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, 2021.

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: 001-38878

So-Young International Inc.

(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)

Tower E, Ronsin Technology Center
Chaoyang District, Beijing
People's Republic of China

(Address of principal executive offices)

Min Yu, Chief Financial Officer
Tower E, Ronsin Technology Center,
Chaoyang District, Beijing
People's Republic of China
Phone: +86 10 5269 9283
Email: yumin@soyoung.com

(Name, Telephone, Email 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	Name of Each Exchange On Which Registered
American depositary shares, 13 of which represent 10 Class A ordinary shares Class A ordinary shares, par value US$0.0005 per share* * Not for trading, but only in connection with the listing on the Nasdaq Global Market of American depositary shares.	SY	The Nasdaq Stock Market LLC (The Nasdaq Global Market)

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, 2021, there were 81,092,367 ordinary shares outstanding, par value of US$0.0005 per share, being the sum of 69,092,367 Class A ordinary shares (excluding treasury shares), par value of US$0.0005 per share and 12,000,000 Class B ordinary shares, par value of US$0.0005 per share.

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 the definitions 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. ☒

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 and except where the context otherwise requires, references in this annual report on Form 20-F to:

- "ADRs" are to the American depositary receipts that evidence our ADSs;
- "ADSs" are to our American depositary shares, with every 13 ADSs representing 10 Class A ordinary shares;
- "China" or the "PRC" are 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" are to our Class A ordinary shares, par value US$0.0005 per share;
- "Class B ordinary shares" are to our Class B ordinary shares, par value US$0.0005 per share;
- "mobile MAUs" are to the sum of (i) the number of unique mobile devices that have accessed our platform through our *So-Young* mobile app at least once during a month, and (ii) the number of unique Weixin users that have accessed our platform through our Weixin mini programs at least once during a month. The numbers of our mobile MAUs are calculated using internal company data that has not been independently verified, and we treat each distinguishable device and Weixin user account as a separate user for purposes of calculating mobile MAUs, although inaccuracy may result from the possibility that some individuals may use more than one mobile device, may share the same mobile device with other individuals, and/or may use both our mobile app and Weixin mini programs to access our platform;
- "monthly UVs" of *soyoung.com*, are to the number of unique IP address that various internet browsers apply to access our website, from either PC end or mobile end, at least once during a month. The numbers of our monthly UVs of *soyoung.com* are calculated using internal company data that has not been independently verified, and we treat each distinguishable IP address as a separate user for purposes of calculating monthly UVs, although inaccuracy may result from the possibility that some individuals may have more than one IP address and/or share the same IP address with other individuals to access our platform;
- "the variable interest entities," "the VIEs" and "the consolidated affiliated entities" are to Beijing So-Young Technology Co., Ltd., or Beijing So-Young, and Beijing Chiyan Medical Beauty Consulting, Ltd., or Beijing Chiyan;
- "our WFOE" are to So-Young Wanwei Technology Consulting Co., Ltd., or Beijing Wanwei;
- "RMB" and "Renminbi" are to the legal currency of China;
- "So-Young," "we," "us," "our company" and "our" are to So-Young International Inc., our Cayman Islands holding company, its subsidiaries, and in the context of describing our operations and consolidated financial information, the VIEs and the subsidiaries of the VIEs;
- "shares" or "ordinary shares" are to our Class A and Class B ordinary shares, par value US$0.0005 per share;
- "US$," "U.S. dollars," "$," and "dollars" are to the legal currency of the United States; and
- "Wuhan Miracle" are to Wuhan Miracle Laser Systems, Inc.

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 RMB6.3726 to US$1.00, the exchange rate in effect as of December 30, 2021 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 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.

Summary of Risk Factors

An investment in our ADSs or Class A ordinary shares involves significant risks. Below is a summary of material risks we face, organized under relevant headings. These risks are discussed more fully in Item 3. Key Information—D. Risk Factors.

Risks Related to Our Business and Industry

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

- we have a limited operating history in the evolving online medical aesthetic service industry, which makes it difficult to evaluate our future prospects;
- our historical growth rates may not be indicative of our future growth. If we are unable to manage the growth and increased complexity of our business, fail to control our costs and expenses, or fail to execute our strategies effectively, our business and prospects may be materially and adversely affected;
- we may be subject to consumer claims, regulatory or professional investigations and litigations regarding the medical information and services offered on our platform, which could materially and adversely affect our brand, reputation, and results of operations;
- characterization of our business as engaging in medical, drug and/or medical device advertisement distribution in China without proper licenses or permits may have material impacts on our operations;
- We face risks associated with our acquisition of Wuhan Miracle and its business;
- Our business has been and is likely to continue to be materially adversely affected by the outbreak of COVID-19 in China
- if we fail to anticipate user preferences and provide high-quality and reliable content in a cost-effective manner, we may not be able to attract and retain users to remain competitive;
- if content providers do not continue to contribute content that is high-quality, reliable or otherwise valuable to our users, we may experience a decline in user traffic and user engagement;
- uncertainty resulting from the non-binding proposal letter and other related matters may adversely affect our business;
- our business may be materially and adversely affected by an unfavorable market perception of the overall medical aesthetic industry;
- we depend significantly on the strength of our brand and reputation. Any failure to maintain and enhance, or any damage to, our brand image or reputation could materially and adversely affect our business, results of operations, financial condition and prospects;
- we are subject to uncertainties, changes and developments in the regulatory framework in China with respect to the provision of online medical aesthetic services industry;
- we face risks related to health epidemics, natural disasters, and other outbreaks, which could significantly disrupt our operations; and

- our business is subject to complex and evolving Chinese and international laws and regulations regarding cybersecurity, information security, privacy and data protection. Many of these laws and regulations are subject to change and uncertain interpretation, and any failure or perceived failure to comply with these laws and regulations could result in claims, changes to our business practices, negative publicity, legal proceedings, increased cost of operations, or declines in user growth or engagement, or otherwise harm our business.

Risks Related to Our Corporate Structure

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

- if the PRC government finds that the agreements that establish the structure for operating 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.

- we rely on contractual arrangements with the consolidated affiliated entities and their respective shareholders for our business operations, which may not be as effective as direct ownership in providing operational control; and

- any failure by the consolidated affiliated entities or their respective shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business.

Risks Related to Doing Business in China

Risks and uncertainties related to doing business in China include, but are not limited to, the following:

- the PCAOB is currently 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 over our auditor deprives 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 2024 if the PCAOB is unable to inspect or fully investigate auditors located in China, or in 2023 if proposed changes to the law are enacted. The delisting of our ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment;

Risks Related to Our ADSs

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

- the trading price of our ADSs is likely to be volatile, which could result in substantial losses to investors;

- 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 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; and

FORWARD-LOOKING STATEMENTS

This annual report 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 mission, goals;
- our ability to retain and increase the number of users and expand our service offerings;
- our future business development, financial conditions and results of operations;
- expected changes in our revenues, costs or expenditures;
- the trends in, expected growth and the market size of the online medical aesthetics industry, both in the PRC and globally;
- the potential impact of the COVID-19 to the Company’s business operations and the economy in China and elsewhere generally;
- our expectations regarding demand for and market acceptance of our services;
- our expectations regarding our relationships with users and service providers;
- our use of proceeds;
- competition in our industry;
- general economic and business conditions in the market we have business; and
- relevant government policies and regulations relating to our industry.

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” and “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.

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 Consolidated Affiliated Entities

So-Young International Inc. is not a Chinese operating company, but rather a Cayman Islands holding company with no equity ownership in its consolidated affiliated entities. 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 consolidated affiliated entities with which we have maintained contractual arrangements and their subsidiaries in China. 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 consolidated affiliated entities and their subsidiaries, and rely on contractual arrangements among our PRC subsidiaries, the consolidated affiliated entities and their nominee shareholders to control the business operations of the consolidated affiliated entities. The consolidated affiliated entities are consolidated for accounting purposes, but are not entities in which our Cayman Islands holding company, or our investors, own equity. Revenues contributed by the consolidated affiliated entities accounted for 100.0%, 100.0% and 93.0% of our total revenues for the years ended December 31, 2019, 2020 and 2021, respectively. As used in this annual report, “we,” “us,” “our company,” “our,” or “So-Young” refers to So-Young International, Inc., its subsidiaries, and, in the context of describing our operations and consolidated financial information, the consolidated affiliated entities in China. Investors in our ADSs are not purchasing equity interest in the consolidated affiliated entities in China, but instead are purchasing equity interest in a holding company incorporated in the Cayman Islands.

A series of contractual agreements, including equity pledge agreement, exclusive option agreement, exclusive business cooperation agreement, power of attorney and spousal consent letter, have been entered into by and among our subsidiaries, the consolidated affiliated entities and their respective shareholders. Terms contained in each set of contractual arrangements with the consolidated affiliated entities and their respective shareholders are substantially similar. Despite the lack of legal majority ownership, our Cayman Island holding company is considered the primary beneficiary of the consolidated affiliated entities and consolidates the consolidated affiliated entities and their subsidiaries as required by Accounting Standards Codification topic 810, *Consolidation*. Accordingly, we treat the consolidated affiliated entities as the consolidated entities under U.S. GAAP and we consolidate the financial results of the consolidated affiliated entities in the 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 Consolidated Affiliated Entities and Their Respective Shareholders.”

However, the contractual arrangements may not be as effective as direct ownership in providing us with control over the consolidated affiliated entities and we may incur substantial costs to enforce the terms of the arrangements. If the consolidated affiliated entities or the nominee shareholders fail to perform their respective obligations under the contractual arrangements, we could be limited in our ability to enforce the contractual arrangements that give us effective control over the consolidated affiliated entities, and these agreements have not been tested in China courts. Furthermore, if we are unable to maintain effective control, we would not be able to continue to consolidate the financial results of these entities in our financial statements. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—We rely on contractual arrangements with the consolidated affiliated entities and their respective shareholders for our business operations, which may not be as effective as direct ownership in providing operational control” and “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—The shareholders of the consolidated affiliated entities may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.”

There are also substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules regarding the status of the rights of our Cayman Islands holding company with respect to its contractual arrangements with the consolidated affiliated entities and their nominee shareholders. 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 any of the consolidated affiliated entities 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. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—If the PRC government finds that the agreements that establish the structure for operating certain 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 "—Uncertainties exist with respect to the interpretation and implementation of the newly enacted PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations."

Our corporate structure is subject to risks associated with our contractual arrangements with the consolidated affiliated entities. Our company and its investors may never have a direct ownership interest in the businesses that are conducted by the consolidated affiliated entities. Uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements, and these contractual arrangements have not been tested in a court of law. If the PRC government finds that the agreements that establish the structure for operating our business in China do not comply with PRC laws and regulations, or if these regulations or the interpretation of existing regulations change or are interpreted differently in the future, we and the consolidated affiliated entities could be subject to severe penalties or be forced to relinquish our interests in those operations. This would result in the consolidated affiliated entities being deconsolidated. The majority of our assets, including the necessary licenses to conduct business in China, are held by the consolidated affiliated entities. Substantially all of our revenues are generated by the consolidated affiliated entities. An event that results in the deconsolidation of the consolidated affiliated entities would have a material effect on our operations and result in the value of the securities of our company diminish substantially or even become worthless. Our company, our PRC subsidiaries and consolidated affiliated entities, 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 consolidated affiliated entities and, consequently, significantly affect the financial performance of the consolidated affiliated entities and our company as a whole. So-Young International Inc. may not be able to repay its indebtedness, and the ADSs of our company may decline in value or become worthless, if we are unable to assert our contractual control rights over the assets of our PRC subsidiaries and consolidated affiliated entities that conduct all or substantially all of our operations. For a detailed description of the risks associated with our corporate structure, please refer to risks disclosed under "Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure."

Other Risks related to our PRC Operations

We face various risks and uncertainties related to doing business in China. Our business operations are primarily 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, anti-monopoly regulatory actions, and oversight on cybersecurity and data privacy. We also face risks associated with the lack of inspection by the Public Company Accounting Oversight Board, or the PCAOB, on our auditors as discussed under "—The Holding Foreign Companies Accountable Act.". These risks 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. For a detailed description of risks related to doing business in China, "Item 3.D. Key Information—Risk Factors—Risks Related to Doing Business in China."

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. For more details, see "Item 3. Key Information—D. Risk Factors—Risks Related 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."

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 Related to Doing Business in China—Uncertainties with respect to the PRC legal system could adversely affect us."

The Holding Foreign Companies Accountable Act

The Holding Foreign Companies Accountable Act, or the HFCAA, was enacted on December 18, 2020. The HFCAA states that if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspection by the PCAOB for three consecutive years beginning in 2021, the SEC shall prohibit our shares or ADSs from being traded on a national securities exchange. Since our auditor is located in China, a jurisdiction where the PCAOB has been unable to conduct inspections without the approval of the Chinese authorities, our auditor is not currently inspected by the PCAOB, which may impact our ability to remain listed on a United States or other foreign exchange. The related risks and uncertainties could cause the value of our ADSs to significantly decline. Furthermore, on December 2, 2021, the SEC adopted final amendments implementing the disclosure and submission requirements under the HFCAA, pursuant to which the SEC will identify a "Commission-Identified Issuer" if an issuer has filed an annual report containing an audit report issued by a registered public accounting firm that the PCAOB has determined it is unable to inspect or investigate completely because of a position taken by an authority in the foreign jurisdiction, and will then impose a trading prohibition on an issuer after it is identified as a Commission-Identified Issuer for three consecutive years. For more details, see "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—The PCAOB is currently 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 over our auditor deprives our investors with the benefits of such inspections" and "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Our ADSs will be prohibited from trading in the United States under the HFCAA in 2024 if the PCAOB is unable to inspect or fully investigate auditors located in China, or in 2023 if proposed changes to the law are enacted. The delisting of our ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment."

Cash Flows through Our Organization

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 consolidated affiliated entities or the subsidiaries of the consolidated affiliated entities is subject to internal approval. The cash inflows of the Cayman Islands holding company were primarily generated from the proceeds we received from our public offerings of ordinary shares, other financing activities and cash generated from our operating activities. In 2019, 2020 and 2021, the Cayman Islands holding company transferred cash in the total amount of nil, US$5.0 million (RMB31.9 million) and RMB860 million to our PRC subsidiaries, the consolidated affiliated entities and their subsidiaries through our offshore intermediate holding entities. For the years ended December 31, 2019, 2020 and 2021, no assets other than cash were transferred between the Cayman Islands holding company and a subsidiary, a consolidated affiliated entity or its subsidiary, 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. Pursuant to the Exclusive Business Cooperation Agreements between our wholly-owned PRC subsidiary and the VIEs, the amount of service fee and payment method shall be determined by the wholly-owned PRC subsidiary. The VIEs have paid RMB323.4 million, RMB125.1 million and RMB826.5 million of service fee to the wholly-owned PRC subsidiary under the VIE arrangements for the years ended December 31, 2019, 2020 and 2021, respectively. The VIEs expect to continue to settle any service fees incurred under the Exclusive Business Cooperation Agreements.

As a Cayman Islands holding company, we may receive dividends from our PRC subsidiaries. Under the Enterprise Income Tax Law of the PRC, or the EIT Law, and related regulations, dividends, interests, rent or royalties payable by a foreign-invested enterprise, such as our PRC subsidiaries, to any of its foreign non-resident enterprise investors, and proceeds from any such foreign enterprise investor's disposition of assets (after deducting the net value of such assets) are subject to a 10% withholding tax, unless the foreign enterprise investor's jurisdiction of incorporation has a tax treaty with China that provides for a reduced rate of withholding tax. Undistributed profits earned by foreign-invested enterprises prior to January 1, 2008 are exempted from any withholding tax. The Cayman Islands, where So-Young International, Inc., the direct parent company of our subsidiaries, is incorporated, does not have such a tax treaty with China. Hong Kong has a tax arrangement with China that provides for a 5% withholding tax on dividends subject to certain conditions and requirements, such as the requirement that the Hong Kong resident enterprise own at least 25% of the PRC enterprise distributing the dividend at all times within the 12-month period immediately preceding the distribution of dividends and be a "beneficial owner" of the dividends. For example, So-Young Hong Kong Limited, which directly owns our PRC subsidiary, Beijing Wanwei, is incorporated in Hong Kong. However, if So-Young Hong Kong Limited is not considered to be the beneficial owner of the dividends paid to it by Beijing Wanwei under the tax circulars promulgated in February and October 2009, such dividends would be subject to withholding tax at a rate of 10%. 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. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—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 and any tax we are required to pay could have a material and adverse effect on our ability to conduct our business” for more details. 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 Related 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.”

For purposes of illustration, the following discussion reflects the hypothetical taxes that might be required to be paid within China, assuming that: (i) we have taxable earnings, and (ii) we determine to pay dividends in the future.

	Tax calculation [1]
Hypothetical pre-tax earnings[2]	100 %
Tax on earnings at statutory rate of 25%[3]	(25)%
Net earnings available for distribution	75 %
Withholding tax at standard rate of 10%[4]	(7.5)%
Net distribution to Parent/Shareholders	67.5 %

Notes:

(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) Under the terms of VIE agreements, our PRC subsidiaries may charge the VIEs for services provided to VIEs. These service fees shall be recognized as expenses of the VIEs, with a corresponding amount as service income by our PRC subsidiaries and eliminate in consolidation. For income tax purposes, our PRC subsidiaries and VIEs file income tax returns on a separate company basis. The service fees paid are recognized as a tax deduction by the VIEs and as income by our PRC subsidiaries and are tax neutral.

(3) Certain of our subsidiaries and VIEs qualifies for a 15% preferential income tax rate in China. However, such rate is subject to qualification, is temporary in nature, and may not be available in a future period when distributions are paid. For purposes of this hypothetical example, the table above reflects a maximum tax scenario under which the full statutory rate would be effective.

(4) The PRC Enterprise Income Tax Law imposes a withholding income tax of 10% on dividends distributed by a foreign invested enterprise, or FIE, to its immediate holding company outside of China. A lower withholding income tax rate of 5% is applied if the FIE’s immediate holding company is registered in Hong Kong or other jurisdictions that have a tax treaty arrangement with China, subject to a qualification review at the time of the distribution. For purposes of this hypothetical example, the table above assumes a maximum tax scenario under which the full withholding tax would be applied.

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

Under PRC laws and regulations, we are subject to restrictions on foreign exchange and cross-border cash transfers, including to U.S. investors. Our ability to distribute earnings to the holding company and U.S. investors is also limited. We are a Cayman Islands holding company and we may rely on dividends and other distributions on equity paid by our PRC subsidiaries, which in turn relies on consulting and other fees paid to us by the consolidated affiliated entities, for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and service any debt we may incur. When any of our PRC subsidiaries incurs debt on its own behalf, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us.

Our subsidiaries' ability to distribute dividends is based upon their distributable earnings. Current PRC regulations permit our PRC subsidiaries to pay dividends to their respective shareholders only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, each of our PRC subsidiaries and the consolidated affiliated entities is required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory reserve until such reserve reaches 50% of its registered capital. Each of such entities in China is also required to further set aside a portion of its after-tax profits to fund the employee welfare fund, although the amount to be set aside, if any, is determined at the discretion of its board of directors. These reserves are not distributable as cash dividends.

In addition, our PRC subsidiaries, the consolidated affiliated entities and their 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 Related 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 and any tax we are required to pay could have a material and adverse effect on our ability to conduct our business." and "—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 of our initial public offering to make loans or to make additional capital contributions to our PRC subsidiaries and variable interest entities, which could materially and adversely affect our liquidity and our ability to fund and expand our business."

