaries. Certain information and footnote disclosures generally included in financial statements prepared in accordance with U.S. GAAP have been condensed and omitted. The footnote disclosures contain supplemental information relating to the operations of the Company, as such, these statements are not the general-purpose financial statements of the reporting entity and should be read in conjunction with the notes to the consolidated financial statements of the Company.

(2) INVESTMENTS IN SUBSIDIARIES

The Company and its subsidiaries were included in the consolidated financial statements where the inter-company transactions and balances were eliminated upon consolidation. For the purpose of the Company's stand-alone financial statements, its investments in subsidiaries were reported using the equity method of accounting. The Company's share of income (loss) from its subsidiaries were reported as equity in earnings of subsidiaries in the accompanying parent company financial statements.

25. SEGMENT INFORMATION

Reportable operating segments include components of an enterprise about which separate financial information is available that is evaluated regularly by the CODM in deciding how to allocate resources and in assessing performance. The Group's CODM has been identified as the Chief Executive Officer. In the prior years, the Group had only one reportable segment, which was selling beauty products. Due to operational changes, the Group adjusted the reporting segmentation in light of the development of the Skincare Brands business. The Group currently reports the results of operations in three segments on a product category basis, namely Color Cosmetics Brands, Skincare Brands and others. The CODM measures the performance of each segment based on metrics of net revenues and income (loss) from operations and uses these results to evaluate the performance of, and to allocate resources to, each of the segments. Given this change in the composition of the Group's reportable segments, prior year segment information was retrospectively adjusted to reflect the current reporting structure for the segments.

The table below provides a summary of the Group's reportable segment results for the years ended December 31, 2020, 2021 and 2022:

YATSEN HOLDING LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(All amounts in thousands, except for share, per share data or otherwise noted)

	Year ended December 31,		
	2020	2021	2022
	RMB	RMB	RMB
Net revenues			
Color Cosmetics Brands	4,919,317	4,869,279	2,415,500
Skincare Brands	200,819	855,241	1,241,528
Others	113,034	115,453	49,094
Total net revenues	<u>5,233,170</u>	<u>5,839,973</u>	<u>3,706,122</u>
Loss from operations			
Color Cosmetics Brands	(695,684)	(823,296)	(476,998)
Skincare Brands	(76,111)	(220,854)	(63,095)
Others	(7,659)	(8,081)	755
Unallocated expenses (a)	(1,903,217)	(572,013)	(389,560)
Total loss from operations	<u>(2,682,671)</u>	<u>(1,624,244)</u>	<u>(928,898)</u>
Reconciliation			
Financial income	14,313	45,658	34,656
Foreign currency exchange losses	(2,774)	(1,751)	(35,357)
Income from equity method investments, net	(293)	5,978	12,548
Impairment loss of investments	-	(1,375)	(5,078)
Other (expenses) income, net	(10,020)	27,775	103,501
Loss before income tax expenses	<u>(2,681,445)</u>	<u>(1,547,959)</u>	<u>(818,628)</u>

(a) Unallocated expenses represent share-based compensation and amortization of intangible assets resulting from assets and business acquisitions, which are not allocated to segments.

No asset information is provided for reportable segments as no such information provides to the CODM to evaluate the segment performance and most assets are managed at the group level.

Substantially all revenues and long-lived assets of Group are derived from and located in the PRC.

YATSEN HOLDING LIMITED
2022 SHARE INCENTIVE PLAN

ARTICLE 1

PURPOSE

The purpose of this 2022 Share Incentive Plan (the “Plan”) is to promote the success and enhance the value of Yatsen Holding Limited, an exempted company incorporated under the laws of the Cayman Islands (the “Company”), by linking the personal interests of the Directors, Employees, and Consultants to those of the Company’s shareholders and by providing such individuals with an incentive for outstanding performance to generate superior returns to the Company’s shareholders. The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of the Directors, Employees, and Consultants upon whose judgment, interest, and special effort the successful conduct of the Company’s operation is largely dependent.

ARTICLE 2

DEFINITIONS AND CONSTRUCTION

Wherever the following terms are used in the Plan they shall have the meanings specified below, unless the context clearly indicates otherwise. The singular pronoun shall include the plural where the context so indicates.

- 2.1 “**Administrator**” means HUANG Jinfeng (黄□峰) or, in the event that Mr. Huang is unable to carry out his duties or in the event of conflict of interest, the Board or any committee authorized by the Board.
- 2.2 “**Applicable Laws**” means the legal requirements relating to the Plan and the Awards under applicable provisions of the corporate, securities, tax and other laws, rules, regulations and government orders, and the rules of any applicable stock exchange or national market system, of any jurisdiction applicable to Awards granted to residents therein.
- 2.3 “**Award**” means an Option, Restricted Share, Restricted Share Unit award or other types of award approved by the Administrator granted to a Participant pursuant to the Plan.
- 2.4 “**Award Agreement**” means any written agreement, contract, or other instrument or document evidencing an Award, including through electronic medium.
- 2.5 “**Board**” means the Board of Directors of the Company.
- 2.6 “**Cause**” with respect to a Participant means (unless otherwise expressly provided in the applicable Award Agreement, or another applicable contract with the Participant that defines such term for purposes of determining the effect that a “for cause” termination has on the Participant’s Awards) a termination of employment or service based upon a finding by the Service Recipient, acting in good faith and based on its reasonable belief at the time, that the Participant:
 - (a) has been negligent in the discharge of his or her duties to the Service Recipient, has refused to perform stated or assigned duties or is incompetent in or (other than by reason of a disability or analogous condition) incapable of performing those duties;
 - (b) has been dishonest or committed or engaged in an act of theft, embezzlement or fraud, a breach of confidentiality, an unauthorized disclosure or use of inside information, customer lists, trade secrets or other confidential information;

- (c) has breached a fiduciary duty, or willfully and materially violated any other duty, law, rule, regulation or policy of the Service Recipient; or has been convicted of, or plead guilty or nolo contendere to, a felony or misdemeanor (other than minor traffic violations or similar offenses);
- (d) has materially breached any of the provisions of any agreement with the Service Recipient;
- (e) has engaged in unfair competition with, or otherwise acted intentionally in a manner injurious to the reputation, business or assets of, the Service Recipient; or
- (f) has improperly induced a vendor or customer to break or terminate any contract with the Service Recipient or induced a principal for whom the Service Recipient acts as agent to terminate such agency relationship.