Permissions Required from the PRC Authorities for Our Operations

We conduct our business primarily through our subsidiaries and consolidated affiliated entities in China. Our operations in China are governed by PRC laws and regulations. As of the date of this annual report, our PRC subsidiaries, consolidated affiliated entities and their subsidiaries have obtained the requisite licenses and permits from the PRC government authorities that are material for the business operations of our holding company, the consolidated affiliated entities in China, including, among others, the Value-Added Telecommunications Services Operating License for providing information services via the internet, or the ICP License. We have not obtained certain approvals, licenses and permits that may be required for some aspects of our business operations. For example, we are required to but have not obtained the Audio-Visual License for providing internet audio-visual program services through our online platform, including the provision of live video broadcasting, video recordings of live streaming videos and original short videos created by ourselves and our service providers. We do not consider such services to be material to our business and the revenues generated through the provision of such services account for an insignificant portion of our total revenues. We are not eligible to apply for an Audio-Visual License under the current regulatory regime, because we are not a wholly state-owned or state-controlled entity as required for this license under PRC law. 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 platform in the future. For more detailed information, see "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—Our failure to obtain and maintain approvals, licenses or permits applicable to our business could have a material adverse impact on our business, financial conditions and results of operations."

Furthermore, under current PRC laws, regulations and regulatory rules, we, our PRC subsidiaries and the consolidated affiliated entities may be required to fulfill filing procedures and obtain approval from the China Securities Regulatory Commission, or the CSRC, in connection with offering and listing in an overseas market, and may be required to go through cybersecurity review by the Cyberspace Administration of China, or the CAC. As of the date of this annual report, we have not been subject to any cybersecurity review made by the CAC. If we fail to obtain the relevant approval or complete other 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 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." and "—Risks Related to Our Business and Industry—Our business is subject to complex and evolving Chinese and international laws and regulations regarding cybersecurity, information security, privacy and data protection. Many of these laws and regulations are subject to change and uncertain interpretation, and any failure or perceived failure to comply with these laws and

regulations could result in claims, changes to our business practices, negative publicity, legal proceedings, increased cost of operations, or declines in user growth or engagement, or otherwise harm our business.”

Financial Information Related to the Consolidated Affiliated Entities

The following table presents the condensed consolidating schedule of financial position for the consolidated affiliated entities and other entities as of the dates presented.

Selected Condensed Consolidated Statements of Income Information

	For the years ended December 31, 2021					
	Parent	Other Subsidiaries	Primary Beneficiary of VIEs	VIEs and VIEs’ subsidiaries	Eliminating adjustments	Consolidated Totals
	RMB (In thousands)					
Third-party revenues from services and sales	—	7,244	112,058	1,573,161	—	1,692,463
Inter-company revenue from service fees	—	21,744	584,914	358	(607,016)	—
Total Revenue	—	**28,988**	**696,972**	**1,573,519**	**(607,016)**	**1,692,463**
Third-party costs from services and sales	—	(2,156)	(104,447)	(221,286)	—	(327,889)
Inter-company cost from service fees	—	—	—	(607,016)	607,016	—
Total Costs	—	**(2,156)**	**(104,447)**	**(828,302)**	**607,016**	**(327,889)**
Total operating expenses	(9,556)	(18,517)	(546,861)	(822,210)	—	(1,397,144)
(Loss)/income from subsidiaries and VIEs	(1,412)	(15,219)	(79,541)	—	96,172	—
Other non-operating income/(expenses)	2,597	8,807	12,318	(7,557)	—	16,165
(Loss)/income before income tax expense	**(8,371)**	**1,903**	**(21,559)**	**(84,550)**	**96,172**	**(16,405)**
Income tax (expenses)/benefits	—	(3,315)	5,608	(23,524)	—	(21,231)
Net (loss)/income	**(8,371)**	**(1,412)**	**(15,951)**	**(108,074)**	**96,172**	**(37,636)**
Net loss attributable to noncontrolling interests	—	—	732	28,533	—	29,265
Net loss/income attributable to So-Young International Inc.	**(8,371)**	**(1,412)**	**(15,219)**	**(79,541)**	**96,172**	**(8,371)**

	For the years ended December 31, 2020					
	Parent	Other Subsidiaries	Primary Beneficiary of VIEs	VIEs and VIEs’ subsidiaries	Eliminating adjustments	Consolidated Totals
	RMB (In thousands)					
Third-party revenues from services and sales	—	100	—	1,294,888	—	1,294,988
Inter-company revenues from service fees	—	26,055	339,623	—	(365,678)	—
Total Revenue	—	**26,155**	**339,623**	**1,294,888**	**(365,678)**	**1,294,988**
Third-party costs from services and sales	—	(2,771)	(26,699)	(182,736)	—	(212,206)
Inter-company cost from service fees	—	—	—	(365,678)	365,678	—
Total Costs	—	**(2,771)**	**(26,699)**	**(548,414)**	**365,678**	**(212,206)**
Total operating expenses	(7,574)	(31,429)	(337,478)	(762,995)	—	(1,139,476)
Income/(loss) from subsidiaries and VIEs	763	(24,312)	(22,743)	—	46,292	—
Other non-operating income/expenses	12,618	35,232	4,656	4,281	—	56,787
Income/(loss) before income tax expense	**5,807**	**2,875**	**(42,641)**	**(12,240)**	**46,292**	**93**
Income tax (expenses)/benefits	—	(2,112)	18,329	(11,433)	—	4,784
Net Income/(loss)	**5,807**	**763**	**(24,312)**	**(23,673)**	**46,292**	**4,877**
Net loss attributable to noncontrolling interests	—	—	—	930	—	930
Net income/(loss) attributable to So-Young International Inc.	**5,807**	**763**	**(24,312)**	**(22,743)**	**46,292**	**5,807**

	For the years ended December 31, 2019					
	Parent	Other Subsidiaries	Primary Beneficiary of VIEs	VIEs and VIEs' subsidiaries	Eliminating adjustments	Consolidated Totals
	RMB (In thousands)					
Third-party revenues from services and sales	—	—	—	1,151,637	—	1,151,637
Inter-company revenues from service fees	—	57,847	382,075	—	(439,922)	—
Total Revenue	—	**57,847**	**382,075**	**1,151,637**	**(439,922)**	**1,151,637**
Third-party costs from services and sales	—	(5,618)	(8,300)	(184,712)	—	(198,630)
Inter-company cost from service fees	—	—	—	(439,922)	439,922	—
Total Costs	—	**(5,618)**	**(8,300)**	**(624,634)**	**439,922**	**(198,630)**
Total operating expenses	(3,581)	(31,153)	(264,811)	(508,287)	—	(807,832)
Income/(loss) from subsidiaries and VIEs	157,317	99,819	(291)	—	(256,845)	—
Other non-operating income	22,988	41,850	2,357	14,089	—	81,284
Income/(loss) before income tax expense	**176,724**	**162,745**	**111,030**	**32,805**	**(256,845)**	**226,459**
Income tax expenses	—	(5,428)	(11,211)	(33,096)	—	(49,735)
Net Income/(loss)	**176,724**	**157,317**	**99,819**	**(291)**	**(256,845)**	**176,724**
Accretions of convertible redeemable preferred shares to redemption value	**(50,219)**	**—**	**—**	**—**	**—**	**(50,219)**
Net income/(loss) attributable to So-Young International Inc.	**126,505**	**157,317**	**99,819**	**(291)**	**(256,845)**	**126,505**

Selected Condensed Consolidated Balance Sheets Information

	As of December 31, 2021					
	Parent	Other Subsidiaries	Primary Beneficiary of VIEs	VIEs and VIEs' subsidiaries	Eliminating adjustments	Consolidated Totals
	RMB (In thousands)					
Assets						
Cash and cash equivalents	55,806	700,146	320,361	255,655	—	1,331,968
Restricted cash and term deposits	—	—	—	15,119	—	15,119
Trade receivables	—	—	21,012	33,817	—	54,829
Receivables from online payment platforms	—	—	5,388	13,476	—	18,864
Amounts due from VIE companies	39,681	—	300,270	—	(339,951)	—
Amounts due from Group companies	1,457,100	39,013	14,490	116,817	(1,627,420)	—
Amount due from related parties	—	—	—	14,038	—	14,038
Term deposits and short-term investments	318,881	—	90,065	—	—	408,946
Inventory	—	—	91,761	51	—	91,812
Prepayment and other current assets	6,027	12,719	23,390	75,772	(26,066)	91,842
Investment in subsidiaries and VIEs	617,773	1,348,235	82,965	35,082	(2,084,055)	—
Long-term investments	7,418	—	93,000	152,082	—	252,500
Property and equipment, net	—	12	101,504	23,060	—	124,576
Intangible Assets	—	—	158,078	35,877	—	193,955
Deferred tax assets	—	1,391	13,575	32,554	—	47,520
Operating lease right-of-use assets	—	63	38,034	57,512	—	95,609
Goodwill	—	—	540,009	684	—	540,693
Other non-current assets	—	26,688	11,923	9,486	—	48,097
Total assets	**2,502,686**	**2,128,267**	**1,905,825**	**871,082**	**(4,077,492)**	**3,330,368**
Liabilities						
Taxes payable	—	1,906	10,844	35,821	—	48,571
Contract liabilities	—	—	39,728	99,427	—	139,155
Salary and welfare payables	—	485	55,437	47,702	—	103,624
Amounts due to VIE companies	35,529	46,289	34,999	—	(116,817)	—
Amounts due to Group companies	20,068	1,458,679	31,856	339,951	(1,850,554)	—
Amounts due to related parties	—	—	—	681	—	681
Accrued expenses and other current liabilities	900	3,072	204,144	194,791	(26,066)	376,841
Leasing liabilities-current	—	63	15,197	28,269	—	43,529
Leasing liabilities-non current	—	—	22,966	39,390	—	62,356
Deferred tax liabilities	—	—	31,146	7,431	—	38,577
Total liabilities	**56,497**	**1,510,494**	**446,317**	**793,463**	**(1,993,437)**	**813,334**
Non-controlling interests	**—**	**—**	**122,975**	**(5,346)**	**(46,784)**	**70,845**
So-Young International Inc. shareholders' equity	**2,446,189**	**617,773**	**1,336,533**	**82,965**	**(2,037,271)**	**2,446,189**
Total liabilities, mezzanine equity and shareholders' (deficit)/equity	**2,502,686**	**2,128,267**	**1,905,825**	**871,082**	**(4,077,492)**	**3,330,368**

	As of December 31, 2020					
	Parent	Other Subsidiaries	Primary Beneficiary of VIEs	VIEs and VIEs' subsidiaries	Eliminating adjustments	Consolidated Totals
	RMB (In thousands)					
Assets						
Cash and cash equivalents	6,300	695,001	51,622	374,132	—	1,127,055
Restricted cash and term deposits	—	—	—	21,865	—	21,865
Trade receivables	—	—	—	52,871	—	52,871
Receivables from online payment platforms	—	—	—	16,182	—	16,182
Amounts due from VIE companies	—	1,810	304,757	—	(306,567)	—
Amounts due from Group companies	1,820,349	38,583	19,923	9,442	(1,888,297)	—
Amount due from related parties	—	—	—	7,764	—	7,764
Term deposits and short-term investments	262,216	1,194,872	—	70,000	—	1,527,088
Prepayment and other current assets	5,008	5,770	8,179	42,918	(18,685)	43,190
Investment in subsidiaries and VIEs	518,262	406,660	118,486	—	(1,043,408)	—
Long-term investments	7,591	—	—	158,509	—	166,100
Property and equipment, net	—	21	413	29,396	—	29,830
Intangible Assets	—	—	20	60,009	—	60,029
Deferred tax assets	—	—	10,692	44,828	—	55,520
Operating lease right-of-use assets	—	257	48,972	70,911	—	120,140
Good-Will	—	—	—	48,500	—	48,500
Amount due from Group companies-non current	13,443	—	—	—	(13,443)	—
Other non-current assets	—	1,122	5,308	9,448	—	15,878
Total assets	**2,633,169**	**2,344,096**	**568,372**	**1,016,775**	**(3,270,400)**	**3,292,012**
Liabilities						
Taxes payable	—	1,150	9,021	49,899	—	60,070
Contract liabilities	—	—	—	135,385	—	135,385
Salary and welfare payables	—	2,218	44,980	48,560	—	95,758
Amounts due to VIE companies	9,348	94	—	—	(9,442)	—
Amounts due to Group companies	25,884	1,820,349	32,622	306,567	(2,185,422)	—
Amounts due to related parties	—	—	—	2,404	—	2,404
Accrued expenses and other current liabilities	1,566	1,768	26,246	226,890	(18,685)	237,785
Leasing liabilities-current	—	189	14,480	24,799	—	39,468
Leasing liabilities-non current	—	66	34,363	58,615	—	93,044
Deferred tax liabilities	—	—	—	8,522	—	8,522
Amounts due to Group companies-non current	—	—	—	13,443	(13,443)	—
Total liabilities	**36,798**	**1,825,834**	**161,712**	**875,084**	**(2,226,992)**	**672,436**
Mezzanine equity	**—**	**—**	**—**	**23,205**	**—**	**23,205**
So-Young International Inc. shareholders' equity	**2,596,371**	**518,262**	**406,660**	**118,486**	**(1,043,408)**	**2,596,371**
Total liabilities, mezzanine equity and shareholders' (deficit)/equity	**2,633,169**	**2,344,096**	**568,372**	**1,016,775**	**(3,270,400)**	**3,292,012**

Selected Condensed Consolidated Cash Flows Information

	As of December 31, 2021					
	Parent	Other Subsidiaries	Primary Beneficiary of VIEs	VIEs and VIEs' subsidiaries	Eliminating adjustments	Consolidated Totals
	RMB (In thousands)					
Condensed Consolidating Schedules of Cash Flows						
Inter-company receipts/(payments) related to service fee	—	19,529	826,534	(846,063)	—	—
Other operating/administrative activities with external parties	12,117	(42,718)	(423,823)	538,711	—	84,287
Net cash provided by/ (used in) operating activities	**12,117**	**(23,189)**	**402,711**	**(307,352)**	**—**	**84,287**
Purchase of short-term investments	(610,841)	(1,048,963)	(220,000)	(40,000)	—	(1,919,804)
Proceeds from maturities of short-term investments	549,344	2,213,525	180,000	110,000	—	3,052,869
Acquisitions of business combination, net of cash acquired	—	—	(635,970)	(902)	—	(636,872)
Capital contribution to Group companies	—	(860,000)	—	—	860,000	—
Loans to Group companies	(446,270)	—	(289,903)	(164,000)	900,173	—
Repayments from Group companies	764,712	—	68,675	82,006	(915,393)	—
Other investing activities with external parties	—	—	(130,127)	(26,244)	—	(156,371)
Net cash provided by/ (used in) investing activities	**256,945**	**304,562**	**(1,027,325)**	**(39,140)**	**844,780**	**339,822**
Capital contribution from Group companies	—	—	860,000	—	(860,000)	—
Borrowings under loan from Group companies	—	575,270	35,000	289,903	(900,173)	—
Repayments to borrowings under loan from Group companies	—	(846,716)	—	(68,677)	915,393	—
Other financing activities with external parties	(216,743)	—	—	—	—	(216,743)
Net cash (used in)/ provided by financing activities	**(216,743)**	**(271,446)**	**895,000**	**221,226**	**(844,780)**	**(216,743)**
Effect of exchange rate on cash and equivalents	(2,813)	(4,782)	(1,647)	—	—	(9,242)
Net increase/(decrease) in cash and cash equivalents	49,506	5,145	268,739	(125,266)	—	198,124
Cash and cash equivalents at the beginning of the year	6,300	695,001	51,622	392,762	—	1,145,685
Cash and cash equivalents at the end of the year	**55,806**	**700,146**	**320,361**	**267,496**	**—**	**1,343,809**

	As of December 31, 2020					
	Parent	Other Subsidiaries	Primary Beneficiary of VIEs	VIEs and VIEs' subsidiaries	Eliminating adjustments	Consolidated Totals
	RMB (In thousands)					
Condensed Consolidating Schedules of Cash Flows						
Inter-company receipts/(payments) related to service fee	—	23,433	125,141	(148,574)	—	—
Other operating/administrative activities with external parties	43,212	4,273	(296,612)	428,307	—	179,180
Net cash provided by/(used in) operating activities	**43,212**	**27,706**	**(171,471)**	**279,733**	**—**	**179,180**
Purchase of short-term investments	(402,913)	(1,955,851)	(90,000)	(354,235)	—	(2,802,999)
Proceeds from maturities of short-term investments	808,562	1,715,316	205,000	403,000	—	3,131,878
Loans to Group companies	(823,116)	(32,625)	—	—	855,741	—
Repayments from Group companies	365,401	99	—	—	(365,500)	—
Other investing activities with external parties	(8,266)	—	—	(196,768)	—	(205,034)
Net cash (used in)/provided by investing activities	**(60,332)**	**(273,061)**	**115,000**	**(148,003)**	**490,241**	**123,845**
Borrowings under loan from Group companies	—	823,116	32,625	—	(855,741)	—
Repayments to borrowings under loan from Group companies	—	(365,401)	(99)	—	365,500	—
Other financing activities with external parties	696	—	—	(6,500)	—	(5,804)
Net cash provided by/(used in) financing activities	**696**	**457,715**	**32,526**	**(6,500)**	**(490,241)**	**(5,804)**
Effect of exchange rate on cash and equivalents	(51,506)	(868)	(347)	—	—	(52,721)
Net (decrease)/ increase in cash and cash equivalents	(67,930)	211,492	(24,292)	125,230	—	244,500
Cash and cash equivalents at the beginning of the year	74,230	483,509	75,914	267,532	—	901,185
Cash and cash equivalents at the end of the year	**6,300**	**695,001**	**51,622**	**392,762**	**—**	**1,145,685**

	As of December 31, 2019					
	Parent	Other Subsidiaries	Primary Beneficiary of VIEs	VIEs and VIEs' subsidiaries	Eliminating adjustments	Consolidated Totals
	RMB (In thousands)					
Condensed Consolidating Schedules of Cash Flows						
Inter-company receipts/(payments) related to service fee	—	57,781	323,409	(381,190)	—	—
Other operating/administrative activities with external parties	30,796	(921)	(188,327)	542,274	—	383,822
Net cash provided by operating activities	**30,796**	**56,860**	**135,082**	**161,084**	**—**	**383,822**
Purchase of short-term investments	(674,916)	(1,838,012)	(225,000)	(260,000)	—	(2,997,928)
Proceeds from maturities of short-term investments	5,996	1,411,874	110,000	200,000	—	1,727,870
Loans to Group companies	(1,294,894)	—	—	(1,500)	1,296,394	—
Repayments from Group companies	661,371	14,266	—	1,500	(677,137)	—
Other investing activities with external parties	(8,250)	—	(1,208)	(55,497)	—	(64,955)
Net cash (used in)/provided by investing activities	**(1,310,693)**	**(411,872)**	**(116,208)**	**(115,497)**	**619,257**	**(1,335,013)**
Borrowings under loan from Group companies	—	1,296,394	—	—	(1,296,394)	—
Repayments to borrowings under loan from Group companies	—	(662,871)	(14,266)	—	677,137	—
Proceeds from initial public offering, net of issuance cost	1,272,860	—	—	(6,283)	—	1,266,577
Other financing activities with external parties	1,819	—	—	—	—	1,819
Net cash provided by/ (used in) financing activities	**1,274,679**	**633,523**	**(14,266)**	**(6,283)**	**(619,257)**	**1,268,396**
Effect of exchange rate on cash and equivalents	48,069	(26,944)	(528)	—	—	20,597
Net increase in cash and cash equivalents	42,851	251,567	4,080	39,304	—	337,802
Cash and cash equivalents at the beginning of the year	31,379	231,942	71,834	228,228	—	563,383
Cash and cash equivalents at the end of the year	**74,230**	**483,509**	**75,914**	**267,532**	**—**	**901,185**

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Related to Our Business and Industry

We have a limited operating history in the evolving online medical aesthetic service industry, which makes it difficult to evaluate our future prospects.

We launched our online medical aesthetic service business in November 2013 and have a limited operating history. We have limited experience in most aspects of our business operation, such as our service platform and the production of medical aesthetic-related content on our platform. In addition, we have limited experience in serving our users and medical service providers. As our business develops and as we respond to competition, we may continue to introduce new service offerings and make adjustments to our existing services and to our business operation in general. Any significant change to our business model that does not achieve expected results may have a material and adverse impact on our financial condition and results of operations. It is therefore difficult to effectively assess our future prospects.

The online medical aesthetic platform service industry may not develop as expected. Prospective users and medical service providers may not be familiar with the development of online medical aesthetic service markets and may have difficulties distinguishing our services from those of our competitors. Convincing prospective users and medical service providers of the value of using our services is important to the success of our business.

You should consider our business and prospects in light of the risks and challenges we encounter or may encounter given the rapidly evolving market in which we operate and our limited operating history. These risks and challenges include our ability to, among other things:

- manage our future growth;
- offer personalized and competitive online medical aesthetic services;
- increase the utilization of our service by existing and new users;
- maintain and enhance our relationships with medical service providers and our other partners;
- navigate the evolving regulatory environment;
- enhance our technology infrastructure to support the growth of our business;
- improve our operational efficiency;
- attract, retain and motivate talented employees;
- cope with economic fluctuations; and
- cope with the effects of the COVID-19 outbreak;
- defend ourselves against legal and regulatory actions.

Our historical growth rates may not be indicative of our future growth. If we are unable to manage the growth and increased complexity of our business, fail to control our costs and expenses, or fail to execute our strategies effectively, our business and prospects may be materially and adversely affected.

We have experienced growth in our business and operations since our inception. Our total revenues increased by 12.4% from RMB1,151.6 million in 2019 to RMB1,295.0 million in 2020, and further increased by 30.7% to RMB1,692.5 million (US$265.6 million) in 2021. Our gross profit increased significantly by 13.6% from RMB953.0 million in 2019 to RMB1,082.8 million in 2020, and further by 26.0% to RMB1,364.6 million (US$214.1 million) in 2021. Our gross margin increased from 82.8% in 2019 to 83.6% in 2020, and decreased to 80.6% in 2021. However, our historical growth rates may not be indicative of our future growth, and we may not be able to generate similar growth rates in future periods. Our revenue growth may slow, or our total revenues may decline for a number of possible reasons, including decreasing consumer spending, changes in regulations and government policies, increasing competition, slowing down of China's medical aesthetic industry, emergence of alternative business models, and general economic conditions. If our growth rate declines, investors' perceptions of our business and business prospects may be adversely affected and the market price of our ADSs could decline.

We may be subject to consumer claims, regulatory or professional investigations and litigations regarding the medical information and services offered on our platform, which could materially and adversely affect our brand, reputation, and results of operations.

We have implemented a screening procedure through verifying the qualifications and required licenses of medical service providers and paying regular visits to medical service providers, and also have recorded the contact person details of such medical service providers. However, we cannot assure you that all the information of the medical service providers we have is updated in a timely manner. Pursuant to the PRC Consumer Protection Law, under the circumstances where the users suffer injuries or damages due to the service reserved on our platform, they may bring claims or legal proceedings against us as a platform service provider if we fail to provide the real names, addresses and valid contact details of the medical service providers in the event that users request such information for purposes of seeking compensation from the medical service providers. Furthermore, if we know or should have known that medical service providers on our platform use our platform to infringe upon the legitimate rights and interests of users but we fail to take necessary measures, we may be subject to joint and several liability with the medical service providers. Users may also seek refunds in such situations.

Medical service providers make their own decisions regarding the medical services provided to our users. Any incorrect decisions on the part of our service providers or any incorrect decisions made by our own medical treatment facilities may result in undesirable or unexpected outcomes, including complications, injuries and potentially death in the most extreme cases. We may be subject to complaints, claims or legal proceedings initiated by our users as a result of any negative physical reaction to services reserved on our platform or services provided by ourselves. In addition, unsatisfactory services provided by the doctors may result in users bring complaints and claims to us. We have implemented a strict procedure to verify the qualifications and required licenses of the medical service providers we partner with. However, we cannot assure you that all our medical service providers are fully licensed and qualified as required by PRC law. Pursuant to the PRC E-Commerce Law that became effective on January 1, 2019, we are required to verify the identities of the persons doing online businesses over our platform (such as medical service providers on our platform), including but not limited to verification of business licenses and other required qualifications or licenses, and shall take necessary steps if we find out or should have found out that services provided by a service provider do not comply with the requirements of health and safety protections. If we are deemed to have failed to verify the service providers' qualifications and licenses, or failed to otherwise perform our obligations as a platform with respect to services that are pertinent to the life and health of consumers provided through our platform, we may be subject to potential sanctions under PRC law, including suspension of certain business activities, rectification, compensation, and administrative penalties, and may face civil and criminal liabilities. See "Item 4. Information on the Company—B. Business Overview—Regulations—Regulations on Consumer Protection" and "—Regulation—Regulations on E-commerce." Moreover, failure to perform medical services in accordance with various evolving laws and regulations in the PRC could expose us to penalties, claims, regulatory actions or litigations. As of the date of this annual report, two of the consolidated affiliated entities are engaging in aesthetic medical services. We may not be able to avoid malpractice, medical negligence or misconduct exposure, including malpractice, medical negligence or misconduct by our personnel, machine or equipment error. We cannot assure you that we will not be involved in malpractice, medical negligence or misconduct claims in the future. These claims may be brought against us by way of legal proceedings or lodging of formal complaints with the relevant licensing regulatory bodies. Any non-compliance with the relevant regulations may expose us to regulatory actions and administrative penalties, and negatively affect our business operation and financial position. See "Item 4. Information on the Company—B. Business Overview—Regulation—Regulations on Medical Liabilities." And "—Regulation—Regulations on Aesthetic Medical Services"

In addition, as medical aesthetic service focuses on improving our users' physical appearance, users may have varying expectations of the magnitude of improvement that may result from the medical aesthetic services. Users who are dissatisfied with the services received may request refunds and other compensation from us, complain on our platform and other social media platforms and/or file legal claims against us. We have experienced complaints from our users in the past, and we cannot assure you that we will be able to successfully manage users' expectation and prevent their complaints, allegations and other claims in the future. Such complaints, allegations and other claims, regardless of merits, may have a material adverse effect on our reputation, business, results of operations, financial condition and prospects. Although we sometimes offer complimentary services, refunds and/or other insignificant amount of monetary compensations to address users' complaints, the amounts of which have been immaterial historically, we cannot assure you that we can successfully address all user complaints in the future. Moreover, we require all platform users to have full legal capacity, and minors to be accompanied by their legal guardians, when they use medical services reserved or accessed through our platform. However, we cannot assure you that we can prevent all medical service providers from performing medical procedures on minors without parental consent, or prevent all minors from obtaining medical treatment from service providers without providing parental consent. Such non-compliance by users who are minors or by medical service providers could materially and adversely affect our brand image and reputation.

We may be subject to regulatory or professional investigations and litigations. Any complaint, claim or legal proceeding, regardless of merit, could adversely affect our brand image and reputation. In addition, any legal proceeding that may be brought against us could divert management resources and incur extra costs. A settlement or successful claim against us can result in legal costs, damages, compensation and reputational damage to use and may adversely affect our business, results of operations, financial condition and prospects.

Characterization of our business as engaging in medical, drug and/or medical device advertisement distribution in China without proper licenses or permits may have material impacts on our operations.

We dedicate ourselves to providing transparent information. The information available on our platform includes but is not limited to information provided by medical service providers, including their registration or practicing license details, contact information, the services they provide, the price of such services and reviews and *Beauty Diaries* associated with the service providers contributed by users. We also connect our users with medical service providers on our platform. We have adopted internal control and platform regulation measures seeking to ensure the authenticity and pertinence of the medical aesthetic information available on our platform and endeavor to prevent the information disseminated on our platform from being considered medical, drug or other medical device advertisements.

We believe it is improbable that PRC governmental authorities will deem the content or the format of the information disseminated from and displayed on our platform to constitute medical, drug or other medical device advertisements, and we have not been subject to any regulatory authority's inquiries or investigations in connection with the content or format of information disseminated from and displayed on our platform. However, as advertisement is currently defined vaguely and broadly under the relevant PRC laws and regulations and the available regulatory interpretations, we cannot assure you that the information provided by medical aesthetic services providers on our platform will not be deemed by relevant authorities as advertisement.

If certain information listed on our platform is considered medical advertisement, it will subject us to regulations that may have material impacts on our operations. Medical, drug and/or medical devices advertisement must be approved by relevant PRC authorities before they are distributed, and distributors, among other obligations, are required to review the applicable licenses and permits of the medical service providers, ensure the content displayed is fair and accurate, and take steps to monitor the content of advertisements displayed on their platforms. In addition, distributors are required to label advertisements from other information so that consumers will not be misled. Furthermore, we may be required to scale back, rearrange or alter the content or format of information displayed on our platform, thereby affecting the fundamental of our business model. As a result, compliance with laws and regulations applicable to the advertisement industry could materially and adversely affect our business prospects, results of operations and financial condition. In addition, we will also be subject to increased liability under these laws and regulations and may incur additional costs, such as fines or other penalties, if we fail to comply. Such liabilities and costs could have a material adverse effect on our business, financial condition, results of operations and prospects. See "Item 4. Information on the Company—B. Business Overview—Regulations—Regulations on Advertising." Moreover, we may be subject to additional taxes applicable to the advertisement industry.

We face risks associated with our acquisition of Wuhan Miracle and its business.

There can be no assurance that the acquired Wuhan Miracle will bring the anticipated benefits to us. We have limited experience with the research and development, production, sales and agency of medical beauty equipment and we may not be able to successfully integrate Wuhan Miracle into our existing business. We face uncertainties and challenges in navigating the complex regulatory environment, competing effectively in product performance, reliability, quality and safety, and developing and/or upgrading products and services as well as technologies to meet everchanging user needs. If implemented ineffectively or if impacted by unforeseen negative economic or market conditions or other factors, we may not realize the full anticipated benefits of the acquisition of Wuhan Miracle. Our failure to meet the challenges involved in realizing the anticipated benefits of the acquisition of Wuhan Miracle could cause an interruption of, or a loss of momentum in, our business and could adversely affect our results of operations. The acquisition and integration of the businesses may result in material unanticipated problems, expenses, liabilities, competitive responses and diversion of management's attention, and we may record impairment charges or write-offs in connection therewith if the anticipated benefits of the acquisition fail to realize. We would be subject to and may not be able to successfully manage a variety of additional risks associated with respect to combining Wuhan Miracle with us. These risks include, but are not limited to, the following:

- challenges in the integration of operations and systems and in managing the expanded operations of a larger and more complex company;

- challenges in achieving anticipated business opportunities and growth prospects from combining the businesses of Wuhan Miracle with the rest of our businesses;

- rules and measures governing the production, sales and agency of medical beauty equipment are complex and evolving, and we may not be able to navigate such complex regulatory environment or to respond to future changes in regulatory environment in an effective and timely manner;

- if our products do not achieve and maintain market acceptance, our business and results of operations could be materially adversely impacted. Because the markets Wuhan Miracle operated in are highly competitive, customers may choose to purchase our competitors' products or services, which would result in reduced revenue and loss of market share.

- reduction or interruption in supply or other manufacturing difficulties may adversely affect our manufacturing operations and related product sales;

- if our products contain defects or encounter performance problems, we may have to recall our products, incur additional unforeseen costs, and our reputation may suffer;

- we are subject to product liability and negligence claims relating to the use of our products and other legal proceedings that could materially adversely affect our financial condition, divert management's attention, and harm our business;

- if we lose key personnel of Wuhan Miracle or are unable to attract and retain additional personnel, our ability to compete will be harmed and increases in labor costs could materially adversely impact our business and results of operations; and

- unanticipated additional costs and expenses resulting from the integration of additional personnel, operations, products, services, technology and increased internal controls and financial reporting responsibilities could materially adversely impact our business and results of operations

Our business has been and is likely to continue to be materially adversely affected by the outbreak of COVID-19 in China.

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 medical aesthetics industry and the Chinese economy in general. We took a series of measures in response to the outbreak to protect our employees, including, among others, temporary closure of some offices, remote working arrangements for our employees and travel restrictions or suspension. These measures reduced the capacity and efficiency of our operations and negatively affected our results of operations. However, the spread of the disease and the preventive actions taken imposed a strong restraining effect on attracting customers and conducting medical treatments in the entire medical aesthetics industry.

The COVID-19 pandemic may further adversely affect our financial condition and operating results for 2022, including but not limited to negative impact to our total revenues or impairment to our long-term investments. Recently, there has been an increasing number of COVID-19 cases, including the COVID-19 Delta and Omicron variant cases, in multiple cities in China. The Chinese local authorities have reinstated certain measures to keep COVID-19 in check, including varying levels of travel restrictions and stay-at-home orders. In March 2022, due to the spread of COVID-19 in China, Chinese government imposed lockdown in certain cities and districts, including Shanghai. Because of the uncertainties surrounding the COVID-19 outbreak, the extent of the business disruption and the related financial impact cannot be reasonably estimated at the time of this annual report. In addition, we cannot predict the impact the COVID-19 pandemic had and will have on our service providers. To the extent the COVID-19 pandemic continues to adversely affect our business, results of operations, and financial condition, it may also have the effect of heightening many of the other risks described in these "Risk Factors" or elsewhere in this annual report. Any of the foregoing factors, or other cascading effects of the COVID-19 pandemic that are not currently foreseeable, will materially adversely impact our business, results of operations, and financial condition. Potential impacts include, but are not limited to, the following:

- given the slowdown in China's domestic market as well as the negative impact of the COVID-19 outbreak on the medical aesthetics industry, we cannot assure that our information service revenues and reservation service revenues will not experience fluctuation or that we can maintain the growth rate we have experienced;

- we may experience lower work efficiency and productivity, which may adversely affect our service quality;

- the business operations of our service providers have been and could continue to be negatively impacted by the outbreak, which may result in loss of service providers or disruption of our services and decreased marketing spending and less fees paid to our platform, which may in turn materially adversely affect our financial condition and operating results;

- service providers on our platform may require additional time to pay us or fail to pay us at all, which could significantly increase the amount of accounts receivable and require us to record additional allowances for doubtful accounts. We have provided and may continue to provide significant sales incentives to our users and service providers during the outbreak, which may in turn materially adversely affect our financial condition and operating results;

- many of our service providers are small and medium-sized enterprises (SMEs), which may not have strong cash flows or be well capitalized, and may be vulnerable to an pandemic outbreak and slowing macroeconomic conditions. If the SMEs that we work with cannot weather the COVID-19 and the resulting economic impact, or cannot resume business as usual after a prolonged outbreak, our revenues and business operations may be materially and adversely impacted; and

many dental service providers have reduced business operations due to the quarantine measures related to the COVID-19 outbreak, which could result in decreased marketing spending and less cooperation, If we fail to manage our expansion and new business initiatives effectively or efficiently, our business and results of operations may be materially and adversely affected.

If we fail to anticipate user preferences and provide high-quality and reliable content in a cost-effective manner, we may not be able to attract and retain users to remain competitive.

Our success depends on our ability to maintain and grow user engagement on our platform. To attract and retain users and compete against our competitors, we must continue to offer high-quality and reliable content to provide our users with a superior online medical aesthetic service experience. To this end, we must continue to produce original content and source new professional and user-generated content in a cost-effective manner. Given that we operate in a rapidly evolving industry, we need to anticipate user preferences and industry changes and respond to such changes timely and effectively. If we fail to continue to offer high-quality and reliable content to our users that cater to the needs and preferences, we may suffer from reduced user traffic and engagement, and our business, financial condition and results of operations may be materially and adversely affected.

In addition to content generated by our users, we rely on our in-house team to generate creative ideas for original content and to supervise the original content origination and production process, and we intend to continue to invest resources in content production. We face competition for qualified personnel in a limited pool of high-quality creative talent. If we are not able to compete effectively for talents or attract and retain top talents at reasonable costs, our original content production capabilities would be negatively impacted. Any deterioration in our in-house content production capability, inability to attract creative talents at reasonable costs or losses in personnel may materially and adversely affect our business and operating results.

If content providers do not continue to contribute content that is high-quality, reliable or otherwise valuable to our users, we may experience a decline in user traffic and user engagement.

In addition to content produced by ourselves, our ability to provide users with interesting, reliable and industry-specific content depends on information and content contributed by our users. We believe that one of our competitive advantages is the quality, quantity and open nature of the content on our platform, and that access to reliable, rich and industry-specific content is one of the main reasons users visit So-Young. We seek to foster a broader and more engaged user community, and we encourage influencers, such as social media celebrities and key opinion leaders, and doctors to use our platform to share interesting and high-quality content.

If content providers do not continue to contribute content to our platform as a result of any factors, such as government policy changes and use of alternative communication channels or if their content is not high-quality, reliable or otherwise valuable to users, we may be unable to provide users with attractive content and our user base and user engagement may decline. For example, in 2019, we found that some of our *Beauty Diaries* contained fraudulent information and were intentionally created to increase the ratings of certain medical aesthetic provides. If we experience a decline in the number of users or the level of user engagement, our business and operating results could be materially and adversely affected.

Uncertainty resulting from the non-binding proposal letter and other related matters may adversely affect our business.

On November 22, 2021, we received a preliminary non-binding proposal letter, or the Proposal Letter, from Mr. Xing Jin, our co-founder, chairman of the board of directors and chief executive officer, to acquire all of our outstanding Class A ordinary shares that are not already owned by Mr. Jin and his affiliates for a purchase price of $5.30 per ADS, or US$6.89 per Class A ordinary share, in cash. On November 22, 2021, our board of directors formed a special committee consisting of three independent directors, Messrs. Charles Zhaoxuan Yang, Chao He and Harry Jiannan Wang, to evaluate and consider the Proposal Letter. The special committee has retained Duff & Phelps, LLC as its independent financial advisor and Gibson, Dunn & Crutcher LLP as its U.S. legal counsel to assist it in this process. As of the date of this annual report, no decisions have been made with respect to the Proposal Letter or any alternative strategic option that we may pursue. There can be no assurance that any definitive offer will be received, that any definitive agreement will be executed relating to the transaction contemplated by the Proposal Letter or that any other transaction will be approved or consummated. Moreover, the proposal or any alternative strategic option, whether or not consummated, presents a risk of diverting management focus, employee attention and resources from other strategic opportunities and from operational matters. Also, certain events and developments relating to the proposal may increase the volatility of the trading price of the ADSs. Furthermore, we could be subject to potential lawsuits in connection with the proposed transaction.