A termination for Cause shall be deemed to occur (subject to reinstatement upon a contrary final determination by the Administrator) on the date on which the Service Recipient first delivers written notice to the Participant of a finding of termination for Cause.

2.7 “**Code**” means the Internal Revenue Code of 1986 of the United States, as amended.

2.8 “**Consultant**” means any consultant or adviser if: (a) the consultant or adviser renders bona fide services to a Service Recipient; (b) the services rendered by the consultant or adviser are not in connection with the offer or sale of securities in a capital-raising transaction and do not directly or indirectly promote or maintain a market for the Company’s securities; and (c) the consultant or adviser is a natural person who has contracted directly with the Service Recipient to render such services.

2.9 “**Corporate Transaction**”, unless otherwise defined in an Award Agreement, means any of the following transactions, *provided, however*, that the Administrator shall determine under (d) and (e) whether multiple transactions are related, and his determination shall be final, binding and conclusive:

- (a) an amalgamation, arrangement or consolidation or scheme of arrangement (i) in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the jurisdiction in which the Company is incorporated or (ii) following which the holders of the voting securities of the Company do not continue to hold more than 50% of the combined voting power of the voting securities of the surviving entity;
- (b) the sale, transfer or other disposition of all or substantially all of the assets of the Company;
- (c) the complete liquidation or dissolution of the Company;
- (d) any reverse takeover or series of related transactions culminating in a reverse takeover (including, but not limited to, a tender offer followed by a reverse takeover) in which the Company is the surviving entity but (A) the Company’s equity securities outstanding immediately prior to such takeover are converted or exchanged by virtue of the takeover into other property, whether in the form of securities, cash or otherwise, or (B) in which securities possessing more than fifty percent (50%) of the total combined voting power of the Company’s outstanding securities are transferred to a person or persons different from those who held such securities immediately prior to such takeover or the initial transaction culminating in such takeover, but excluding any such transaction or series of related transactions that the Administrator determines shall not be a Corporate Transaction; or
- (e) acquisition in a single or series of related transactions by any person or related group of persons (other than the Company or by a Company-sponsored employee benefit plan) of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company’s outstanding securities

but excluding any such transaction or series of related transactions that the Administrator determines shall not be a Corporate Transaction.

- 2.10 “**Director**”, means a member of the Board or a member of the board of directors of any Subsidiary of the Company.
- 2.11 “**Disability**”, unless otherwise defined in an Award Agreement, means that the Participant qualifies to receive long-term disability payments under the Service Recipient’s long-term disability insurance program, as it may be amended from time to time, to which the Participant provides services regardless of whether the Participant is covered by such policy. If the Service Recipient to which the Participant provides service does not have a long-term disability plan in place, “Disability” means that a Participant is unable to carry out the responsibilities and functions of the position held by the Participant by reason of any medically determinable physical or mental impairment for a period of not less than ninety (90) consecutive days. A Participant will not be considered to have incurred a Disability unless he or she furnishes proof of such impairment sufficient to satisfy the Administrator in his discretion.
- 2.12 “**Effective Date**” shall have the meaning set forth in Section 11.1.
- 2.13 “**Employee**” means any person, including an officer or a Director, who is in the employment of a Service Recipient, subject to the control and direction of the Service Recipient as to both the work to be performed and the manner and method of performance. The payment of a director’s fee by a Service Recipient shall not be sufficient to constitute “employment” by the Service Recipient.
- 2.14 “**Exchange Act**” means the Securities Exchange Act of 1934 of the United States, as amended.
- 2.15 “**Fair Market Value**” means, as of any date, the value of Shares determined as follows:
- (a) If the Shares are listed on one or more established stock exchanges or national market systems, including without limitation, the New York Stock Exchange or the Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such shares (or the closing bid, if no sales were reported) as quoted on the principal exchange or system on which the Shares are listed (as determined by the Administrator) on the date of determination (or, if no closing sales price or closing bid was reported on that date, as applicable, on the last trading date such closing sales price or closing bid was reported), as reported on the website maintained by such exchange or market system or such other source as the Administrator deems reliable;
 - (b) If the Shares are regularly quoted on an automated quotation system (including the OTC Bulletin Board) or by a recognized securities dealer, its Fair Market Value shall be the closing sales price for such Shares as quoted on such system or by such securities dealer on the date of determination, but if selling prices are not reported, the Fair Market Value of a Share shall be the mean between the high bid and low asked prices for the Shares on the date of determination (or, if no such prices were reported on that date, on the last date such prices were reported), as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or
 - (c) In the absence of an established market for the Shares of the type described in (a) and (b) above, the Fair Market Value thereof shall be determined by the Administrator in good faith and in his discretion by reference to (i) the placing price of the latest private placement of the Shares and the development of the Company’s business operations and the general economic and market conditions since such latest private placement, (ii) other third party transactions involving the Shares and the development of the Company’s business operation and the general economic and market conditions since such transaction, (iii) an independent valuation of the Shares, or (iv) such other methodologies or information as the Administrator determines to be indicative of Fair Market Value.
- 2.16 “**Group Entity**” means any of the Company and Subsidiaries of the Company.