Our business may be materially and adversely affected by an unfavorable market perception of the overall medical aesthetic industry.

Medical aesthetic services have been gaining popularity in recent years. However, we believe that existing and potential users of the medical aesthetic service industry remain cautious about the risks inherent in medical aesthetic services and are therefore sensitive to any negative review, comment or allegations on the industry in general. Any such allegations, negative news or research results regarding accident, ineffectiveness of services, health risks or inadequate services standard by any medical aesthetic service provider, regardless of merits, may lead to deterioration in consumer confidence in and market perception of the medical aesthetic service industry, and could lead to reduced demand for medical aesthetic services. Moreover, market perception of the medical aesthetic industry may be adversely affected by external factors beyond our control, including restrictive government policies and guidance. As a participant to the industry, we could consequently be exposed to reputational harm and our business, results of operations, financial condition and prospects may be adversely affected.

We depend significantly on the strength of our brand and reputation. Any failure to maintain and enhance, or any damage to, our brand image or reputation could materially and adversely affect our business, results of operations, financial condition and prospects.

Our reputation and brand recognition, which depend on cultivating awareness, trust and confidence among our current or potential users, is critical to the success of our business. We believe a well-recognized brand is crucial to increasing our user base and, in turn, facilitating our effort to monetize our services and enhancing our attractiveness to our users and service providers. Our reputation and brand are vulnerable to many threats that can be difficult or impossible to control, and costly or impossible to remediate. Regulatory inquiries or investigations, lawsuits and other claims in the ordinary course of our business, perceptions of conflicts of interest and rumors, including complaints made by our competitors, among other things, could substantially damage our reputation, even if they are baseless or satisfactorily addressed.

In addition, any perception that the quality of our medical aesthetic services may not be the same as or better than that of other medical aesthetic service platforms can damage our reputation. Any negative media publicity about any of the services available on our platform or product or service quality problems at other online medical aesthetic service platforms, including at our competitors, may also negatively impact our reputation and brand. Negative perceptions of medical aesthetic products and services, or the industry in general, may reduce the number of users coming to our platform and the number of transactions conducted through our platform, which would adversely impact our revenues and liquidity position.

We are subject to uncertainties, changes and developments in the regulatory framework in China with respect to the provision of online medical aesthetic services industry.

As the online medical aesthetic service industry in China is at a relatively early stage of development, applicable laws and regulations may be adopted from time to time to address new issues and may require additional licenses and permits other than those we currently have obtained. As a result, substantial uncertainties exist with regard to the implementation and interpretation of and compliance with current and any future laws and regulations applicable to our business. We cannot assure you that we will be able to meet all the applicable regulatory requirements, or comply with all the applicable regulations and guidelines at all times. Failure to do so could result in sanctions, fines, penalties or other disciplinary actions, including, among other things, limitations or prohibitions on our future business activities, which may harm our reputation, and consequently materially and adversely affect our financial condition and results of operations.

We face risks related to health epidemics, natural disasters, and other outbreaks, which could significantly disrupt our operations.

Given the nature of the medical aesthetic industry, our business could be significantly and adversely affected by health epidemics, including the effects of the COVID-19 outbreak in China and globally, Ebola virus disease, H1N1 flu, H7N9 flu, avian flu or Severe Acute Respiratory Syndrome, or SARS. In addition, our business operations could be disrupted if any of our employees is suspected of having COVID-19, Ebola virus disease, H1N1 flu, H7N9 flu, avian flu, SARS or other epidemic disease, since it could require our employees to be quarantined and/or our offices to be disinfected. In addition, our results of operations could be adversely affected to the extent that any of these epidemics harms the Chinese economy in general.

We are also vulnerable to natural disasters and other calamities. Fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, war, riots, terrorist attacks or similar events may give rise to server interruptions, breakdowns, system failures, technology platform failures or internet failures, which could cause the loss or corruption of data or malfunctions of software or hardware as well as adversely affect our ability to provide services on our platform.

Our business generates and processes data in the ordinary course, and we are required to comply with PRC and other applicable laws relating to privacy and cybersecurity. The improper use or disclosure of data could have a material and adverse impact on our business, financial condition and results of operations.

As a business that provides mobile apps and generates revenue primarily from online subscriptions, we face risks inherent in handling and protecting data and are subject to various regulatory requirements relating to the security and privacy of data. The challenges we face relating to our handling and protection of data include, in particular:

- 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 business partners;

- addressing concerns related to privacy and sharing, safety, security and other factors; and

- complying with applicable laws, rules and regulations relating to the collection, use, storage, transfer, disclosure and security of personal information, 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 Standing Committee of the NPC, the Ministry of Industry and Information Technology, or the MIIT, the CAC, the MPS and the SAMR, have enforced data privacy and protections laws and regulations with varying standards and applications. See "Item 4. Information on the Company—B. Business Overview—Regulation—Regulations on Internet Security" and "—Privacy Protection." The following are examples of certain recent PRC regulatory activities in this area:

Data Security

- The CAC issued the Provisions on the Cyber Protection of Children's Personal Information on August 22, 2019, which took effect on October 1, 2019. The Provisions on the Cyber Protection of Children's Personal Information requires that, among others, network operators who collect, store, use, transfer and disclose personal information of children under the age of 14 shall establish special rules and user agreements for the protection of children's personal information, inform the children's guardians in a noticeable and clear manner, and shall obtain the consent of the children's guardians.

- In June 2021, the Standing Committee of the National People's Congress promulgated the Data Security Law, which took effect in September 2021. The Data Security Law, among other things, provides for security review procedure for data-related activities that may affect national security. In July 2021, the State Council promulgated the Regulations on Protection of 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 Cybersecurity Review Measures, which became effective on February 15, 2022 and replaces its predecessor regulation. Pursuant to the Revised Cybersecurity Review Measures, 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 Cybersecurity Review Measures further stipulates that critical information infrastructure operators or 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 initial 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.

Personal Information and Privacy

- The Anti-monopoly Guidelines for the Platform Economy Sector published by the Anti-monopoly Committee of the State Council, effective on February 7, 2021, prohibits collection of user information through coercive means by online platforms operators.

- In August 2021, the Standing Committee of the National People's Congress 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 update our privacy policies from time to time to meet the latest regulatory requirements of PRC government authorities and adopt technical measures to protect data 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. Additionally, the Civil Code promulgated in 2020 provides specific provisions regarding the protection of personal information.

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 Cybersecurity Review Measures 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, if we were to pursue another listing outside of the PRC. We cannot predict the impact of the Revised Cybersecurity Review Measures 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 Cybersecurity Review Measures 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 delay or disallow our future listings (should we decide to pursue them), subject us to government enforcement actions and investigations, fines, penalties, suspension of our non-compliant operations, or removal of our app from the relevant application stores, and materially and adversely affect our business and results of operations.

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 failure, or perceived failure, by us, or by our business partners, to comply with any applicable privacy, data security and personal information protection laws, regulations, policies, contractual provisions, industry standards, and other requirements, may result in the suspension or even removal of our apps, as well as civil or regulatory liability, including governmental or data protection authority enforcement actions and investigations, fines, penalties, enforcement orders requiring us to cease operating in a certain way, litigation, or adverse publicity, and may require us to expend significant resources in responding to and defending allegations and claims. For example, in November 2021, So-Young mobile app, one of our apps, was removed from app stores for improperly collecting personal information in violation of PRC laws and regulations. Since then, we have taken a series of measures, including the formation of a special task force to investigate and rectify the problem to ensure the security of users' personal information. We had rectified our user personal information collection practice to comply with relevant laws and regulations, and submitted a report to local branch of the CAC in Beijing in January 2022. In April 2022, we were notified that our rectification measures were in compliance with PRC laws and regulations and So-Young mobile app was reinstated in app stores and available for downloads. As of the date of this annual report, we have not received any further notices or penalties from the relevant governmental authorities. We will continue to update our user personal information collection practice to comply with relevant laws and regulations but we cannot assure you that our data privacy system will always be considered sufficient under applicable laws and regulations and other privacy standards. If our app is ordered to be removed again from the app stores, or if fines or other restrictions are imposed on our business or other penalties and sanctions are imposed on us as a result of any cybersecurity review that we might be required to undergo in the future, the growth and usage of our platform in China will suffer, which would materially and adversely affect our business, financial condition, results of operations and prospects.

We have been, and may continue to be, subject to liabilities for infringement, misappropriation or other violations of third-party intellectual property rights or other allegations based on the content available on our platform or services we provide.

We have historically been and may continue to be subject to intellectual property infringement claims or other allegations by third parties for services we provide or for information or content displayed on, retrieved from or linked to our platform, or distributed to our users, which may materially and adversely affect our business, financial condition and prospects. We allow users to upload written materials, images, videos and other content on our platform and download, share, link to and otherwise access audio, video and other content on our platform. In addition, we regularly distribute articles, images, audios, videos and other content on our platform and our social media accounts. Although we have set up comprehensive procedures to enable copyright owners to provide us with notice of alleged infringement, given the volume of content available on our platform, it is not possible for us to identify and remove or disable all potentially infringing content that may exist. As a result, third parties may take action and file claims against us if they believe that certain content available on our platform violates their copyrights, rights of reputation, image rights or other intellectual property rights. We have been involved in litigation based on allegations of infringement of third-party intellectual property, including rights of reputation and image rights, due to the content available on our platform. We paid (or are obligated to pay) an aggregate of RMB4.76 million (US$0.75 million) to plaintiffs in alleged intellectual property right infringement lawsuits against us in 2021, as a result of settlements or adverse judgments. As of December 31, 2021, a total of 30 lawsuits against us in connection with our platform were still pending, with the aggregate amount of damages sought under these pending cases being approximately RMB6.5 million (US$1.02 million).

The validity, enforceability and scope of protection of intellectual property rights in internet-related industries, particularly in China, are uncertain and still evolving. Companies in the internet, technology and media industries own, and are seeking to obtain, a large number of patents, copyrights, trademarks and trade secrets, and they are frequently involved in litigation based on allegations of infringement, misappropriation or other violations of intellectual property rights or other related legal rights. We cannot be certain that our operations or any aspects of our business do not or will not infringe upon or otherwise violate trademarks, copyrights or other intellectual property rights held by third parties. Although we have, through our own in-house team or by cooperating with third parties, invested significant time and resources in registering our trademarks and other intellectual property rights, we cannot assure you that we have registered all the trademark rights necessary in our daily operation with competent governmental authorities. As we face increasing competition and as litigation becomes more common in China in resolving commercial disputes, we may need to resort to litigation to enforce our intellectual property rights and we also face a higher risk of being the subject of intellectual property infringement claims. Pursuing or defending intellectual property litigation is costly and can impose a significant burden on our management and employees, and there can be no assurances that favorable final outcomes will be obtained in all cases. Any claims against us, even if they do not result in liability, may harm our reputation. Any resulting liability or expenses, or changes required to our platform to reduce the risk of future liability, may have adverse effect on our business, financial condition and prospects.

Although we have not been subject to claims or lawsuits with respect to copyright infringement outside of China, we cannot assure you that we will not become subject to copyright laws or legal proceedings initiated by third parties in other jurisdictions, such as the United States, as a result of the ability of users to access our content in the United States and other jurisdictions, the ownership of our ADSs by investors in the United States and other jurisdictions, or the extraterritorial application of foreign law by foreign courts. In addition, as a publicly listed company, we may be exposed to increased risk of litigation. If a claim of infringement brought against us in the United States or other jurisdictions is successful, we may be required to, upon enforcement, (i) pay substantial statutory or other damages and fines, (ii) remove relevant content from our platform or (iii) enter into royalty or license agreements that may not be available on commercially reasonable terms or at all. In these cases, our business, financial condition and prospects may be adversely affected.

We may not prevent our medical service providers from breaching their contractual obligations and failing to pay the full amount of fees owed to us, which could materially and adversely affect our financial condition and results of operations.

We charge reservation service fees from the medical service providers on our platform when our users use their services as a result of sales leads generated from our platform, as long as the service provider is active on our platform. In most cases, users make reservations with the medical service providers directly on our platform. However, in some circumstances, users may decide to purchase different or additional services during their on-site visits. In these cases, our medical service providers are under contractual obligations to make supplemental payments to us based on the actual transaction value. We have implemented rigorous monitoring procedures and comprehensive platform rules to prevent our medical service providers from underreporting transaction value and failing to pay the full amount of reservation service fees due to us. For example, we reach out to users after their visits and confirm the actual services they have purchased, and we impose monetary and other penalties in accordance with our platform rules against any medical service provider who is found to have misreported the transaction value or underpaid fees. However, we cannot assure you that we can prevent all our medical service providers from breaching their contractual obligations to us and failing to pay the full amount of reservation service fees owed to us. If there is an increase in the level of underpayment or nonpayment by our medical service providers, our business, financial condition and results of operation can be materially and adversely affected.

We face significant competition; if we are unable to compete effectively, we may lose our market share, and our results of operations and financial condition may be materially and adversely affected.

As the market for online medical aesthetic services is relatively new, rapidly evolving and intensely competitive, we expect competition to continue and intensify in the future. We face competition from leading search engines, other online medical aesthetic service platforms and general online e-commerce platforms. We expect competition to intensify in the future as current competitors diversify and improve their service offerings and as new participants enter the market. We cannot assure you that we will be able to compete effectively or efficiently with current or future competitors. They may be acquired by, receive investment from or enter into strategic relationships with established and well-financed companies or investors, which would help enhance their competitiveness. Furthermore, the current competitors and new entrants in the online medical aesthetic industry may also seek to develop new service offerings, technologies or capabilities that could render some of the services we offer obsolete or less competitive, and some of them may adopt more aggressive pricing policies or devote greater resources to marketing and promotional campaigns than we do. The medical aesthetic service market in mainland China faces competition from developed markets such as South Korea, Japan, Hong Kong and Taiwan. The failure of service providers in mainland China to compete effectively against their overseas counterparts may materially and adversely impact our financial results. The occurrence of any of these circumstances may hinder our growth and reduce our market share, and thus our business, results of operations, financial condition and prospects would be materially and adversely affected.

Our current level of information and reservation services fee rates may decline in the future as a result of competitive and other industry-related factors, and any material reduction in our fee rates may reduce our profitability and materially and adversely affect our business.

We may experience pressure on our information and reservation services fee rates as a result of the competition we face in the online medical aesthetic service industry, as well as macroeconomic factors that are beyond our control. We derive substantially all of our revenues from information and reservation services fees paid by medical aesthetic service providers on our platform.

As the online medical aesthetic industry in China is experiencing significant growth and intensifying competition, we expect that average fee rates for certain medical aesthetic treatment and procedures to decrease. We believe that any downward pressure on these fee rates would likely continue and intensify as more players enter the market. A decline in the industry average fee rates in China could in turn lower our fee rates. If our information or reservation services fee rates decrease significantly, our business, results of operations and financial condition may be materially and adversely affected.

Fraudulent or other illegal activities on our platform could negatively impact our brand and reputation and cause the loss of users. As a result, our business may be materially and adversely affected.

We may be subject to fraudulent or illegal activities on our platform, sometimes through sophisticated schemes or collusion. Our resources, technologies, fraud detection tools and risk management system may be insufficient to accurately detect and timely prevent fraud and misconduct. A significant increase in fraudulent or other illegal activities could negatively impact our brand and reputation, result in losses suffered by users and medical service providers, and reduce user activity on our platform. For example, one news report alleged that some medical aesthetic providers on our platform were found to sell illegal injection products offline when users walk in for their reservations in 2019. We may need to adopt additional measures in the future to prevent and reduce fraud and other illegal activities, which could increase our costs. High-profile fraudulent and other illegal activities could also lead to regulatory intervention and may divert our management's attention and cause us to incur additional expenses and costs. If any of the foregoing were to occur, our reputation and financial performance could be materially and adversely affected.

Our failure to obtain and maintain approvals, licenses or permits applicable to our business could have a material adverse impact on our business, financial conditions and results of operations.

Our business is subject to governmental supervision and regulation by the relevant PRC governmental authorities, including the MOFCOM, the Ministry of Industry and Information Technology, or MIIT, national and local health commissions, the National Radio and Television Administration or NRTA, the National Medical Products Administration, or the NMPA, the State Administration for Industry & Commerce, and other governmental authorities in charge of the relevant categories of services offered by us. Together, these government authorities promulgate and enforce regulations that cover many aspects of the operation of online medical aesthetic business, including entry into this industry, the scope of permissible business activities, licenses and permits for various business activities, and foreign investment.

We have not obtained certain approvals, licenses and permits that may be required for some aspects of our business operations. For example, our platform offers live video broadcasting and videos, including video recordings of live streaming videos and original short videos created by ourselves and our service providers. According to the PRC Administrative Provisions on Internet Audio-Visual Program Services, a provider of online audio-visual service is required to obtain a license for online transmission of audio-visual programs, or Audio-Visual License. See "Item 4. Information on the Company—B. Business Overview—Regulations— Regulations on Internet Audio-Visual Program Services." We have not obtained the Audio-Visual License for providing internet audio-visual program services and content through our platform in China and we may not be eligible for the Audio-Visual License, because the current PRC laws and regulations require an applicant to be a wholly state-owned or state-controlled entity. In addition, because uncertainty remains regarding the interpretation of relevant concepts including "online publications" under the current PRC laws and regulations, the provision of our self-produced content, including articles on medical aesthetic services, on our online platform may be considered "online publishing" and we may be required to obtain an Internet Publishing License, which we currently do not have. See "Item 4. Information on the Company—B. Business Overview—Regulations—Regulations on Internet Publishing." According to the Notice of Publishing of the Measures on the Administration of the Internet Diagnosis and Treatment (For Trial Implementation), internet diagnosis and treatment activity shall be provided by medical institution that has obtained the Medical Institution Practicing License and the medical institution shall apply for registration of Internet diagnosis and treatment activity. However, the Notice of Publishing of the Measures on the Administration of the Internet Diagnosis and Treatment (For Trial Implementation) does not provide a clear definition on the Internet diagnosis and treatment activity. We may be required to obtain a Medical Institution Practicing License if certain interactive medical aesthetic feature provided by on our platform is further defined by the competent regulatory authority as internet diagnosis and treatment activity. See "Item 4. Information on the Company—B. Business Overview—Regulations—Regulations on Internet Medical Services."

In addition, medical device manufacturers are subject to periodic licensing renewal requirements and inspections by various government agencies and departments. The evolving industry regulations have increased the difficulty and uncertainty of new product registration, which may affect the renewal of Wuhan Miracle's production certification and new product registration, which will have an adverse impact on Wuhan Miracle's operation. Wuhan Miracle has obtained all relevant domestic and international licenses and product quality certifications for its existing products. However, due to prolonged medical device certification and registration process, we cannot assure you that Wuhan Miracle will be able to obtain relevant certification and complete requisite registration in time, which may delay the launch of its new products. If Wuhan Miracle fails to obtain the product registration certificate, it may have an adverse impact on our business operations and development. Moreover, any changes in laws and regulations could require us to obtain additional licenses, permits, approvals or certificates, impose additional conditions or requirements for the renewal of the licenses of the medical device, or result in the invalidation of our currently owned licenses.