- 2.17 “**Incentive Share Option**” means an Option that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.
- 2.18 “**Independent Director**” means (i) if the Shares or other securities representing the Shares are not listed on a stock exchange, a Director of the Company who is a Non-Employee Director; and (ii) if the Shares or other securities representing the Shares are listed on one or more stock exchange, a Director of the Company who meets the independence standards under the applicable corporate governance rules of the stock exchange(s).
- 2.19 “**Non-Employee Director**” means a member of the Board who qualifies as a “Non-Employee Director” as defined in Rule 16b-3(b)(3) of the Exchange Act, or any successor definition adopted by the Board.
- 2.20 “**Non-Qualified Share Option**” means an Option that is not intended to be an Incentive Share Option.
- 2.21 “**Option**” means a right granted to a Participant pursuant to Article 5 of the Plan to purchase a specified number of Shares at a specified price during specified time periods. An Option may be either an Incentive Share Option or a Non-Qualified Share Option.
- 2.22 “**Participant**” means a person who, as a Director, Consultant or Employee, has been granted an Award pursuant to the Plan.
- 2.23 “**Parent**” means a parent corporation under Section 424(e) of the Code.
- 2.24 “**Plan**” means this 2022 Share Incentive Plan of Yatsen Holding Limited, as amended and/or restated from time to time.
- 2.25 “**Related Entity**” means any business, corporation, partnership, limited liability company or other entity in which the Company, a Parent or Subsidiary of the Company holds a substantial ownership interest, directly or indirectly, or controls through contractual arrangements and consolidates the financial results according to applicable accounting standards, but which is not a Subsidiary and which the Board designates as a Related Entity for purposes of the Plan.
- 2.26 “**Restricted Share**” means a Share awarded to a Participant pursuant to Article 6 that is subject to certain restrictions and may be subject to risk of forfeiture.
- 2.27 “**Restricted Share Unit**” means the right granted to a Participant pursuant to Article 7.
- 2.28 “**Securities Act**” means the Securities Act of 1933 of the United States, as amended.
- 2.29 “**Service Recipient**” means the Company or Subsidiary of the Company to which a Participant provides services as an Employee, a Consultant or a Director.
- 2.30 “**Share**” means the ordinary shares of the Company, including both Class A ordinary shares and Class B ordinary shares, par value US\$0.00001 per share, and such other securities of the Company that may be substituted for Shares pursuant to Article 9.
- 2.31 “**Subsidiary**” means any corporation or other entity of which a majority of the outstanding voting shares or voting power is beneficially owned directly or indirectly by the Company.
- 2.32 “**Trading Date**” means the closing of the first sale to the general public of the Shares pursuant to a registration statement filed with and declared effective by the U.S. Securities and Exchange Commission under the Securities Act.

ARTICLE 3

SHARES SUBJECT TO THE PLAN

3.1 Number of Shares

- .
- (a) Subject to the provisions of Article 9 and Section 3.1(b) and the effectiveness of this Plan pursuant to Section 11.1, the maximum aggregate number of Shares which may be issued pursuant to all Awards (including Incentive Share Options) (the “Award Pool”) shall initially be 1.5% of the total number of issued and outstanding Shares (on an as-converted fully-diluted basis) as of December 31, 2022, plus an annual increase by (i) (A) for each of the two fiscal years of the Company beginning January 1, 2024 and January 1, 2025, 1.5% of the total number of issued and outstanding Shares (on an as-converted fully-diluted basis) as of the last day of the immediately preceding fiscal year, and (B) for each subsequent fiscal year of the Company during the term of this Plan, 1.0% of the total number of issued and outstanding Shares (on an as-converted fully-diluted basis) as of the last day of the immediately preceding fiscal year, or (ii) such fewer number of Shares as may be determined by the Board; provided that the size of the Award Pool shall be equitably adjusted in the event of any share dividend, subdivision, reclassification, recapitalization, split, reverse split, combination, consolidation or similar transactions.
 - (b) To the extent that an Award terminates, expires, or lapses for any reason, any Shares subject to the Award shall again be available for the grant of an Award pursuant to the Plan. To the extent permitted by Applicable Laws, Shares issued in assumption of, or in substitution for, any outstanding awards of any entity acquired in any form or combination by a Group Entity shall not be counted against Shares available for grant pursuant to the Plan. Shares delivered by the Participant or withheld by the Company upon the exercise of any Award under the Plan, in payment of the exercise price thereof or tax withholding thereon, may again be optioned, granted or awarded hereunder, subject to the limitations of Section 3.1(a). If any Restricted Shares are forfeited by the Participant or repurchased by the Company, such Shares may again be optioned, granted or awarded hereunder, subject to the limitations of Section 3.1(a). Notwithstanding the provisions of this Section 3.1(b), no Shares may again be optioned, granted or awarded if such action would cause an Incentive Share Option to fail to qualify as an incentive share option under Section 422 of the Code.

3.2 Shares Distributed

. Any Shares distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Shares, treasury Shares (subject to Applicable Laws) or Shares purchased on the open market. Additionally, at the discretion of the Administrator, any Shares distributed pursuant to an Award may be represented by American Depositary Shares. If the number of Shares represented by an American Depositary Share is other than on a one-to-one basis, the limitations of Section 3.1 shall be adjusted to reflect the distribution of American Depositary Shares in lieu of Shares.

ARTICLE 4

ELIGIBILITY AND PARTICIPATION

4.1 Eligibility

. Persons eligible to participate in this Plan include Employees, Consultants, and Directors, as determined by the Administrator.

4.2 Participation

. Subject to the provisions of the Plan, the Administrator may, from time to time, select from among all eligible individuals, those to whom Awards shall be granted and shall determine the nature and amount of each Award. No individual shall have any right to be granted an Award pursuant to this Plan.

4.3 Jurisdictions

. In order to assure the viability of Awards granted to Participants employed in various jurisdictions, the Administrator may provide for such special terms as it may consider necessary or appropriate to accommodate differences in local law, tax policy, or custom applicable in the jurisdiction in which the Participant resides, is employed, operates or is incorporated. Moreover, the Administrator may approve such supplements to, or amendments, restatements, or alternative versions of, the Plan as it may consider necessary or appropriate for such purposes without thereby affecting the terms of the Plan as in effect for any other purpose; *provided, however*, that no such supplements, amendments, restatements, or alternative versions shall increase the share limitations contained in Section 3.1 of the Plan. Notwithstanding the foregoing, the Administrator may not take any actions hereunder, and no Awards shall be granted, that would violate any Applicable Laws.

ARTICLE 5

OPTIONS

5.1 General

. The Administrator is authorized to grant Options to Participants on the following terms and conditions:

(a) Exercise Price

. The exercise price per Share subject to an Option shall be determined by the Administrator and set forth in the Award Agreement which may be a fixed price or a variable price related to the Fair Market Value of the Shares. The exercise price per Share subject to an Option may be amended or adjusted in the absolute discretion of the Administrator, the determination of which shall be final, binding and conclusive. For the avoidance of doubt, to the extent not prohibited by Applicable Laws or any exchange rule, a downward adjustment of the exercise prices of Options mentioned in the preceding sentence shall be effective without the approval of the Company's shareholders or the approval of the affected Participants.

(b) Time and Conditions of Exercise

. The Administrator shall determine the time or times at which an Option may be exercised in whole or in part, including exercise prior to vesting; *provided* that the term of any Option granted under the Plan shall not exceed ten years, except as provided in Section 12.1. The Administrator shall also determine any conditions, if any, that must be satisfied before all or part of an Option may be exercised.

(c) Payment

. The Administrator shall determine the methods by which the exercise price of an Option may be paid, the form of payment, including, without limitation (i) cash or check denominated in U.S. Dollars, (ii) to the extent permissible under the Applicable Laws, cash or check in Chinese Renminbi, (iii) cash or check denominated in any other local currency as approved by the Administrator, (iv) Shares held for such period of time as may be required by the Administrator in order to avoid adverse financial accounting consequences and having a Fair Market Value on the date of delivery equal to the aggregate exercise price of the Option or exercised portion thereof, (v) after the Trading Date the delivery of a notice that the Participant has placed a market sell order with a broker with respect to Shares then issuable upon exercise of the Option, and that the broker

has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the Option exercise price; *provided* that payment of such proceeds is then made to the Company upon settlement of such sale, (vi) other property acceptable to the Administrator with a Fair Market Value equal to the exercise price, or (vii) any combination of the foregoing. Notwithstanding any other provision of the Plan to the contrary, no Participant who is a member of the Board or the Administrator within the meaning of Section 13(k) of the Exchange Act shall be permitted to pay the exercise price of an Option in any method which would violate Section 13(k) of the Exchange Act.

(d) Evidence of Grant

. All Options shall be evidenced by an Award Agreement between the Company and the Participant. The Award Agreement shall include such additional provisions as may be specified by the Administrator.

(e) Effects of Termination of Employment or Service on Options

. Termination of employment or service shall have the following effects on Options granted to the Participants:

(i) Dismissal for Cause

. Unless otherwise provided in the Award Agreement, if a Participant's employment by or service to the Service Recipient is terminated by the Service Recipient for Cause, the Participant's Options will terminate upon such termination, whether or not the Option is then vested and/or exercisable;

(ii) Death or Disability

. Unless otherwise provided in the Award Agreement, if a Participant's employment by or service to the Service Recipient terminates as a result of the Participant's death or Disability:

(a) the Participant (or his or her legal representative or beneficiary, in the case of the Participant's Disability or death, respectively), will have until the date that is 12 months after the Participant's termination of Employment to exercise the Participant's Options (or portion thereof) to the extent that such Options were vested and exercisable on the date of the Participant's termination of Employment on account of death or Disability;

(b) the Options, to the extent not vested and exercisable on the date of the Participant's termination of Employment or service, shall terminate upon the Participant's termination of Employment or service on account of death or Disability; and

(c) the Options, to the extent exercisable for the 12-month period following the Participant's termination of Employment or service and not exercised during such period, shall terminate at the close of business on the last day of the 12-month period.

(iii) Other Terminations of Employment or Service

. Unless otherwise provided in the Award Agreement, if a Participant's employment by or service to the Service Recipient terminates for any reason other than a termination by the Service Recipient for Cause or because of the Participant's death or Disability:

- (a) the Participant will have until the date that is 90 days after the Participant's termination of Employment or service to exercise his or her Options (or portion thereof) to the extent that such Options were vested and exercisable on the date of the Participant's termination of Employment or service;
- (b) the Options, to the extent not vested and exercisable on the date of the Participant's termination of Employment or service, shall terminate upon the Participant's termination of Employment or service; and
- (c) the Options, to the extent exercisable for the 90-day period following the Participant's termination of Employment or service and not exercised during such period, shall terminate at the close of business on the last day of the 90-day period.

5.2 Incentive Share Options

. Incentive Share Options may be granted to Employees of the Company or a Subsidiary of the Company. Incentive Share Options may not be granted to employees of a Related Entity or to Independent Directors or Consultants. The terms of any Incentive Share Options granted pursuant to the Plan, in addition to the requirements of Section 5.1, must comply with the following additional provisions of this Section 5.2:

(a) Individual Dollar Limitation

. The aggregate Fair Market Value (determined as of the time the Option is granted) of all Shares with respect to which Incentive Share Options are first exercisable by a Participant in any calendar year may not exceed \$100,000 or such other limitation as imposed by Section 422(d) of the Code, or any successor provision. To the extent that Incentive Share Options are first exercisable by a Participant in excess of such limitation, the excess shall be considered Non-Qualified Share Options.

(b) Exercise Price

. The exercise price of an Incentive Share Option shall be equal to the Fair Market Value on the date of grant. However, the exercise price of any Incentive Share Option granted to any individual who, at the date of grant, owns Shares possessing more than ten percent of the total combined voting power of all classes of shares of the Company or any Parent or Subsidiary of the Company may not be less than 110% of Fair Market Value on the date of grant and such Option may not be exercisable for more than five years from the date of grant.

(c) Transfer Restriction

. The Participant shall give the Company prompt notice of any disposition of Shares acquired by exercise of an Incentive Share Option within (i) two years from the date of grant of such Incentive Share Option or (ii) one year after the transfer of such Shares to the Participant.

(d) Expiration of Incentive Share Options

. No Award of an Incentive Share Option may be made pursuant to this Plan after the tenth anniversary of the Effective Date.

(e) Right to Exercise

. During a Participant's lifetime, an Incentive Share Option may be exercised only by the Participant.

ARTICLE 6

RESTRICTED SHARES

6.1 Grant of Restricted Shares

. The Administrator, at any time and from time to time, may grant Restricted Shares to Participants as the Administrator, in his sole discretion, shall determine. The Administrator, in his sole discretion, shall determine the number of Restricted Shares to be granted to each Participant.

6.2 Restricted Shares Award Agreement

. Each Award of Restricted Shares shall be evidenced by an Award Agreement that shall specify the period of restriction, the number of Restricted Shares granted, and such other terms and conditions as the Administrator, in his sole discretion, shall determine. Unless the Administrator determines otherwise, Restricted Shares shall be held by the Company as escrow agent until the restrictions on such Restricted Shares have lapsed.

6.3 Issuance and Restrictions

. Restricted Shares shall be subject to such restrictions on transferability and other restrictions as the Administrator may impose (including, without limitation, limitations on the right to vote Restricted Shares or the right to receive dividends on the Restricted Shares). These restrictions may lapse separately or in combination at such times, pursuant to such circumstances, in such installments, or otherwise, as the Administrator determines at the time of the grant of the Award or thereafter.