As of December 31, 2021, we had not received any notice of warning or been subject to penalties or other disciplinary action from the relevant governmental authorities for lack of approvals and permits. However, we cannot assure you that we will not be subject to any warning, investigations or penalties in the future. If the PRC government deems us as operating without proper approvals, licenses or permits, promulgates new laws and regulations that require additional approvals or licenses or impose additional restrictions on the operation of any part of our business, we may be required to apply for additional approvals, license or permits, or subject to various penalties, including fines, termination or restrictions of the part of our business or revoking of our business licenses, which may adversely affect our business and materially and adversely affect our business, financial conditions and results of operations.

Any change, disruption or discontinuity in the features and functions of major social networks in China could significantly limit our ability to continue growing our user base, and our business may be materially and adversely affected.

Our success depends on our ability to attract new users and retain existing users. We leverage social networks in China as a tool for user acquisition and engagement. We distribute a substantial part of our content through these social network platforms. To the extent that we fail to leverage such social networks, our ability to attract or retain users may be severely harmed. If any of these social networks makes unfavorable changes to its functions or support, or cease to offer its functions or support to us, we may not be able to locate alternative platforms of similar scales to provide similar functions or support to us. Furthermore, we may fail to establish or maintain relationships with additional social network operators to support the growth of our business. Any interruption to or discontinuation of our relationship with the major social network operators in China may severely and negatively impact our ability to continue growing our user base and result in material adverse effect on our business, financial condition and results of operations.

Our expansion plans, including our plans to expand into new business lines, business categories and geographic areas, are subject to uncertainties and risks, and we may not be able to successfully manage our expanded operations.

To serve our expanding user base and our users' evolving medical service needs, we continuously expand into new geographic areas and offer new services. Expansion into diverse locations, new business lines and business categories involves new risks and challenges. Our lack of familiarity with these new geographic areas and service offerings may make it more difficult for us to anticipate user demand and preferences.

We have mainly focused on service providers in the major urban centers in China, and we plan to expand our nationwide network coverage to penetrate further into China's smaller cities. We also plan to expand further into international markets. There is no assurance that our geographic expansion strategies will be successful. As we enter markets and countries that are new to us, we must tailor our services and business model to the unique circumstances of such markets and countries, which can be complex, difficult and costly, and divert management and personnel resources. In addition, we may face competition from platforms that may have more experience with operations in such markets and countries. In addition, laws and business practices that favor local competitors or prohibit or limit foreign ownership of certain businesses, or our failure to adapt our practices, systems, processes and business models effectively to user preferences of each country into which we expand, could slow our growth. Certain markets in which we operate have, or certain new markets in which we may operate in the future may have, lower margins than our more mature markets, which could have a negative impact on our overall margins as our revenues from these markets grow over time.

We also plan to continue to introduce and expand new services on our platform. Expansion into diverse new products and service categories involves new risks and challenges. Our lack of familiarity with these new service offerings and lack of relevant customer data may make it more difficult for us to anticipate customer demand and preferences and manage legal, operational, competitive and other risks. We cannot assure you that we will be able to recoup our investments in introducing these new service categories. For example, many dental service providers on our platform have reduced business operations due to the quarantine measures related to the COVID-19 outbreak, which could result in decreased marketing spending on and less cooperation with our platform. We are cognizant that there are many unknowns relating to the duration, severity and overall macroeconomic impact of the outbreak. If we fail to execute our expansion strategies effectively or address the challenges and risks we encounter when executing our expansion strategies, our business and results of operations could be materially and adversely affected.

We have incurred net losses in the past, and we may again incur losses in the future.

While we have generated net income historically, we incurred net loss in 2021. We anticipate that our operating costs and expenses will increase in the foreseeable future as we continue to grow our business, attract users, further enhance and develop our service offerings, enhance our technology capabilities and increase our brand recognition. These efforts may prove more costly than we currently anticipate, and we may not succeed in increasing our revenues sufficiently to offset these higher expenses. There are other external and internal factors that could negatively affect our financial condition. For example, the transaction volume achieved on our platform may be lower than expected, which may lead to lower-than-expected revenues. Furthermore, we have adopted a share incentive plan in the past and may adopt new share incentive plans in the future, which have caused, and will result in, significant share-based compensation expenses to us. We generate all of our total revenues from information, reservation services fees charged to medical aesthetic service providers we partner with and sales of equipment. Any material decrease in our information or reservation services fees, or sales of equipment would have a substantial impact on our financial condition. As a result of the foregoing and other factors, we may again incur net losses in the future.

Any failure to protect our content and other intellectual property could harm our business and competitive position.

We believe that trademarks, trade secrets, copyright and other intellectual property we use are critical to our business. We rely on a combination of trademark, copyright and trade secret protection laws in China, as well as confidentiality procedures and contractual provisions to protect our intellectual property and our brand. Intellectual property rights and confidentiality protections in China may not be as effective as those in the U.S. or other countries for many reasons, including lack of procedural rules for discovery and evidence, and low damage awards. Implementation and enforcement of China intellectual property laws have historically been deficient and ineffective. As a result, we may not be able to adequately protect our intellectual property rights, which could adversely affect our revenues and competitive position.

In addition, any unauthorized use of our intellectual property by third parties may adversely affect our revenues and our reputation. In particular, we may have difficulty addressing the threats to our business associated with piracy of our content, particularly our original content. Our content may be potentially subject to unauthorized consumer copying and illegal digital dissemination without an economic return to us. We adopt a variety of measures to mitigate risks associated with piracy, including by litigation and through technology measures. We cannot assure that such measures will be effective.

In addition, while we typically require our employees who may be involved in the development of intellectual property to execute agreements assigning such intellectual property to us, we may be unsuccessful in executing such an agreement with each party who in fact develops intellectual property that we regard as our own. In addition, such agreements may be breached. Accordingly, we may be forced to bring claims against third parties, or defend claims that they may bring against us related to the ownership of such intellectual property.

Furthermore, policing unauthorized use of proprietary technology is difficult and expensive, and we may need to resort to litigation to enforce or defend intellectual property or to determine the enforceability, scope and validity of our proprietary rights or those of others. Such litigation and an adverse determination in any such litigation could result in substantial costs and diversion of resources and management attention. The experience and capabilities of China courts in handling intellectual property litigation varies and outcomes are unpredictable.

We may be held liable for information or content displayed on, retrieved from or linked to our platform, which may materially and adversely affect our business and operating results.

As we serve as a social platform for our users, we may be held liable for content that is posted, made available through or linked to our platform. The content on our platform includes pictures, videos, live video broadcasting and others. Although we have required our content providers to post only legally compliant and inoffensive materials and have set up screening procedures, our requirements and screening procedures may fail to eliminate all potentially noncompliant content. As the live video broadcasting communications on our platform are conducted in real time, we are generally unable to examine the content generated before they are streamed. Therefore, it is possible that some of the live content on our platform may engage in illegal, obscene, incendiary or subversive conversations or activities, including posting of inappropriate or illegal content that may be deemed unlawful under PRC laws and regulations. In addition, we may fail to fully screen and prevent medical service providers from posting inauthentic user pictures and reviews on our platform. If the competent PRC authorities, including the Cyberspace Administration of China, find that we have not adequately managed or supervised the content on our platform, they may impose legal sanctions on us, including, in serious cases, suspending or revoking the licenses needed to operate our platform, or remove our *So-Young* mobile app from application stores. Moreover, we may face potential claims for libel or slander in connection with our platform content, or a third party may find content on our platform offensive or indecent and take other legal action against us. Any such claim, with or without merit, could be time-consuming and costly to defend, and may result in litigation and divert management's attention and resources. If we incur costs or liability as a result of these events, our business, financial condition and operating results could be adversely affected.

Privacy concerns relating to our services and the use of user information could negatively impact our user base or user engagement. If we fail to protect the confidential information of our users, whether due to cyberattacks, computer viruses, physical or electronic break-ins, or other reasons, we may be subject to liabilities imposed by relevant laws and regulations, and our reputation and business may be materially and adversely affected.

Concerns about the collection, use, disclosure or security of personal information or chat history or other privacy-related matters, even if unfounded, could damage our reputation, cause us to lose users, customers and service providers and subject us to regulatory investigations, all which may adversely affect our business. We collect contact information, browsing history and other personal data from our users in order to better understand our users and their needs and to support our big data analytical capabilities for more targeted services. Due to the volume and sensitivity of the personal information and biometric data we collect and manage, the security features of our platform and information systems are critical. We have adopted security policies and measures, including encryption technology, to protect our proprietary data and user information. We also conduct a rigorous data-masking process before providing user information to medical aesthetic professionals. While we strive to comply with applicable data protection laws and regulations, as well as our privacy policies pursuant to our terms of use and other obligations we may have with respect to privacy and data protection, any failure or perceived failure to comply with these laws, regulations or policies may result in inquiries and other proceedings or actions against us by government agencies or others, as well as negative publicity and damage to our reputation and brand, each of which could cause us to lose users and service providers and have an adverse effect on our business and operating results.

In addition, any systems failure or compromise of our security that results in the unauthorized access to or release of the data of our users or service providers could significantly harm our reputation and brand. We expect to continue expending significant resources to protect against security breaches. The risk that these types of events could seriously harm our business is likely to increase as we expand the number of services we offer and increase the size of our user base. Our practices may also become inconsistent with new laws or regulations concerning data protection, or the interpretation and application of existing consumer and data protection laws or regulations, which is often uncertain and in flux. In addition to the possibility of fines, such inconsistency could result in substantial costs or requirement that we change our practices, which could have an adverse effect on our business and operating results. See also "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system could adversely affect us."

We rely on proper operation and maintenance of our online platform. Any deficiencies, malfunction, capacity restraint, operation interruption or undetected programming failure or flaws could harm our reputation and adversely affect our business.

We conduct our business activities through our online platform. Therefore, the satisfactory performance, reliability and availability of our online platform are critical to our success and our ability to attract and retain users. The reliability and availability of our online platform depends on telecommunications carriers and other third-party providers for communications and storage capacity, including bandwidth and server storage, among other things. If we are unable to enter into and renew agreements with these providers on acceptable terms, or if any of our existing agreements with such providers are terminated as a result of our breach or otherwise, our ability to provide our services to our users could be adversely affected. In addition, service interruptions can prevent users from accessing our platform and making transactions, and frequent interruptions could frustrate users and discourage them from using our platform, which could cause us to lose users and adversely affect our operating results.

In addition, our platform and internal systems rely on software that is highly technical and complex, and depend on the ability of such software to store, retrieve, process and manage immense amounts of data. The software on which we rely has contained, and may now or in the future contain, undetected programming errors or flaws. Some errors may only be discovered after the code has been released for external or internal use. Errors or other design defects within the software on which we rely may result in a negative experience for users using our platform or disruptions to the operations of our medical service providers, delay introductions of new features or enhancements, result in errors or compromise our ability to support effective user service and enjoyable user engagement. Any errors, bugs or defects discovered in the software on which we rely could result in harm to our reputation and loss of users, which could adversely affect our business, results of operations and financial conditions.

Failure or poor performance of third-party software, infrastructure or systems on which we use could adversely affect our business. In particular, our users use third-party payment service providers to make payments on our platform. If these payment services are restricted or curtailed in any way or become unavailable to us or our users for any reason, our business may be materially and adversely affected.

We use third parties to provide and maintain certain infrastructure that is important to our business. If such services become limited, restricted, curtailed or less effective or more expensive in any way or become unavailable to us for any reason, our business may be materially and adversely affected. The infrastructure of our third-party service providers may malfunction or fail due to events out of our control, which could disrupt our operations and have a material adverse effect on our business, financial condition, results of operations and cash flows. Any failure to maintain and renew our relationships with these third parties on commercially favorable terms, or to enter into similar relationships in the future, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Historically, we had engaged in collecting payments on behalf of third parties, which may be deemed as having provided payment settlement services, thereby exposing us to potential penalties. We have since begun to cooperate with several third parties for the billing, payment and escrow functions on our platform. The commercial banks and third-party online payment service providers that we work with are subject to the supervision by the People’s Bank of China, or the PBOC. The PBOC may publish rules, guidelines and interpretations from time to time regulating the operation of financial institutions and payment service providers that may in turn affect the availability of services provided by such entities for us. For example, in November 2017, the PBOC published a notice (the “PBOC Notice”) on the investigation and administration of illegal offering of settlement services by financial institutions and third-party payment service providers to unlicensed entities. We believe that our partnership with the commercial banks and third-party online payment service providers are not in violation of the PBOC Notice, but we cannot assure you that the PBOC or other governmental authorities will hold the same view with ours. If required by the PBOC or new legislation, the commercial banks or the payment service providers may modify or suspend the services they offer to us, and we may be required to obtain additional license and incur additional expenses. If the PBOC or other governmental authorities deem our cooperation with the commercial banks and payment service providers as in violation of relevant laws and regulations, we may be subject to penalties, fines, legal sanctions or suspension of the relevant functions on our platform. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations on Payment Services.”

If major mobile application distribution channels change their standard terms and conditions in a manner that is detrimental to us, or suspend or terminate their existing relationship with us, our business, financial condition and results of operations may be materially and adversely affected.

We currently cooperate with Apple's app store and major PRC-based Android app stores to distribute our So-Young mobile application to users. As such, the promotion, distribution and operation of our application are subject to such distribution platforms' standard terms and policies for application developers, which are subject to the interpretation of, and frequent changes by, these distribution channels. If these third-party distribution platforms change their terms and conditions in a manner that is detrimental to us, or refuse to distribute our application, or if any other major distribution channel with which we would like to seek collaboration refuses to collaborate with us in the future on commercially favorable terms, our business, financial condition and results of operations may be materially and adversely affected.

Our future growth depends on the further acceptance of the internet and particularly the mobile internet as an effective platform for assessing medical aesthetic services and content.

While the internet and the mobile internet have gained increased popularity in China as platforms for medical aesthetic products and content in recent years, many users have limited experience in accessing medical aesthetic services online. For example, users may not consider online content to be reliable sources of medical aesthetic information. If we fail to educate users about the value of our content, our platform and our services, our growth may be limited and our business, financial performance and prospects may be materially and adversely affected. The further acceptance of the internet and the mobile internet as an effective and efficient platform for medical aesthetic services and content is also affected by factors beyond our control, including negative publicity around online medical aesthetic services and potential restrictive regulatory measures taken by the PRC government. If online and mobile networks do not achieve adequate acceptance in the market, our growth prospects, results of operations and financial condition could be harmed.

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

We rely on certain key operating metrics, such as mobile MAUs and purchasing users, to evaluate the performance of our business. 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. We calculate these operating metrics using internal company data that have not been independently verified. 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.

Our success depends on the continuing service of our key employees, including our senior management members and other talent. If we fail to hire, retain and motivate our key employees, our business may suffer.

Our key executives have substantial experience and have made significant contributions to our business, and our continued success is dependent upon the retention of our key management executives, as well as the services provided by our staff and a number of other key managerial, marketing, business development, customer service, technical and operations personnel. The loss of such key personnel could have a material adverse effect on our business. Growth in our business is dependent, to a large degree, on our ability to retain and attract such employees.

Competition for well-qualified employees in all aspects of our business is intense. Our continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate existing employees. If we do not succeed in attracting well-qualified employees or retaining and motivating existing employees and key senior management, our business, results of operations, financial condition and prospects may be adversely affected.

From time to time we may evaluate and potentially consummate investments and acquisitions or enter into alliances, which may require significant management attention, disrupt our business and adversely affect our financial results.

We may identify strategic partners to form strategic alliances or invest in or acquire additional assets, technologies or businesses that are complementary to our existing business. These investments may involve minority stakes in other companies, acquisitions of entire companies or acquisitions of selected assets.

Any future strategic alliances, investments or acquisitions and the subsequent integration of the new assets and businesses obtained or developed from such transactions into our own may divert management from their primary responsibilities and subject us to additional liabilities. In addition, the costs of identifying and consummating investments and acquisitions may be significant. We may also incur costs and experience uncertainties in completing necessary registrations and obtaining necessary approvals from relevant government authorities in China and elsewhere in the world. The costs and duration of integrating newly acquired assets and businesses could also materially exceed our expectations. Any such negative developments could have a material adverse effect on our business, financial condition, results of operations and cash flow.

Our operating results may fluctuate from period to period, which makes our operating results difficult to predict and could cause our revenue, expenses and profitability to differ from our past performance and/or expectations during certain periods.

The performance of our businesses is subject to seasonal fluctuations. Our business is typically the slowest during the Chinese New Year, which generally falls in the first quarter of the year. In contrast, our business is the strongest and we experience highest volume of sales and platform activities in the fourth quarters of a year. As a result, we believe that comparisons of our operating results over any interim periods in the past may not be an accurate indicator of our future performance. Overall, the historical seasonality of our business has been relatively mild due to our growth, but seasonality may increase in the future. 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.

We have limited business insurance coverage.

The insurance industry in China is still in an early stage of development, and insurance companies in China currently offer limited business-related insurance products. We do not maintain business interruption insurance or general third-party liability insurance, nor do we maintain property insurance, product liability insurance or key-man insurance. We consider this practice to be reasonable in light of the nature of our business and the insurance products that are available in China and in line with the practices of other companies in the same industry of similar size in China. Any uninsured risks may result in substantial costs and the diversion of resources, which could adversely affect our results of operations and financial condition.

We may not be able to obtain additional capital when desired, on favorable terms or at all.

Since we launched our business, we have raised substantial financing to support the growth of our business. We may require additional capital to pursue our business objectives and respond to business opportunities, challenges or unforeseen circumstances, including to improve our brand awareness, develop new services or further improve existing services, expand into new geographic areas and acquire complementary businesses and technologies.

However, additional funds may not be available when we need them on reasonable terms, or at all. Our ability to retain our existing financial resources and obtain additional financing on acceptable terms is subject to a variety of uncertainties, including but not limited to:

- our market position and competitiveness in the online medical aesthetic service industry;
- our future profitability, overall financial condition, results of operations and cash flows;
- general market conditions for capital raising activities by online medical aesthetic platforms and other internet companies in China; and
- economic, political and other conditions in China and internationally.

If we are unable to obtain adequate financing or financing on satisfactory terms, our ability to continue to pursue our business objectives and respond to business opportunities, challenges or unforeseen circumstances could be significantly limited, and our business, results of operations, financial condition and prospects could be adversely affected. In addition, our future capital needs and other business reasons could require us to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity or equity-linked securities could dilute our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations or our ability to pay dividends to our shareholders.

Changes in the level of consumer confidence and spending in China or a general downturn in the Chinese and global economy could materially and adversely affect us.

Our business, financial condition and results of operations are sensitive to changes in overall economic conditions that affect consumer spending in China. The medical aesthetic industry is sensitive to general economic changes. Any slowing in growth rate or decrease in per capita disposable income in China may negatively impact spending by consumers on medical aesthetic services. Many factors outside of our control, including inflation and deflation, interest rates, volatility of equity and debt securities markets, taxation rates, employment and other government policies can adversely affect consumer confidence and spending. While the economy in China has grown significantly over the past decades, growth has been uneven, both geographically and among various sectors of the economy, and the rate of growth has been slowing.

COVID-19 had a severe and negative impact on the Chinese and the global economy in 2020. Whether this will lead to a prolonged downturn in the economy in 2022 is still unknown. Even before the outbreak of COVID-19, the global macroeconomic environment was facing numerous challenges. The growth rate of the Chinese economy had already been slowing since 2010. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies which had been adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and China, even before 2020. The war in Ukraine and the imposition of broad economic sanctions on Russia could raise energy prices and disrupt global markets. Unrest, terrorist threats and the potential for war in the Middle East and elsewhere may increase market volatility across the globe. 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 materially and adversely affect our business, results of operations and financial condition.

Recently, there have been heightened tensions in international relations, particularly between the United States and China, but also as a result of the war in Ukraine and sanctions on Russia. These tensions have affected both diplomatic and economic ties between the two countries. Heightened tensions could reduce levels of trade, investments, technological exchanges, and other economic activities between the two major economies. The existing tensions and any further deterioration in the relationship between the United States and China may have a negative impact on the general, economic, political, and social conditions in both countries and, given our reliance on the Chinese market, adversely impact our business, financial condition, and results of operations.

Increases in labor costs in the PRC and enforcement of stricter labor laws and regulations may adversely affect our business and results of operations.

China's overall economy and the average wage in China have increased in recent years and are expected to grow. The average wage level for our employees has also increased in recent years. We expect that our labor costs, including wages and employee benefits, will increase. Unless we are able to pass on these increased labor costs to those who pay for our services, our results of operations may be materially and adversely affected.

In addition, we have been subject to stricter regulatory requirements in terms of entering into labor contracts with our employees and paying various statutory employee benefits, including pensions, housing funds, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to designated government agencies for the benefit of our employees. Pursuant to the PRC Labor Contract Law and its implementation rules, employers are subject to stricter requirements in terms of signing labor contracts, paying minimum wages, paying remuneration, determining the term of employee's probation and unilaterally terminating labor contracts. In the event that we decide to terminate some of our employees or otherwise change our employment or labor practices, the PRC Labor Contract Law and its implementation rules may limit our ability to effect those changes in a desirable or cost-effective manner, which could adversely affect our business and results of operations.

As the interpretation and implementation of labor-related laws and regulations are still evolving, our employment practices may violate labor-related laws and regulations in China, which may subject us to labor disputes or government investigations. We cannot assure you that we have complied or will be able to comply with all labor-related law and regulations. If we are deemed to have violated relevant labor laws and regulations, we could be required to provide additional compensation to our employees, and our business, financial condition and results of operations will be adversely affected.

We have granted, and may continue to grant, share options and other forms of share-based incentive awards, which may result in significant share-based incentive expenses.

We have adopted the Second Amended and Restated 2018 Share Plan, or the 2018 Plan, in March 2019 for the purpose of granting share-based compensation awards to employees, directors and consultants to incentivize their performance and align their interests with ours. Under the 2018 Plan, the maximum aggregate number of shares that may be issued pursuant to all awards is 7,700,000 ordinary shares plus an annual increase of 2% of our total outstanding share capital as of December 31 of the immediately preceding calendar year on the first day of each fiscal year, beginning in 2020, or such lesser number of Class A ordinary shares as determined by our board of directors, provide that the aggregate number of shares initially reserved and subsequently increased during the term of the 2018 Plan shall not be more than 10% of our total outstanding share capital on December 31 immediately preceding the most recent increase. As of February 28, 2022, options to purchase 2,061,149 ordinary shares were granted and outstanding under the 2018 Plan.

Our board of directors approved the 2021 Share Incentive Plan, or the 2021 Plan, in April 2021 to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of our business. Under the 2021 Plan, the maximum aggregate number of shares which may be issued pursuant to all awards shall initially be 1,734,760, plus commencing with the fiscal year beginning January 1, 2022, an annual increase on the first day of each fiscal year during the term of this Plan, by an amount equal to 2% of the total number of shares issued and outstanding on an as-converted fully diluted basis on the last day of the immediately preceding fiscal year; or such lesser number of shares as determined by our board of directors. As of February 28, 2022, 462,364 awards have been granted and outstanding under the 2021 Plan.

We believe the granting of share incentive awards is of significant importance to our ability to attract and retain employees, and we will continue to grant share incentive awards to employees in the future. As a result, our expenses associated with share-based compensation may increase, which may have an adverse effect on our results of operations.

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

We are a public company in the United States subject to the Sarbanes-Oxley Act of 2002. Section 404 of the Sarbanes-Oxley Act of 2002 requires that we include a report of 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 ended December 31, 2020. In addition, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting.

In auditing our consolidated financial statements as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017, we and our independent registered public accounting firm identified one material weakness in our internal control over financial reporting as of December 31, 2019. 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 controls such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. Our material weakness relates to our lack of a sufficient number of financial reporting personnel with the appropriate level of knowledge and experience in the application of U.S. GAAP and Securities and Exchange Commission, or SEC, rules and regulations commensurate with our reporting requirements.

Following the identification of the material weakness, we have taken measures to remedy the material weakness. Our management has concluded that our internal control over financial reporting was effective as of December 31, 2020 and December 31, 2021 after the remediation. For details on these initiatives, please see “Item 15. Controls and Procedures—Changes in Internal Control Over Financial Reporting.” In addition, our independent registered public accounting firm attested the effectiveness of our internal control and reported that our internal control over financial reporting was effective as of December 31, 2020 and December 31, 2021. Our management has excluded Wuhan Miracle from our assessment of internal control over financial reporting as of December 31, 2021 because it was acquired by us in a business combination during 2021. The total assets and total revenues of Wuhan Miracle excluded from our assessment represent 15% and 7%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2021.

In the future, 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 we have become 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 of the Sarbanes-Oxley Act of 2002, we may identify weaknesses and deficiencies in our internal control over financial reporting. In addition, if we fail to maintain adequate internal controls, 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 of the Sarbanes-Oxley Act of 2002. Generally, if we fail to achieve and maintain an effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. This could limit our access to capital markets, adversely affect our results of operations and lead to a decline in the trading price of the ADSs. Additionally, ineffective internal controls could expose us to an increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list or to other regulatory investigations and civil or criminal sanctions. We could also be required to restate our historical financial statements.

Risks Related to Our Corporate Structure

If the PRC government finds that the agreements that establish the structure for operating 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.

Foreign ownership of certain telecommunication businesses and certain other businesses, such as provision of online medical aesthetic information and services, is subject to restrictions under current PRC laws and regulations. Specifically, foreign ownership of online medical aesthetic information and service provider may not exceed 50%, and the major foreign investor is required to have a record of good performance and operating experience in managing value-added telecommunications business. We are an exempted company incorporated in the Cayman Islands. Beijing So-Young Wanwei Technology Consulting Co., Ltd., or So-Young Wanwei, is our PRC subsidiary and a wholly foreign-owned enterprise under PRC laws. To comply with PRC laws and regulations, we conduct our businesses in China through Beijing So-Young Technology Co., Ltd., or Beijing So-Young, and Beijing Chiyan Medical Beauty Consulting Co., Ltd., or Beijing Chiyan, the consolidated affiliated entities, and their subsidiaries, based on a series of contractual arrangements by and among So-Young Wanwei, the consolidated affiliated entities and their respective shareholders. For a description of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure.” Because of these contractual arrangements, we are the primary beneficiary of the consolidated affiliated entities and consolidate their financial results under U.S. GAAP.

We are a Cayman Islands holding company with no equity ownership in the variable interest entities and we conduct our operations in China through (i) our PRC subsidiaries and (ii) the variable interest entities with which we have maintained contractual arrangements and their subsidiaries in China. Investors in our ADSs are not purchasing equity interest in the variable interest entities in China but instead are purchasing equity interest in a Cayman Islands holding company. If the PRC government deems that our contractual arrangements with the variable interest entities 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, and our ADSs may decline in value or become worthless, if we are unable to assert our contractual control rights over the assets of the VIEs which contribute to 93.0% of our revenues in 2021. Our holding company in the Cayman Islands, the variable interest entities, 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 variable interest entities and, consequently, significantly affect the financial performance of the variable interest entities and our company as a group.

In the opinion of our PRC counsel, CM Law Firm, the ownership structure of So-Young Wanwei and the consolidated affiliated entities does not result in any violation of PRC laws and regulations currently in effect, and the contractual arrangements between So-Young Wanwei, the consolidated affiliated entities and their respective shareholders as governed by PRC law will not result in any violation of PRC laws or regulations currently in effect. However, we have been further advised by our PRC counsel that there are substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. Thus, the PRC government may ultimately take a view contrary to the opinion of our PRC counsel. If the PRC government otherwise find that we are in violation of any existing or future PRC laws or regulations or lack the necessary permits or licenses to operate our business, the relevant governmental authorities would have broad discretion in dealing with such violation, including, without limitation:

- 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;
- terminating or placing restrictions or onerous conditions on our operations;
- placing restrictions on our right to collect revenues; and
- shutting down our servers or blocking our mobile apps and websites.

Any of these events could cause significant disruption to our business operations and severely damage our reputation, which would in turn materially and adversely affect our business, financial condition and results of operations. If occurrences of any of these events results in our inability to direct the activities of the consolidated affiliated entities in China that most significantly impact their economic performance, and/or our failure to receive the economic benefits from the consolidated affiliated entities, we may not be able to consolidate the entities in the consolidated financial statements in accordance with U.S. GAAP.

We rely on contractual arrangements with the consolidated affiliated entities and their respective shareholders for our business operations, which may not be as effective as direct ownership in providing operational control.

We have relied and expect to continue to rely on contractual arrangements with consolidated affiliated entities and their respective shareholders to operate our business in China. These contractual arrangements may not be as effective as direct ownership in providing us with control over the consolidated affiliated entities. For example, the consolidated affiliated entities and their respective shareholders could breach their contractual arrangements with us by, among other things, failing to conduct their operations in an acceptable manner or taking other actions that are detrimental to our interests.

If we had direct ownership of the consolidated affiliated entities in China, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of the consolidated affiliated entities, 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 consolidated affiliated entities and their respective shareholders of their obligations under the contracts to exercise control over the consolidated affiliated entities respectively. The shareholders of the consolidated affiliated entities 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 certain portion of our business through the contractual arrangements with the consolidated affiliated entities. 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. Meanwhile, there are very few precedents as to whether contractual arrangements would be judged to form effective control over the relevant consolidated affiliated entities through the contractual arrangements, or how contractual arrangements in the context of a consolidated affiliated entities 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 consolidated affiliated entities' 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 these contractual arrangements, we may not be able to exert effective control over the consolidated affiliated entities, and our ability to conduct our business may be materially adversely affected. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—Any failure by the consolidated affiliated entities or their respective shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business." Therefore, our contractual arrangements with the consolidated affiliated entities may not be as effective in ensuring our control over the relevant portion of our business operations as direct ownership would be.

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

If the consolidated affiliated entities or their respective 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 any of the consolidated affiliated entities were to refuse to transfer their equity interests in the consolidated affiliated entities 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. Meanwhile, there are very few precedents and little formal guidance as to how contractual arrangements in the context of a consolidated affiliated entity should be interpreted or enforced under PRC law. There remain significant uncertainties regarding the ultimate outcome of such arbitration should legal action become 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 consolidated affiliated entities, and our ability to conduct our business may be negatively affected. See "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system could adversely affect us."

The shareholders of the consolidated affiliated entities may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.

The shareholders of Beijing So-Young are Mr. Hui Shao, Mr. Xing Jin and Mr. Tao Yu, and the shareholders of Beijing Chiyan are Mr. Xing Jin and Mr. Tao Yu. Mr. Xing Jin is our co-founder and chief executive officer, and Tao Yu is our co-founder. Nevertheless, conflicts of interest may arise between the roles of them as shareholders, directors or officers of our company and as shareholders of the consolidated affiliated entities. These shareholders may breach, or cause the consolidated variable entities to breach, or refuse to renew, the VIE Contractual Arrangements we have with them and the consolidated variable entities, which would have a material and adverse effect on our ability to effectively control the consolidated variable entities and receive economic benefits from such entity. 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 fiduciary duties to our company, including duties to act in good faith and in what they believe to be the best interest of our company and not to use their positions for personal gain. The shareholders of the consolidated affiliated entities have executed powers of attorney to appoint So-Young Wanwei or a person designated by So-Young Wanwei to vote on their behalf and exercise voting rights as shareholders of the consolidated affiliated entities. We cannot assure you that when conflicts arise, these shareholders will act in the best interest of our company or that conflicts will be resolved in our favor. If we cannot resolve any conflicts of interest or disputes between us and these shareholders, we would have to rely on legal proceedings, which may be expensive, time-consuming and disruptive to our operations. There is also substantial uncertainty as to the outcome of any such legal proceedings.

Contractual arrangements in relation to the consolidated affiliated entities may be subject to scrutiny by the PRC tax authorities and they may determine that we or our PRC consolidated affiliated entities owes additional taxes, which 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 within ten years after the taxable year when the transactions are conducted. We could face material and adverse tax consequences if the PRC tax authorities determine that the contractual arrangements in relation to the consolidated affiliated entities 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 consolidated affiliated entities 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 consolidated affiliated entities for PRC tax purposes, which could in turn increase its tax liabilities without reducing our WFOE’s tax expenses. In addition, the PRC tax authorities may impose late payment fees and other penalties on the consolidated affiliated entities for the adjusted but unpaid taxes according to the applicable regulations. Our financial position could be materially and adversely affected if our affiliated entities’ tax liabilities increase or if it is required to pay late payment fees and other penalties.

We may lose the ability to use and enjoy assets held by the consolidated affiliated entities that are material to the operation of certain portion of our business if the entity goes bankrupt or becomes subject to a dissolution or liquidation proceeding.

As part of our contractual arrangements with the consolidated affiliated entities, the entity holds certain assets that are material to the operation of our business, including permits, domain names and most of our IP rights. If any of the consolidated affiliated entities goes bankrupt and all or part of its assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. Under the contractual arrangements, the consolidated affiliated entities may not, in any manner, sell, transfer, mortgage or dispose of its assets or legal or beneficial interests in the business without our prior consent. If any of the consolidated affiliated entities undergoes a voluntary or involuntary liquidation proceeding, the independent third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations, and our ADSs may decline significantly in value or become worthless.

Uncertainties exist with respect to the interpretation and implementation of the newly enacted PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.

On March 15, 2019, the National People's Congress approved the Foreign Investment Law, which came into effect on January 1, 2020 and replaced the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. However, since it is relatively new, uncertainties still exist in relation to its interpretation and implementation. For instance, under the Foreign Investment Law, "foreign investment" refers to the investment activities directly or indirectly conducted by foreign individuals, enterprises or other entities in China. On December 26, 2019, the State Council issued the Implementation Regulations for the Foreign Investment Law of the People's Republic of China, or the Implementation Regulations, which became effective on January 1, 2020. Pursuant to the Implementation Regulations, in the event of any discrepancy between the Foreign Investment law and the Implementation Regulations and relevant requirements for foreign investment promulgated prior to January 1, 2020, the Foreign Investment Law and the Implementation Regulations shall prevail. However, the Implementation Regulations still remains silent on whether contractual arrangements should be deemed as a form of foreign investment. Though these regulations do not explicitly classify contractual arrangements as a form of foreign investment, there is no assurance that foreign investment via contractual arrangement would not be interpreted as a type of indirect foreign investment activities under the definition in the future. In addition, the definition contains a catch-all provision which includes investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions promulgated by the State Council to provide for contractual arrangements as a form of foreign investment. In any of these cases, it will be uncertain whether our contractual arrangements will be deemed to be in violation of the market access requirements for foreign investment under the PRC laws and regulations. Furthermore, if future laws, administrative regulations or provisions prescribed by the State Council 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, corporate governance and business operations.

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

We are a holding company, and we may rely on dividends to be paid by our PRC subsidiary for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to the holders of the ADSs and our ordinary shares and service any debt we may incur. If our PRC subsidiary incurs debt on their 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, wholly foreign-owned enterprises in the PRC, such as So-Young Wanwei, may pay dividends only out of their accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise is required to set aside at least 10% of its after-tax profits each year, after making up previous years' accumulated losses, if any, to fund certain statutory reserve funds, until the aggregate amount of such a fund reaches 50% of its registered capital. At the discretion of the board of directors of the wholly foreign-owned enterprise, it may allocate a portion of its after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends. Any limitation on the ability of our PRC subsidiary to pay dividends or make other distributions 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.

Risks Related to Doing Business in China

The PCAOB is currently 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 over our auditor deprives 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 Public Company Accounting Oversight Board (United States), or 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. Since our auditor is located in China, a jurisdiction where the PCAOB has been unable to conduct inspections without the approval of the Chinese authorities, our auditor is not currently inspected by the PCAOB. As a result, we and investors in our ADSs are deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China makes 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, which could cause investors and potential investors in our ADSs to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

Our ADSs will be prohibited from trading in the United States under the Holding Foreign Companies Accountable Act, or the HFCAA, in 2024 if the PCAOB is unable to inspect or fully investigate auditors located in China, or in 2023 if proposed changes to the law are enacted. The delisting of our ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment.

The Holding Foreign Companies Accountable Act, or the HFCAA, was signed into law on December 18, 2020. The HFCAA states if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspection for the PCAOB for three consecutive years beginning in 2021, the SEC shall 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 2, 2021, the SEC adopted final amendments implementing the disclosure and submission requirements of the HFCAA, pursuant to which the SEC will identify an issuer as a "Commission Identified Issuer" if the issuer has filed an annual report containing an audit report issued by a registered public accounting firm that the PCAOB has determined it is unable to inspect or investigate completely, and will then impose a trading prohibition on an issuer after it is identified as a Commission-Identified Issuer for three consecutive years. On December 16, 2021, the PCAOB issued a report to notify the SEC of its determination that the PCAOB is unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong. The PCAOB identified our auditor as one of the registered public accounting firms that the PCAOB is unable to inspect or investigate completely. In March and April 2022, the SEC issued and continually updated its "Conclusive list of issuers identified under the HFCAA" indicating that those companies are now subject to the delisting provisions if they remain on the list for three consecutive years. We anticipate being added to the list shortly after the filing of this annual report on Form 20-F. Therefore, we expect to be identified as a "Commission Identified Issuer" shortly after the filing of this annual report on Form 20-F.

Whether the PCAOB will be able to conduct inspections of our auditor before the issuance of our financial statements on Form 20-F for the year ending December 31, 2023 which is due by April 30, 2024, or at all, is subject to substantial uncertainty and depends on a number of factors out of our, and our auditor's, control. 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. Such a prohibition 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.

On June 22, 2021, the U.S. Senate passed a bill which would reduce the number of consecutive non-inspection years required for triggering the prohibitions under the HFCAA from three years to two. On February 4, 2022, the U.S. House of Representatives passed a bill which contained, among other things, an identical provision. If this provision is enacted into law and the number of consecutive non-inspection years required for triggering the prohibitions under the HFCAA is reduced from three years to two, then our shares and ADSs could be prohibited from trading in the United States in 2023.

The approval of 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.

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 future 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 future 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. As a follow-up, on December 24, 2021, the State Council issued a draft of the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies, or the Draft Provisions, and the CSRC issued a draft of Administration Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies, or the Draft Administration Measures, for public comments.

The Draft Provisions and the Draft Administration Measures propose to establish a new filing-based regime to regulate overseas offerings and listings by domestic companies. According to the Draft Provisions and the Draft Administration Measures, 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 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 Draft Administration Measures, 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 offing 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 comply with the filing requirements may result in fines to the relevant domestic companies, suspension of their businesses, revocation of their business licenses and operation permits and fines on the controlling shareholder and other responsible persons. The Draft Administration Measures also sets forth certain regulatory red lines for overseas offerings and listings by domestic enterprises.