6.4 Forfeiture/Repurchase

. Except as otherwise determined by the Administrator at the time of the grant of the Award or thereafter, upon termination of employment or service during the applicable restriction period, Restricted Shares that are at that time subject to restrictions shall be forfeited or repurchased in accordance with the Award Agreement; *provided, however*, the Administrator may (a) provide in any Restricted Share Award Agreement that restrictions or forfeiture and repurchase conditions relating to Restricted Shares will be waived in whole or in part in the event of terminations resulting from specified causes, and (b) in other cases waive in whole or in part restrictions or forfeiture and repurchase conditions relating to Restricted Shares.

6.5 Certificates for Restricted Shares

. Restricted Shares granted pursuant to the Plan may be evidenced in such manner as the Administrator shall determine. If certificates representing Restricted Shares are registered in the name of the Participant, certificates must bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Shares, and the Company may, at its discretion, retain physical possession of the certificate until such time as all applicable restrictions lapse.

6.6 Removal of Restrictions

. Except as otherwise provided in this Article 6, Restricted Shares granted under the Plan shall be released from escrow as soon as practicable after the last day of the period of restriction. The Administrator, in his discretion, may accelerate the time at which any restrictions shall lapse or be removed. After the restrictions have lapsed, the Participant shall be entitled to have any legend or legends under Section 6.5 removed from his or her Share certificate, and the Shares shall be freely transferable by the Participant, subject to applicable legal restrictions. The Administrator (in his discretion) may establish procedures regarding the release of Shares from escrow and the removal of legends, as necessary or appropriate to minimize administrative burdens on the Company.

ARTICLE 7

RESTRICTED SHARE UNITS

7.1 Grant of Restricted Share Units

. The Administrator, at any time and from time to time, may grant Restricted Share Units to Participants as the Administrator, in his sole discretion, shall determine. The Administrator, in his sole discretion, shall determine the number of Restricted Share Units to be granted to each Participant.

7.2 Restricted Share Units Award Agreement

. Each Award of Restricted Share Units shall be evidenced by an Award Agreement that shall specify any vesting conditions, the number of Restricted Share Units granted, and such other terms and conditions as the Administrator, in his sole discretion, shall determine.

7.3 Form and Timing of Payment of Restricted Share Units

. At the time of grant, the Administrator shall specify the date or dates on which the Restricted Share Units shall become fully vested and nonforfeitable. Upon vesting, the Administrator, in his sole discretion, may pay Restricted Share Units in the form of cash, Shares or a combination thereof.

7.4 Forfeiture/Repurchase

. Except as otherwise determined by the Administrator at the time of the grant of the Award or thereafter, upon termination of employment or service during the applicable restriction period, Restricted Share Units that are at that time unvested shall be forfeited or repurchased in accordance with the Award Agreement; *provided, however*, the Administrator may (a) provide in any Restricted Share Unit Award Agreement that restrictions or forfeiture and repurchase conditions relating to Restricted Share Units will be waived in whole or in part in the event of terminations resulting from specified causes, and (b) in other cases waive in whole or in part restrictions or forfeiture and repurchase conditions relating to Restricted Share Units.

ARTICLE 8

PROVISIONS APPLICABLE TO AWARDS

8.1 Award Agreement

. Awards under the Plan shall be evidenced by Award Agreements that set forth the terms, conditions and limitations for each Award which may include the term of an Award, the provisions applicable in the event the Participant's employment or service terminates, and the Company's authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind an Award.

8.2 No Transferability; Limited Exception to Transfer Restrictions.

8.2.1 Limits on Transfer. Unless otherwise expressly provided in (or pursuant to) this Section 8.2, by applicable law and by the Award Agreement, as the same may be amended:

- (a) all Awards are non-transferable and will not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge;
- (b) Awards will be exercised only by the Participant; and
- (c) amounts payable or shares issuable pursuant to an Award will be delivered only to (or for the account of), and, in the case of Shares, registered in the name of, the Participant.

In addition, the shares shall be subject to the restrictions set forth in the applicable Award Agreement.

8.2.2 Further Exceptions to Limits on Transfer

. The exercise and transfer restrictions in Section 8.2.1 will not apply to:

- (a) transfers to the Company or a Subsidiary;
- (b) transfers by gift to “immediate family” as that term is defined in SEC Rule 16a-1(e) promulgated under the Exchange Act;
- (c) the designation of a beneficiary to receive benefits if the Participant dies or, if the Participant has died, transfers to or exercises by the Participant’s beneficiary, or, in the absence of a validly designated beneficiary, transfers by will or the laws of descent and distribution; or
- (d) if the Participant has suffered a disability, permitted transfers or exercises on behalf of the Participant by the Participant’s duly authorized legal representative; or
- (e) subject to the prior approval of the Administrator, or an executive officer of the Company or a Director authorized by the Administrator, transfer to one or more natural persons who are the Participant’s family members or entities owned and controlled by the Participant and/or the Participant’s family members, including but not limited to trusts or other entities whose beneficiaries or beneficial owners are the Participant and/or the Participant’s family members, or to such other persons or entities may be expressly approved by the Administrator, pursuant to such conditions and procedures as the Administrator or may establish. Any permitted transfer shall be subject to the condition that the Administrator receives evidence satisfactory to him that the transfer is being made for estate and/or tax planning purposes and on a basis consistent with the Company’s lawful issue of securities.

Notwithstanding anything else in this Section 8.2.2 to the contrary, but subject to compliance with all Applicable Laws, Incentive Share Options, Restricted Shares and Restricted Share Units will be subject to any and all transfer restrictions under the Code applicable to such Awards or necessary to maintain the intended tax consequences of such Awards. Notwithstanding clause (b) above but subject to compliance with all Applicable Laws, any contemplated transfer by gift to “immediate family” as referenced in clause (b) above is subject to the condition precedent that the transfer be approved by the Administrator in order for it to be effective.

8.3 Beneficiaries

. Notwithstanding Section 8.2, a Participant may, in the manner determined by the Administrator, designate a beneficiary to exercise the rights of the Participant and to receive any distribution with respect to any Award upon the Participant’s death. A beneficiary, legal guardian, legal representative, or other person claiming any rights pursuant to the Plan is subject to all terms and conditions of the Plan and any Award Agreement applicable to the Participant, except to the extent the Plan and Award Agreement otherwise provide, and to any additional restrictions deemed necessary or appropriate by the Administrator. If the Participant is married and resides in a community property state, a designation of a person other than the Participant’s spouse as his or her beneficiary with respect to more than 50% of the Participant’s interest in the Award shall not be effective without the prior written consent of the Participant’s spouse. If no beneficiary has been designated or survives the Participant, payment shall be made to the person entitled thereto pursuant to the Participant’s will or the laws of descent and distribution. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Participant at any time provided the change or revocation is filed with the Administrator.

8.4 Performance Objectives and Other Terms

. The Administrator, in his discretion, shall set performance objectives or other vesting criteria which, depending on the extent to which they are met, will determine the number or value of the Awards that will be granted or paid out to the Participants.

8.5 Share Certificates

. Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any certificates evidencing the Shares pursuant to the exercise of any Award, unless and until the Administrator has determined, with advice of counsel, that the issuance and delivery of such certificates is in compliance with all Applicable Laws, regulations of governmental authorities and, if applicable, the requirements of any exchange on which the Shares are listed or traded. All Share certificates delivered pursuant to the Plan are subject to any stop-transfer orders and other restrictions as the Administrator deems necessary or advisable to comply with all Applicable Laws, and the rules of any national securities exchange or automated quotation system on which the Shares are listed, quoted, or traded. The Administrator may place legends on any Share certificate to reference restrictions applicable to the Shares. In addition to the terms and conditions provided herein, the Administrator may require that a Participant make such reasonable covenants, agreements, and representations as the Administrator, in his discretion, deems advisable in order to comply with any such laws, regulations, or requirements. The Administrator shall have the right to require any Participant to comply with any timing or other restrictions with respect to the settlement or exercise of any Award, including a window-period limitation, as may be imposed in the discretion of the Administrator.

8.6 Paperless Administration

. Subject to Applicable Laws, the Administrator may make Awards and provide applicable disclosure and procedures for exercise of Awards by an internet website or interactive voice response system for the paperless administration of Awards.

8.7 Foreign Currency

. A Participant may be required to provide evidence that any currency used to pay the exercise price of any Award was acquired and taken out of the jurisdiction in which the Participant resides in accordance with Applicable Laws, including foreign exchange control laws and regulations. In the event the exercise price for an Award is paid in Chinese Renminbi or other foreign currency, as permitted by the Administrator, the amount payable will be determined by conversion from U.S. dollars at the official rate promulgated by the People's Bank of China for Chinese Renminbi, or for jurisdictions other than the People's Republic of China, the exchange rate as selected by the Administrator on the date of exercise.

ARTICLE 9

CHANGES IN CAPITAL STRUCTURE

9.1 Adjustments

. In the event of any dividend, share split, combination or exchange of Shares, amalgamation, arrangement or consolidation, spin-off, recapitalization or other distribution (other than normal cash dividends) of Company assets to its shareholders, or any other change affecting the shares of Shares or the share price of a Share, the Administrator shall make such proportionate adjustments, if any, as the Administrator in his discretion may deem appropriate to reflect such change with respect to (a) the aggregate number and type of shares that may be issued under the Plan (including, but not limited to, adjustments of the limitations in Section 3.1); (b) the terms and conditions of any outstanding Awards (including, without limitation, any applicable performance targets or criteria with respect thereto); and (c) the grant or exercise price per share for any outstanding Awards under the Plan.

9.2 Corporate Transactions

. Except as may otherwise be provided in any Award Agreement or any other written agreement entered into by and between the Company and a Participant, if the Administrator anticipates the occurrence, or upon the occurrence, of a Corporate Transaction, the Administrator may, in his sole discretion, provide for (i) any and all Awards outstanding hereunder to terminate at a specific time in the future and shall give each Participant the right to exercise the vested portion of such Awards during a period of time as the Administrator shall determine, or (ii) the purchase of any Award for an amount of cash equal to the amount that could have been attained upon the exercise of such Award (and, for the avoidance of doubt, if as of such date the Administrator determines in good faith that no amount would have been attained upon the exercise of such Award, then such Award may be terminated by the Company without payment), or (iii) the replacement of such Award with other rights or property selected by the Administrator in his sole discretion or the assumption of or substitution of such Award by the successor or surviving corporation, or a Parent or Subsidiary thereof, with appropriate adjustments as to the number and kind of Shares and prices, or (iv) payment of such Award in cash based on the value of Shares on the date of the Corporate Transaction plus reasonable interest on the Award through the date as determined by the Administrator when such Award would otherwise be vested or have been paid in accordance with its original terms, if necessary to comply with Section 409A of the Code.

9.3 Outstanding Awards – Other Changes

. In the event of any other change in the capitalization of the Company or corporate change other than those specifically referred to in this Article 9, the Administrator may, in his absolute discretion, make such adjustments in the number and class of shares subject to Awards outstanding on the date on which such change occurs and in the per share grant or exercise price of each Award as the Administrator may consider appropriate to prevent dilution or enlargement of rights.

9.4 No Other Rights

. Except as expressly provided in the Plan, no Participant shall have any rights by reason of any subdivision or consolidation of Shares of any class, the payment of any dividend, any increase or decrease in the number of shares of any class or any dissolution, liquidation, merger, or consolidation of the Company or any other corporation. Except as expressly provided in the Plan or pursuant to action of the Administrator under the Plan, and no issuance by the Company of shares of any class, or securities convertible into shares of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number of Shares subject to an Award or the grant or exercise price of any Award.

ARTICLE 10

ADMINISTRATION

10.1 Administrator

. The Plan shall be administered by the Administrator to whom the Board shall delegate the authority to grant or amend Awards to Participants other than the Directors and executive officers of the Company. Notwithstanding the foregoing, the full Board, acting by majority of its members in office, shall conduct the general administration of the Plan if required by Applicable Laws, and with respect to Awards granted to the Directors and executive officers of the Company.

10.2 Action by the Administrator

. The Administrator is entitled to, in good faith, rely or act upon any report or other information furnished to him by any officer or other employee of a Group Entity, the Company's independent certified public accountants, or any executive compensation consultant or other professional retained by the Company to assist in the administration of the Plan.