As of the date of this annual report, the Draft Provisions and the Draft Administration Measures were released for public comment only and it is still uncertain when the final versions of these new provisions and measures will be issued and take effect, how they will be enacted, interpreted or implemented, and whether they will affect us. As the CSRC may formulate and publish guidelines for filings in the future, the Draft Administration Measures does not provide for detailed requirements of the substance and form of the filing documents. In a Q&A released on its official website in relation to the Draft Provisions and the Draft Administration Measures, the respondent CSRC official indicated that the proposed new filing requirement will start with IPO candidates and listed companies seeking to carry out activities such as follow-on financing. As for the filings for the existing companies, the regulator will grant adequate transition period and apply separate arrangements. The Q&A also addressed the contractual arrangements and pointed out that if relevant domestic laws and regulations have been observed, companies with compliant VIE structure may seek overseas listing after completion of the CSRC filings. Nevertheless, it does not specify what qualify as compliant VIE structures and what relevant domestic laws and regulations are required to be complied with. Given the substantial uncertainties surrounding the latest CSRC filing requirements at this stage, we cannot assure you that we will be able to complete the filings and fully comply with the relevant new rules on a timely basis, if at all, in our future offshore offerings, if any.

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, such as a cybersecurity review, are required for our future 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 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 could materially and adversely affect our business, prospects, financial condition, reputation, and the trading price of our listed securities.

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

Substantially all of our revenues are derived from China. Accordingly, our results of operations, financial condition and prospects are influenced to a significant degree by political, economic, social conditions and government policies in China generally. The Chinese economy differs from the economies of most developed countries in many respects, including the level of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also has significant authority to exert influence on the ability of a China-based company, such as us, to conduct its business. Therefore, investors of our company and our business face potential uncertainty from China. The Chinese government also exercises significant control over China's economy through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies.

While the Chinese economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy, and the rate of growth has been slowing since 2012. Any adverse changes in economic conditions in China, in the policies of the Chinese 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 services and adversely affect our competitive position. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese 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.

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

The PRC legal system is based on written statutes and 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. 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.

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 through our PRC subsidiaries and the variable interest entities. 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 it may influence our operations, which could result in a material adverse change in our operation, and our ordinary shares and ADSs may decline in value or become worthless. Also, the PRC government has recently indicated an intent to exert more oversight and control over offerings that are conducted overseas and 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. In addition, implementation of industry-wide regulations directly targeting our operations could cause the value of our securities to significantly decline. Therefore, investors of our company and our business face potential uncertainty from actions taken by the PRC government affecting our business.

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, while we conduct substantially all of our operations in China, and substantially all 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 most are PRC nationals. As a result, it may be difficult for our shareholders to effect service of process upon us or those persons inside China. In addition, China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the Cayman Islands and many other countries and regions. Therefore, recognition and enforcement in China of judgments of a court in any of these non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

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

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 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 in the future. 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.

Any significant appreciation or depreciation of Renminbi may materially and adversely affect our revenues, earnings and financial position, and the value of, and any dividends payable on, our ADSs in U.S. dollars. For example, to the extent that we need to convert U.S. dollars we receive into Renminbi to pay our operating expenses, appreciation of Renminbi against the U.S. dollar would have an adverse effect on the RMB amount we would receive from the conversion. Conversely, a significant depreciation of Renminbi against the U.S. dollar may significantly reduce the U.S. dollar equivalent of our earnings, which in turn could adversely affect the price of our ADSs.

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. We currently use structured investment products to hedge exposure to exchange rate risks. Such products reduce, but do not entirely eliminate the effect of foreign currency exchange rate movements on our cash, cash equivalents and restricted cash in foreign currencies. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency. As a result, fluctuations in exchange rates may have a material adverse effect on your investment.

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 subsidiary 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 PRC State Administration of Foreign Exchange, or 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 subsidiary 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 subsidiary and consolidated affiliated entities 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 recent flood of capital outflows of China due to the weakening RMB, 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 our ADSs.

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

The M&A Rules and some 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, including requirements that the approval from MOFCOM be obtained in circumstances where overseas companies established or controlled by PRC enterprises or natural persons acquire an affiliated PRC domestic enterprise. After the Foreign Investment Law and its Implementation Regulations became effective on January 1, 2020, the provisions of the M&A Rules remain effective to the extent they are not inconsistent with the PRC Foreign Investment Law and its Implementation Regulations. Moreover, the Anti-Monopoly Law requires that the SAMR (or MOFCOM before March 2018) shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. 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 the transaction through a proxy or contractual control arrangement. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes, including obtaining approval from the MOC or its local counterparts may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

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 of our initial public offering to make loans or to make additional capital contributions to our PRC subsidiary and variable interest entities, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

Any funds we transfer to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration or filing with relevant governmental authorities in China. According to the relevant PRC regulations on foreign-invested enterprises, or FIEs, in China, capital contributions to our PRC subsidiaries are subject to registration with the SAMR or its local branches, the information reporting in the online enterprise registration system, and foreign exchange registration with qualified banks. In addition, (a) any foreign loan procured by our PRC subsidiaries and consolidated affiliated entities is required to be registered with the SAFE or its local branches or filed with SAFE in its information system, and (b) each of our PRC subsidiaries and consolidated affiliated entities may not procure loans which exceed the difference between its registered capital and its total investment amount as recorded in the foreign investment comprehensive management information system or, as an alternative, only procure loans subject to the Risk-Weighted Approach and the Net Asset Limits (as defined below). See "Item 4. Information on the Company—B. Business Overview—Regulations—Regulations on Foreign Exchange." Any loan to be provided by us to our PRC subsidiaries, consolidated affiliated entities and their subsidiaries with a term of more than one year must be recorded and registered by the NDRC or its local branches. We may not obtain these government approvals or complete such registrations on a timely basis, if at all, with respect to future capital contributions or foreign loans by us to our PRC subsidiaries and consolidated affiliated entities. If we fail to receive such approvals or complete such registration or filing, our ability to capitalize our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business. There is, in effect, no statutory limit on the amount of capital contribution that we can make to our PRC subsidiaries. This is because there is no statutory limit on the amount of registered capital for our PRC subsidiaries, and we are allowed to make capital contributions to our PRC subsidiaries by subscribing for their initial registered capital and increased registered capital, provided that the PRC subsidiaries complete the relevant filing and registration procedures. With respect to loans to the PRC subsidiaries by us, (i) if the relevant PRC subsidiaries adopt the traditional foreign exchange administration mechanism, or the Current Foreign Debt mechanism, the outstanding amount of the loans shall not exceed the difference between the total investment and the registered capital of the PRC subsidiaries and there is, in effect, no statutory limit on the amount of loans that we can make to our PRC subsidiaries under this circumstance because we can increase the registered capital of our PRC subsidiaries by making capital contributions to them, subject to the completion of the required registrations, and the difference between the total investment and the registered capital will increase accordingly; and (ii) if the relevant PRC subsidiaries adopt the foreign exchange administration mechanism as provided in the PBOC Notice No. 9, or the Notice No. 9 Foreign Debt mechanism, the risk-weighted outstanding amount of the loans, which shall be calculated based on the formula provided in the PBOC Notice No. 9, shall not exceed 200% of the net asset of the relevant PRC subsidiary (the "Risk-Weighted Approach and the Net Asset Limits"). According to the PBOC Notice No. 9, after a transition period of one year since the promulgation of the PBOC Notice No. 9, the PBOC and SAFE will determine the cross-border financing administration mechanism for the foreign-invested enterprises after evaluating the overall implementation of the PBOC Notice No. 9. As of the date hereof, neither PBOC nor SAFE has promulgated and made public any further rules, regulations, notices or circulars in this regard. It is uncertain which mechanism will be adopted by PBOC and SAFE in the future and what statutory limits will be imposed on us when providing loans to our PRC subsidiaries. Currently, our PRC subsidiaries have the flexibility to choose between the Current Foreign Debt mechanism and the Notice No. 9 Foreign Debt mechanism. However, if the Notice No. 9 Foreign Debt Mechanism, or a more stringent foreign debt mechanism becomes mandatory and our PRC subsidiaries are no longer able to choose the Current Foreign Debt mechanism, our ability to provide loans to our PRC subsidiaries or the consolidated affiliated entities may be significantly limited, which may adversely affect our business, financial condition and results of operations.

In 2008, the SAFE promulgated the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or SAFE Circular 142. SAFE Circular 142 regulates the conversion by FIEs of foreign currency into Renminbi by restricting the usage of converted Renminbi. SAFE Circular 142 provides that any Renminbi capital converted from registered capitals in foreign currency of FIEs may only be used for purposes within the business scopes approved by PRC governmental authority and such Renminbi capital may not be used for equity investments within China unless otherwise permitted by the PRC law. In addition, the SAFE strengthened its oversight of the flow and use of the Renminbi capital converted from registered capital in foreign currency of FIEs. The use of such Renminbi capital may not be changed without SAFE approval, and such Renminbi capital may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been utilized. On April 8, 2015, the SAFE promulgated the Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-Invested Enterprises, or SAFE Circular 19. SAFE Circular 19 took effect as of June 1, 2015 and superseded SAFE Circular 142 on the same date. SAFE further promulgated Circular 16, effective on June 9, 2016, which, among other things, amend certain provisions of Circular 19. SAFE Circulars 19 and 16 launched a nationwide reform of the administration of the settlement of the foreign exchange capitals of FIEs and allows FIEs to settle their foreign exchange capital at their discretion, but continues to prohibit FIEs from using the Renminbi fund converted from their foreign exchange capitals for expenditure beyond their business scopes, and also prohibit FIEs from using such Renminbi fund to provide loans to persons other than affiliates unless otherwise permitted under its business scope. As a result, we are required to apply Renminbi funds converted from the net proceeds we received from our financing activities within the business scopes of our PRC subsidiaries. On October 23, 2019, the SAFE issued the Notice of the State Administration of Foreign Exchange on Further Facilitating Cross-border Trade and Investment, which, among other things, expanded the use of foreign exchange capital to domestic equity investment area. SAFE Circular 19, SAFE Circular 16 and other relevant rules and regulations may significantly limit our ability to transfer to and use in China any foreign currency, which may adversely affect our business, financial condition and results of operations.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident beneficial owners or our PRC subsidiary to liability or penalties, limit our ability to inject capital into our PRC subsidiary, limit our PRC subsidiary's ability to increase its registered capital or distribute profits to us, or may otherwise adversely affect us.

The SAFE promulgated the Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Round-Trip Investment through Special Purpose Vehicles, or SAFE Circular 37, in July 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 with such PRC residents or entities' legally owned assets or equity interests in domestic enterprises or offshore assets or interests. On February 13, 2015, SAFE issued SAFE Circular No. 13, which took effect on June 1, 2015, pursuant to which, the power to accept SAFE registration was delegated from local SAFE to local qualified banks where the assets or interest in the domestic entity was located. SAFE Circular 37 is issued to replace the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments via Overseas Special Purpose Vehicles, or SAFE Circular 75.

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

We have used our best efforts to notify PRC residents or entities who directly or indirectly hold shares in our Cayman Islands holding company and who are known to us as being PRC residents to complete the foreign exchange registrations. 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 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. Failure by such shareholders or beneficial owners to comply with SAFE regulations, or failure by us to amend the foreign exchange registrations of our PRC subsidiary, could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our PRC subsidiary's ability to make distributions or pay dividends to us or affect our ownership structure, which could adversely affect our business and prospects.

Failure to comply with PRC regulations regarding the registration requirements for employee stock ownership plans or share option plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

Pursuant to SAFE Circular 37, PRC residents who participate in share incentive plans in overseas non-publicly-listed companies due to their position as director, senior management or employees of the PRC subsidiaries of the overseas companies may submit applications to SAFE or its local branches for the foreign exchange registration with respect to offshore special purpose companies. Our directors, executive officers and other employees who are PRC residents and who have been granted share-based awards may follow SAFE Circular 37 to apply for the foreign exchange registration before our company becomes an overseas listed company. In February 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Company, or SAFE Circular 7. Under SAFE Circular 7 and other relevant rules and regulations, PRC residents and non-PRC citizens who reside in China for a continuous period of not less than one year who participate in stock incentive plan in an overseas publicly-listed company, subject to a few exceptions, are required to register with SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of such overseas publicly listed company or another qualified institution selected by such PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of share-based awards, the purchase and sale of corresponding shares or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. We and our PRC employees or employees who reside in the PRC for a continuous period of not less than one year and who have been granted share-based awards are subject to SAFE Circular 7 and other relevant rules and regulations. Failure of our PRC share-based award holders to complete their SAFE registrations may subject these PRC residents to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiary, limit our PRC subsidiary's ability to distribute dividends to us, or otherwise materially adversely affect our business.

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 its "de facto management body" within the PRC is considered a "resident enterprise" and will be subject to PRC 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 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 State Administration of Taxation'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 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 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 So-Young International Inc. 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 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 ordinary shares at a rate of 10%, if such income is treated as sourced from within the PRC. Furthermore, if PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, dividends paid to our non-PRC individual shareholders (including our ADS holders) and any gain realized on the transfer of ADSs or ordinary shares by such shareholders may be subject to PRC tax at a rate of 20% (which, in the case of dividends, may be withheld at source by us), if such dividends or gains are deemed to be from PRC sources. These rates may be reduced by an applicable tax treaty, but it is unclear whether non-PRC shareholders of So-Young International Inc. would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that So-Young International Inc. is treated as a PRC resident enterprise. Any such PRC tax may reduce the returns on your investment in the ADSs.

We face uncertainty 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 issued the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises, or Bulletin 7. Pursuant to 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. Bulletin 7 does not apply to transactions of sale of shares by investors through a public stock exchange where such shares were acquired from a transaction through a public stock exchange. On October 17, 2017, the SAT issued the Announcement of the State Administration of Taxation on Issues of Tax Withholding regarding Non-resident Enterprise Income Tax, or Bulletin 37, which came into effect on December 1, 2017. The Bulletin 37 further clarifies the practice and procedure of the withholding of nonresident enterprise income tax.

There is uncertainty as to the application of Bulletin 37 or previous rules under Bulletin 7. We face uncertainties on the reporting and consequences of 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. Our company may be subject to filing obligations or taxes if our company is the transferor in such transactions, and may be subject to withholding obligations if our company is the transferee in such transactions, under Bulletin 37 and Bulletin 7.

The enforcement of the PRC Labor Contract Law and other labor-related regulations in the PRC may adversely affect our business and results of operations.

The Standing Committee of the National People's Congress enacted the Labor Contract Law in 2008, and amended it on December 28, 2012. The Labor Contract Law introduced specific provisions related to fixed-term employment contracts, part-time employment, probationary periods, consultation with labor unions and employee assemblies, employment without a written contract, dismissal of employees, severance, and collective bargaining to enhance previous PRC labor laws. Under the Labor Contract Law, an employer is obligated to sign an unlimited-term labor contract with any employee who has worked for the employer for ten consecutive years. Further, if an employee requests or agrees to renew a fixed-term labor contract that has already been entered into twice consecutively, the resulting contract, with certain exceptions, must have an unlimited term, subject to certain exceptions. With certain exceptions, an employer must pay severance to an employee where a labor contract is terminated or expires. In addition, the PRC governmental authorities have continued to introduce various new labor-related regulations since the effectiveness of the Labor Contract Law.

Under the PRC Social Insurance Law and the Administration of Housing Fund, employees are required to participate in pension insurance, work-related injury insurance, medical insurance, unemployment insurance, maternity insurance, and housing funds and employers are required, together with their employees or separately, to complete the social insurance registration and housing fund registration and pay the social insurance premiums and housing funds for their employees. If we are deemed to have failed to make adequate social insurance and/or housing fund contributions or complete the social insurance registration and housing fund registration, we may be subject to fines and legal sanctions, and our business, financial conditions and results of operations may be adversely affected. These laws designed to enhance labor protection tend to increase our labor costs. In addition, as the interpretation and implementation of these regulations are still evolving, our employment practices may not be at all times be deemed in compliance with the regulations. As a result, we could be subject to penalties or incur significant liabilities in connection with labor disputes or investigations.

Any failure or perceived failure by us to comply with the anti-monopoly and anti-unfair competition laws and regulations may result in governmental investigations or enforcement actions, litigation or claims against us and could have an adverse effect on our business, financial condition and results of operations.

The PRC government has adopted a series of anti-monopoly and anti-unfair competition laws and regulations and has recently enhanced its enforcement of such laws and regulations. The PRC Anti-monopoly Law and the relevant implementing rules (i) require that where concentration of undertakings reaches the filing threshold stipulated by the State Council, a filing must be made with the anti-monopoly authority before the parties implement the concentration, (ii) prohibit a business operator with a dominant market position from abusing such position, such as by selling commodities at unfairly high prices or buying commodities at unfairly low prices, selling products at prices below cost without any justifiable cause, or refusing to trade with a trading party without any justifiable cause, and (iii) prohibit business operators from entering into monopoly agreements, which refer to agreements that eliminate or restrict competition with competing business operators or transaction counterparties, such as by boycotting transactions, fixing or changing the price of commodities, limiting the output of commodities or fixing the price of commodities for resale to third parties, unless the agreements satisfy certain exemptions under the PRC Anti-monopoly Law. Furthermore, in February 2021, the Anti-monopoly Commission of the State Council officially promulgated the Anti-Monopoly Guidelines for the Internet Platform Economy Sector, or the Anti-Monopoly Guidelines. The Anti-Monopoly Guidelines prohibit certain monopolistic acts of internet platforms so as to protect market competition and safeguard the interests of users and undertakings participating in the internet platform economy, including without limitation, prohibiting platforms with a dominant position from abusing their market dominance (such as discriminating against customers in terms of pricing and other transactional conditions using big data and analytics, coercing counterparties into exclusivity arrangements, using technology to block competitors' interfaces, favorable positioning in search results of goods displays, using bundle services to sell services or products, compulsory collection of unnecessary user data). In addition, the Anti-Monopoly Guidelines also reinforce antitrust merger review for internet platform related transactions to safeguard market competition. As the Anti-Monopoly Guidelines were newly promulgated, it is still uncertain how they will impact on our business, financial condition, results of operations and prospects.

According to the PRC Anti-unfair Competition Law, unfair competition, which refers to the production and operating activities where the operator disrupts the market competition order and damages the legitimate rights and interests of other operators or consumers in violation of the provisions of the PRC Anti-unfair Competition Law, shall be prohibited. Pursuant to the PRC Anti-unfair Competition Law, operators shall abide by the principle of voluntariness, equality, impartiality, integrity and adhere to laws and business ethics during market transactions. Operators in violation of the PRC Anti-unfair Competition Law may be subject to civil, administrative or criminal liabilities depending on the specific circumstances.