10.3 Authority of the Administrator

. Subject to any specific designation in the Plan, the Administrator has the exclusive power, authority and discretion to:

- (a) designate Participants to receive Awards;
- (b) determine the type or types of Awards to be granted to each Participant;
- (c) determine the number of Awards to be granted and the number of Shares to which an Award will relate;
- (d) determine the terms and conditions of any Award granted pursuant to the Plan, including, but not limited to, the exercise price, grant price, or purchase price, any restrictions or limitations on the Award, any schedule for lapse of forfeiture restrictions or restrictions on the exercisability of an Award, and accelerations or waivers thereof, and any provisions related to non-competition and recapture of gain on an Award, based in each case on such considerations as the Administrator in his sole discretion determines;
- (e) determine whether, to what extent, and pursuant to what circumstances an Award may be settled in, or the exercise price of an Award may be paid in, cash, Shares, other Awards, or other property, or an Award may be canceled, forfeited, or surrendered;
- (f) prescribe the form of each Award Agreement, which need not be identical for each Participant;
- (g) decide all other matters that must be determined in connection with an Award;
- (h) establish, adopt, or revise any rules and regulations as it may deem necessary or advisable to administer the Plan;
- (i) interpret the terms of, and any matter arising pursuant to, the Plan or any Award Agreement;
- (j) amend terms and conditions of Award Agreements; and
- (k) make all other decisions and determinations that may be required pursuant to the Plan or as the Administrator deems necessary or advisable to administer the Plan, including design and adopt from time to time new types of Awards that are in compliance with Applicable Laws.

10.4 Decisions Binding

. The Administrator's interpretation of the Plan, any Awards granted pursuant to the Plan, any Award Agreement and all decisions and determinations by the Administrator with respect to the Plan are final, binding, and conclusive on all parties.

ARTICLE 11

EFFECTIVE AND EXPIRATION DATE

11.1 Effective Date

. The Plan shall become effective as of January 1, 2023 (the "Effective Date").

11.2 Expiration Date

. The Plan will expire on, and no Award may be granted pursuant to the Plan after, the tenth anniversary of the Effective Date. Any Awards that are outstanding on the tenth anniversary of the Effective Date shall remain in force according to the terms of the Plan and the applicable Award Agreement.

ARTICLE 12

AMENDMENT, MODIFICATION, AND TERMINATION

12.1 Amendment, Modification, and Termination

. At any time and from time to time, the Board may terminate, amend or modify the Plan; *provided, however*, that (a) to the extent necessary and desirable to comply with Applicable Laws or stock exchange rules, the Company shall obtain shareholder approval of any Plan amendment in such a manner and to such a degree as required, unless the Company decides to follow home country practice, and (b) unless the Company decides to follow home country practice, shareholder approval is required for any amendment to the Plan that (i) increases the number of Shares available under the Plan (other than any adjustment as provided by Article 9), or (ii) permits the Administrator to extend the term of the Plan or the exercise period for an Option beyond ten years from the date of grant.

12.2 Awards Previously Granted

. Except with respect to amendments made pursuant to Section 12.1, no termination, amendment, or modification of the Plan shall adversely affect in any material way any Award previously granted pursuant to the Plan without the prior written consent of the Participant.

ARTICLE 13

GENERAL PROVISIONS

13.1 No Rights to Awards

. No Participant, employee, or other person shall have any claim to be granted any Award pursuant to the Plan, and neither the Company nor the Administrator is obligated to treat Participants, employees, and other persons uniformly.

13.2 No Shareholders Rights

. No Award gives the Participant any of the rights of a shareholder of the Company unless and until Shares are in fact issued to such person in connection with such Award.

13.3 Taxes

. No Shares shall be issued and delivered under the Plan to any Participant until such Participant has made arrangements acceptable to the Administrator for the satisfaction of any income and employment tax withholding obligations under Applicable Laws. The Company or any Subsidiary shall have the authority and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy all applicable taxes (including the Participant's payroll tax obligations) required or permitted by Applicable Laws to be withheld with respect to any taxable event concerning a Participant arising as a result of this Plan. The Administrator may in his discretion and in satisfaction of the foregoing requirement allow a Participant to elect to have the Company withhold Shares otherwise issuable under an Award (or allow the return of Shares) having a Fair Market Value equal to the sums required to be withheld. Notwithstanding any other provision of the Plan, the number of Shares which may be withheld with respect to the issuance, vesting, exercise or payment of any Award (or which may be repurchased from the Participant of such Award after such Shares were acquired by the Participant from the Company) in order to satisfy any income and payroll tax liabilities applicable to the Participant with respect to the issuance, vesting, exercise or payment of the Award shall, unless specifically approved by the Administrator, be limited to the number of Shares which have a Fair Market Value on the date of withholding or repurchase equal to the aggregate amount of such liabilities based on the minimum statutory withholding rates for the applicable income and payroll tax purposes that are applicable to such supplemental taxable income.

13.4 No Right to Employment or Services

. Nothing in the Plan or any Award Agreement shall interfere with or limit in any way the right of the Service Recipient to terminate any Participant's employment or services at any time, nor confer upon any Participant any right to continue in the employment or services of any Service Recipient.

13.5 Unfunded Status of Awards

. The Plan is intended to be an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or any Award Agreement shall give the Participant any rights that are greater than those of a general creditor of the relevant Group Entity.

13.6 Indemnification

. To the extent allowable pursuant to Applicable Laws, the Administrator and each member of the Board shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action or failure to act pursuant to the Plan and against and from any and all amounts paid by him or her in satisfaction of judgment in such action, suit, or proceeding against him or her; *provided* he or she gives the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled pursuant to the Company's Memorandum and Articles of Association, as amended from time to time, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

13.7 Relationship to Other Benefits

. No payment pursuant to the Plan shall be taken into account in determining any benefits pursuant to any pension, retirement, savings, profit sharing, group insurance, welfare or other benefit plan of the any Group Entity except to the extent otherwise expressly provided in writing in such other plan or an agreement thereunder.

13.8 Expenses

. The expenses of administering the Plan shall be borne by the Group Entities.

13.9 Titles and Headings

. The titles and headings of the Sections in the Plan are for convenience of reference only and, in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

13.10 Fractional Shares

. No fractional Shares shall be issued and the Administrator shall determine, in his discretion, whether cash shall be given in lieu of fractional Shares or whether such fractional Shares shall be eliminated by rounding up or down as appropriate.

13.11 Limitations Applicable to Section 16 Persons

. Notwithstanding anything herein to the contrary, the Plan, and any Award granted or awarded to any Participant who is then subject to Section 16 of the Exchange Act, shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive

rule. To the extent permitted by the Applicable Laws, the Plan and Awards granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

13.12 Government and Other Regulations

. The obligation of the Company to make payment of awards in Shares or otherwise shall be subject to all Applicable Laws, and to such approvals by government agencies as may be required. The Company shall be under no obligation to register any of the Shares paid pursuant to the Plan under the Securities Act or any other similar law in any applicable jurisdiction. If the Shares paid pursuant to the Plan may in certain circumstances be exempt from registration pursuant to the Securities Act or other Applicable Laws, the Company may restrict the transfer of such Shares in such manner as it deems advisable to ensure the availability of any such exemption.

13.13 Governing Law

. The Plan and all Award Agreements shall be construed in accordance with and governed by the laws of the Cayman Islands.

13.14 Section 409A

. To the extent that the Administrator determines that any Award granted under the Plan is or may become subject to Section 409A of the Code, the Award Agreement evidencing such Award shall incorporate the terms and conditions required by Section 409A of the Code. To the extent applicable, the Plan and the Award Agreements shall be interpreted in accordance with Section 409A of the Code and the U.S. Department of Treasury regulations and other interpretative guidance issued thereunder, including without limitation any such regulation or other guidance that may be issued after the Effective Date. Notwithstanding any provision of the Plan to the contrary, in the event that following the Effective Date the Administrator determines that any Award may be subject to Section 409A of the Code and related Department of Treasury guidance (including such Department of Treasury guidance as may be issued after the Effective Date), the Administrator may adopt such amendments to the Plan and the applicable Award agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Administrator determines are necessary or appropriate to (a) exempt the Award from Section 409A of the Code and/or preserve the intended tax treatment of the benefits provided with respect to the Award, or (b) comply with the requirements of Section 409A of the Code and related U.S. Department of Treasury guidance.

13.15 Appendices

. Subject to Section 12.1, the Administrator may approve such supplements, amendments or appendices to the Plan as he may consider necessary or appropriate for purposes of compliance with Applicable Laws or otherwise and such supplements, amendments or appendices shall be considered a part of the Plan; provided, however, that no such supplements shall increase the share limitation contained in Section 3.1 of the Plan without the approval of the Board.

Exhibit 8.1**List of Principal Subsidiaries and Consolidated Variable Interest Entity of Yatsen Holding Limited**

Subsidiaries	Place of Incorporation
Guangzhou Yatsen Global Co., Ltd.	People's Republic of China
Guangzhou Yatsen Cosmetics Co., Ltd.	People's Republic of China
Guangzhou Yiyao Cosmetics Co., Ltd.	People's Republic of China
SNK (Shanghai) Limited	People's Republic of China
Guangzhou Dr.Wu Cosmetics Co., Ltd.	People's Republic of China
Galenic (Shanghai) E-commerce Co., Ltd.	People's Republic of China
Consolidated Variable Interest Entity	Place of Incorporation
Huizhi Weimei (Guangzhou) Trading Co., Ltd.	People's Republic of China

**Certification by the Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Jinfeng Huang, certify that:

1. I have reviewed this annual report on Form 20-F of Yatsen Holding Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 26, 2023

By: /s/ Jinfeng Huang
Name: Jinfeng Huang
Title: Chief Executive Officer

**Certification by the Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Donghao Yang, certify that:

1. I have reviewed this annual report on Form 20-F of Yatsen Holding Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 26, 2023

By: /s/ Donghao Yang
Name: Donghao Yang
Title: Chief Financial Officer

**Certification by the Principal Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Yatsen Holding Limited (the “Company”) on Form 20-F for the year ended December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jinfeng Huang, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 26, 2023

By: /s/ Jinfeng Huang
Name: Jinfeng Huang
Title: Chief Executive Officer

**Certification by the Principal Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Yatsen Holding Limited (the “Company”) on Form 20-F for the year ended December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Donghao Yang, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 26, 2023

By: /s/ Donghao Yang
Name: Donghao Yang
Title: Chief Financial Officer



中倫律師事務所
ZHONG LUN LAW FIRM

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网址: www.zhonglun.com

April 26, 2023

Yatsen Holding Limited
Building No. 35, Art Port International Creation Center
No. 2519 Xingang East Road,
Haizhu District, Guangzhou 510330
People's Republic of China

Dear Sir/Madam:

We hereby consent to the reference of our name under the headings “Item 3. Key Information—Permissions or Filings Required from the PRC Authorities for Our Operations and Offshore Offerings,” “Item 3.D. Key Information—Risk Factors—Risks Relating to Our Business and Industry—We collect, store, process and use a variety of customer data and information for analysis of the changing consumer preferences and fashion trends, and we are required to comply with PRC and other applicable laws relating to privacy, personal information, data security and cybersecurity. The improper use or disclosure of data could have a material and adverse effect on our business and prospects.”, “Item 3.D. Key Information—Risk Factors—Risks Relating to Our Corporate Structure” and “Item 4.C. Information on the Company—Organizational Structure” in Yatsen Holding Limited’s Annual Report on Form 20-F for the year ended December 31, 2022 (the “**Annual Report**”), which will be filed with the Securities and Exchange Commission (the “**SEC**”) on the date hereof, and further consent to the incorporation by reference of the summaries of our opinions under these headings into the Registration Statement on Form S-8 (File No. 333-256027) of Yatsen Holding Limited. We also consent to the filing of this consent letter with the SEC as an exhibit to the Annual Report.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Very truly yours,

/s/ Zhong Lun Law Firm

Zhong Lun Law Firm

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-256027) of Yatsen Holding Limited of our report dated April 26, 2023 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this annual report on Form 20-F.

/s/PricewaterhouseCoopers Zhong Tian LLP

PricewaterhouseCoopers Zhong Tian LLP
Guangzhou, the People's Republic of China
April 26, 2023