In March 2018, the SAMR was formed as a new governmental agency to take over, among other things, the anti-monopoly enforcement functions from the relevant departments under the MOFCOM, the NDRC, and the former State Administration for Industry and Commerce, respectively. Since its inception, the SAMR has continued to strengthen anti-monopoly enforcement. In December 2018, the SAMR issued the Notice on Anti-monopoly Enforcement Authorization, which grants authorities to its provincial branches to conduct anti-monopoly enforcement within their respective jurisdictions. In September 2020, the SAMR issued Anti-monopoly Compliance Guideline for Operators, which requires operators to establish anti-monopoly compliance management systems to prevent anti-monopoly compliance risks. In particular, the PRC regulators have been increasingly focused on inspection and regulation on potential noncompliance with anti-unfair competition and antimonopoly related laws recently. For example, in April 2021, the SAMR, the Cyberspace Administration of China and the SAT, held an administrative guidance meeting for internet platform enterprises. During the meeting, it was pointed out that illegal activities including, among others, forcing the implementation of “choose one” among the enterprise and its competitors, abusing dominant market position, “cash burning” to seize the “community group buying” market, making use of big data analysis to the disadvantage of existing customers, etc., shall be prohibited and rectified. In addition, many platforms, including 34 enterprises which attended such administrative guidance meeting as representatives of internet platform enterprises, are required to conduct a comprehensive self-inspection and make necessary rectification accordingly. The competent administration for market regulation will organize and conduct inspections on the platforms’ rectification results. If the platforms are found to conduct illegal activities including forcing the implementation of “choose one” among them and their competitors, abusing dominant market position, infringing consumers rights and interests, etc., they will be imposed with more severe penalties in accordance with the laws. We have been conducting necessary self-inspection in accordance with such guidance. In addition, on October 23, 2021, the SCNPC published a draft amended Anti-Monopoly Law for public comment, which proposes to increase the fines for illegal concentration of business operators to “no more than ten percent of its sales from the last fiscal year if the concentration of business operators has or may have an effect of excluding or limiting competition; or a fine of up to RMB5 million if the concentration of business operators does not have an effect of excluding or limiting competition.” The draft also proposes the relevant authorities to investigate a transaction where there is evidence indicating that the concentration has or may have the effect of eliminating or restricting competition, even if such concentration does not reach the filing threshold. We cannot guarantee you that we will not be subject to similar or even stricter rectification requests from the governmental authorities or that we will fully comply with all applicable rules and regulations at all times. As a result of the regulators’ focus on anti-monopoly and anti-unfair competition compliance and enhanced regulation of platform enterprises, our business practice and expansion strategy may be subject to heightened regulatory scrutiny. In order to comply with existing laws and regulations and new laws and regulations that may be enacted in the future, we may need to devote significant resources and efforts, including restructuring affected businesses and adjusting investment activities, which may adversely affect our business operation, growth prospects and reputation. In addition, we cannot assure you that our efforts are sufficient to comply with the all the applicable laws and regulations on anti-monopoly and anti-unfair competition and the authorities’ requirements in all respects. Any anti-monopoly or anti-unfair competition related lawsuit, regulatory investigations or administrative proceedings initiated against us could also result in our being subject to regulatory actions and constraints on our investments and acquisitions, which could include forced termination of any agreements or transactions, required divestitures, limitations on certain pricing and business practices or significant fines. As a result, we may be subject to significant difficulties in operating our current business and pursuing our investment and acquisition strategy.

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

Shareholder claims or regulatory investigation that are common in the United States generally 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 the Unities States 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 overseas. In addition, the Data Security Law and the PIPL provide that no entity or individual within the territory of the PRC shall provide any foreign judicial body and law enforcement body with any data or any personal information stored within the territory of the PRC without the approval of the competent governmental authority of the PRC. While detailed interpretation of or implementation rules under these laws have yet to be promulgated, the inability for an overseas securities regulator to directly conduct investigation or evidence collection activities within China, and restrictions on the provision of documents, materials, data and personal information by PRC entities and individuals to an overseas securities regulator, foreign judicial body or foreign law enforcement body may further increase difficulties faced by you in protecting your interests.

Risks Related to Our ADSs

The trading price of our ADSs has been and is likely to continue to be volatile, which could result in substantial losses to investors.

The trading price of our ADSs has been and is likely to continue to be volatile and could fluctuate widely due to multiple factors, some of which are 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. For example, due to the COVID-19 outbreak, the stock market has experienced extreme volatility and circuit breakers have repeatedly halted trading in all U.S. stocks. In addition to market and industry factors, the price and trading volume for our ADSs may be highly volatile for factors specific to our own operations, including the following:

- variations in our revenues, earnings, cash flow and data related to our user base or user engagement;
- announcements of new investments, acquisitions, strategic partnerships or joint ventures by us or our competitors;
- announcements of new service offerings and expansions by us or our competitors;
- announcements of new laws and regulations or interpretations of existing laws and regulations that affect our business;
- changes in financial estimates by securities analysts;
- detrimental adverse publicity about us, our services or our industry;
- additions or departures of key personnel;
- release of lock-up or other transfer restrictions on our outstanding equity securities or sales of additional equity securities; and
- actual or potential litigation or regulatory investigations.

Any of these factors may result in large and sudden changes in the volume and price at which our ADSs will trade.

In the past, shareholders of public companies have often brought securities class action suits against those companies following periods of instability in the market price of their securities. If we were involved in a class action suit, it could divert a significant amount of our management's attention and other resources from our business and operations and require us to incur significant expenses to defend the suit, which could harm our 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. 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.

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 May 7, 2021, our board of directors authorized a share repurchase program, under which we may repurchase up to US$70 million of our ADSs or ordinary shares over the next 12 months through May 7, 2022.

Our board of directors also has the discretion to authorize additional share repurchase programs in the future. The share repurchase programs do not obligate us to repurchase any specific dollar amount or to acquire any specific number of ADSs. We cannot guarantee that any share repurchase program will enhance long-term shareholder value. The share repurchase programs 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. Furthermore, share repurchases could increase the volatility of the price of our ADSs and could diminish our cash reserves.

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 ordinary shares consist of Class A ordinary shares and Class B ordinary shares. 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 thirty 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 sale, transfer, assignment or disposition of any Class B ordinary share by a holder thereof to any person who is not the Founder or an Affiliate of the Founder (as such terms are defined in our currently effective articles of association), such Class B ordinary share shall be automatically and immediately converted into one Class A ordinary share.

Mr. Xing Jin, our co-founder, chairman of the board of directors and chief executive officer, beneficially owned all of our issued Class B ordinary shares as of February 28, 2022. These Class B ordinary shares constitute 15.1% of our total issued and outstanding share capital and 83.4% of the aggregate voting power of our total issued and outstanding share capital 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, Mr. Jin has considerable influence over matters such as decisions regarding mergers and consolidations, election of directors and other significant corporate actions, and may take actions that are not in the best interest of us or our other shareholders. This concentrated control limits 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.

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 a substantial majority 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 SEC enforcement actions.

We had been and may in the future be the subject of unfavorable allegations made by short sellers. On May 6, 2021. Blue Orca Capital issued a short seller report on us, causing anxiety and market disturbance, leading to abnormal share price movements. Any such allegations in the future may be followed by periods of instability in the market price of our ordinary shares and ADSs and negative publicity. If and when we 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 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 federal or 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 shareholder’s equity, and the value of any investment in our ADSs could be greatly diminished.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, the market price for our ADSs and trading volume could decline.

The trading market for our ADSs will depend in part on the research and reports that securities or industry analysts publish about us or our business. If research analysts do not maintain adequate research coverage or if one or more of the analysts who cover us downgrade our ADSs, the market price for our ADSs would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause the market price of or trading volume for our ADSs to decline.

The sale or availability for sale of substantial amounts of our ADSs could adversely affect their market price.

Sales of substantial amounts of our ADSs in the public market, or the perception that these sales could occur, could adversely affect the market price of our ADSs and could materially impair our ability to raise capital through equity offerings in the future. We cannot predict what effect, if any, market sales of securities held by our significant shareholders or any other shareholder or the availability of these securities for future sale will have on the market price of our ADSs.

Because we do not expect to pay dividends in the foreseeable future, 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. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. In either case, 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, 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 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.

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

Our currently effective memorandum and articles of association contain provisions which could 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 ordinary shares, in the form of ADS or otherwise. 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 our ADSs may fall and the voting and other rights of the holders of our ordinary shares and ADSs may be materially and adversely affected.

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 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 owed 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 owed to us under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent 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 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. Our directors have discretion under our currently effective memorandum and 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 our management, members of our board of directors or our controlling shareholders than they would as public shareholders of a company incorporated in the United States. For a discussion of significant differences between the provisions of the Companies Act of the Cayman Islands and the laws applicable to companies incorporated in the United States and their shareholders.

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

We are a Cayman Islands exempted company and substantially all of our assets are located outside of the United States. Substantially 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.

The depositary for our ADSs will give us a discretionary proxy to vote our Class A ordinary shares underlying your ADSs if you do not vote at shareholders' meetings, except under limited circumstances, which could adversely affect your interests.

Under the deposit agreement for the ADSs, if you do not give instructions for voting the Class A ordinary shares underlying your ADSs, the depositary will give us a discretionary proxy to vote those Class A ordinary shares at the shareholders' meeting if:

- we have timely instructed the depositary to disseminate a notice of meeting and provided the depositary with a notice of meeting and related voting materials;
- we have instructed the depositary that we wish a discretionary proxy to be given;
- we have informed the depositary that as of the instruction date we reasonably don't know of any substantial opposition as to a matter to be voted on at the meeting; and
- a matter to be voted on at the meeting would not have a material adverse impact on shareholders' interests.

The effect of this discretionary proxy is that you cannot prevent our Class A ordinary shares underlying your ADSs from being voted at the shareholder meeting if the circumstances described above are met. This may make it more difficult for shareholders to influence the management of our company. Holders of our ordinary shares are not subject to this discretionary proxy.

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 federal or state courts in the City of New York have exclusive jurisdiction to hear and determine claims arising under the deposit agreement 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 Class A 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 U.S. state and federal law. To our knowledge, the enforceability of a contractual pre-dispute jury trial waiver in connection with claims arising under the U.S. 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 waived 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 U.S. 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 and/or the depositary. If a lawsuit is brought against us and/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 serves as a waiver by any holder or beneficial owner of ADSs or by us or the depositary of compliance with any substantive provision of the U.S. federal securities laws and the rules and regulations promulgated thereunder.

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 how the Class A ordinary shares which are represented by your ADSs are voted.

Holders of ADSs do not have the same rights as our registered shareholders. As a holder of our 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 which are carried by the underlying Class A ordinary shares represented by your ADSs indirectly by giving voting instructions to the depositary in accordance with the provisions of the deposit agreement. Under the deposit agreement, you may vote only by giving voting instructions to the depositary. If we instruct the depositary to ask for your instructions, then upon receipt of your voting instructions, the depositary will try, as far as is practicable, to vote the underlying Class A ordinary shares which are represented by your ADSs in accordance with your instructions. If we do not instruct the depositary to ask for your instructions, the depositary may still vote in accordance with instructions you give, but it is not required to do so. You will not be able to directly exercise your right to vote with respect to the underlying Class A ordinary shares represented by your ADSs unless you withdraw the shares and become the registered holder of such shares prior to the record date for the general meeting.

Under our currently effective memorandum and articles of association, the minimum notice period required to be given by our company to our registered shareholders to convene a general meeting will be ten days. When a general meeting is convened, you may not receive sufficient advance notice of the meeting to withdraw the Class A ordinary shares underlying 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 Class A ordinary shares underlying your ADSs and 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. If we ask for your instructions, the depositary will notify you of the upcoming vote and will arrange to deliver our voting materials to you. We have agreed to give the depositary at least 30 days' prior notice of shareholder meetings. Nevertheless, 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 Class A ordinary shares underlying your ADSs are voted and you may have no legal remedy if the Class A ordinary shares underlying your ADSs are not voted as you requested.

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 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 our 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.

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 United States domestic public companies.

Because we are 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: (i) the rules under the Exchange Act requiring the filing of quarterly reports on Form 10-Q or current reports on Form 8-K with the SEC; (ii) the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act; (iii) 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; (iv) the selective disclosure rules by issuers of material nonpublic information under Regulation FD, and (v) certain audit committee independence requirements in Rule 10A-3 of the Exchange Act.

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 publish our results on a quarterly basis through press releases, distributed pursuant to the rules and regulations of Nasdaq Stock Market LLC. 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, which would be made available to you, were you investing in a U.S. domestic issuer.

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

As a public company, we incur significant accounting, legal and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act, including Section 404 therein relating to internal control over financial reporting, as well as rules subsequently implemented by the SEC and the Nasdaq Stock Market LLC, have detailed requirements concerning corporate governance practices of public companies. We expect these rules and regulations applicable to public companies to increase our accounting, legal and financial compliance costs and to make certain corporate activities more time-consuming and costly. Our management is required to devote substantial time and attention to our public company reporting obligations and other compliance matters. We evaluate and monitor 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 significant strain on our management, operational and financial resources and systems for the foreseeable future.

As an exempted 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 Nasdaq corporate governance listing standards; these practices may afford less protection to shareholders than they would enjoy if we comply fully with the Nasdaq corporate governance listing standards.

As a Cayman Islands exempted company listed on Nasdaq Stock Market LLC, we are subject to the Nasdaq corporate governance listing standards. However, Nasdaq Stock Market LLC 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 Nasdaq Stock Market corporate governance listing standards. For example, Nasdaq Rule 5620 requires each issuer to hold an annual meeting of shareholders no later than one year after the end of the issuer's fiscal year-end. However, Nasdaq Rule 5615(a)(3) permits foreign private issuers like us to follow "home country practice" in certain corporate governance matters. We followed home country practice and did not hold an annual meeting of shareholders in 2021. We may, however, hold annual shareholders meetings in the future. In addition, in lieu of the requirements of Rule 5635(c) of the Nasdaq Rules that shareholder approval be required prior to the issuance of securities when a stock option or purchase plan is to be established or materially amended or other equity compensation arrangement made or materially amended, pursuant to which stock may be acquired by officers, directors, employees, or consultants, we elected to follow our home country practices with respect to the adoption of the 2021 Share Incentive Plan. We may continue to rely on these or other exemptions in the future, and our shareholders may be afforded less protection than shareholders of companies that are subject to these corporate governance requirements as a result.

We are a "controlled company" within the meaning of the Nasdaq Stock Market Rules and, as a result, can 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 Nasdaq Stock Market Rules because Mr. Xing Jin, our co-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 currently rely, on certain exemptions from corporate governance rules, including an exemption from the rule that a majority of our board of directors must be independent directors.

Currently, the majority of the members of our board of directors are not independent directors. As a result, you will not have the same protection afforded to shareholders of companies that are subject to these corporate governance requirements.

We may be a passive foreign investment company, which could result in adverse U.S. federal income tax consequences to U.S. investors owning our ADSs or ordinary shares.

We will be classified as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for any taxable year if either (i) 75% or more of our gross income for such year consists of certain types of "passive" income or (ii) 50% or more of the value of our assets (generally determined on the basis of a quarterly average) during such year produce or are held for the production of passive income. Although the law in this regard is unclear, we treat the VIEs (and their subsidiaries) as being owned by us for U.S. federal income tax purposes because we control their management decisions and are entitled to substantially all of the economic benefits associated with them, and, as a result, we consolidate their results of operations in our consolidated U.S. GAAP financial statements. Assuming that we are the owner of the VIEs (and their subsidiaries) for U.S. federal income tax purposes, and based upon our income and assets and the market price of our ADSs, we do not believe that we were a PFIC for the taxable year ended December 31, 2021 and we do not presently expect to be a PFIC for the current taxable year or any future taxable year.

While we do not believe that we were a PFIC for the taxable year ended December 31, 2021 and we do not expect to be or become a PFIC for the current taxable year or any future taxable year, no assurance can be given in this regard because the determination of whether we are or will become a PFIC is a factual determination made annually that will depend, in part, upon the composition of our income and assets. Furthermore, because the value of our assets for purposes of the asset test may be determined by reference to the market price of our ADSs (which may be volatile), fluctuations in the market price of our ADSs may cause us to be or become a PFIC for the current or future taxable years. In particular, recent declines in the market price of our ADSs significantly increased our risk of becoming a PFIC for the current taxable year. The market price of our ADSs may continue to fluctuate considerably and, consequently, we cannot assure you of our PFIC status for any taxable year. The composition of our income and assets may also be affected by how, and how quickly, we use our liquid assets. Under circumstances where our revenue from activities that produce passive income significantly increases relative to our revenue from activities that produce non-passive income, or where we determine not to deploy significant amounts of cash for active purposes or if it were determined that we do not own the stock of the VIEs (and their subsidiaries) for United States federal income tax purposes, our risk of becoming classified as a PFIC may substantially increase.

If we are a PFIC for any taxable year during which a U.S. Holder (as defined in Taxation—U.S. Federal Income Tax Considerations) holds ADSs or ordinary shares, certain adverse United States federal income tax consequences could apply to such U.S. Holder. See "Item 10. Additional Information—E. Taxation—U.S. Federal Income Tax Considerations—Passive Foreign Investment Company Considerations."

If we were deemed an investment company under the Investment Company Act of 1940, applicable restrictions could have a material adverse effect on our business and the price of our ADSs and ordinary shares.

We are not an "investment company" and do not intend to become registered as an "investment company" under the Investment Company Act of 1940, or the Investment Company Act, because our primary business is the provision of information and online reservation services for consumers in the medical aesthetics industry.

Generally, a company is an “investment company” if it is or holds itself out as being engaged primarily in the business of investing, reinvesting or trading in securities or owns or proposes to own investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis, unless an exception, exemption or safe harbor applies. We seek to conduct our business activities to comply with this test. As a foreign private issuer, we would not be eligible to register under the Investment Company Act, and if a sufficient amount of our assets are deemed to be “investment securities” within the meaning of the Investment Company Act, we would either have to obtain exemptive relief from the SEC, modify our contractual rights or dispose of investments in order to fall outside the definition of an investment company. Additionally, we may have to forego potential future acquisitions of interests in companies that may be deemed to be investment securities within the meaning of the Investment Company Act. Failure to avoid being deemed an investment company under the Investment Company Act coupled with our inability as a foreign private issuer to register under the Investment Company Act could make us unable to comply with our reporting obligations as a public company in the United States and lead to our being delisted from Nasdaq Stock Market LLC, which would have a material adverse effect on the liquidity and value of our ADSs and ordinary shares.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We commenced our operations in November 2013 through Beijing So-Young Technology Co., Ltd., or Beijing So-Young, a limited liability company established under the laws of the PRC, to provide medical aesthetic information.

In April 2014, we incorporated So-Young International Inc., or So-Young Cayman, in the Cayman Islands as our holding company. In May 2014, So-Young Cayman established a wholly owned subsidiary, So-Young Hong Kong Limited, in Hong Kong, which in turn established So-Young Wanwei Technology Consulting Co., Ltd., or Beijing Wanwei, a wholly owned PRC subsidiary in July 2014.

In September 2019, we incorporated Beijing Chiyan Medical Beauty Consulting, Ltd., or Beijing Chiyan, a limited liability company established under the laws of the PRC, to provide medical aesthetic consulting services. Due to the restrictions imposed by PRC laws and regulations on foreign ownership of companies engaged in value-added telecommunication services and certain other businesses, Beijing Wanwei entered into a series of contractual arrangements, as amended and restated, with Beijing So-Young, Beijing Chiyan and their respective shareholders, through which we obtained control over Beijing So-Young, Beijing Chiyan and their subsidiaries. As a result, we are regarded as the primary beneficiary of Beijing So-Young, Beijing Chiyan and their subsidiaries. We treat them as the consolidated affiliated entities under U.S. GAAP, and have consolidated the financial results of these entities in the consolidated financial statements in accordance with U.S. GAAP. We refer to Beijing Wanwei as our wholly foreign owned entity, or WFOE, and to Beijing So-Young and Beijing Chiyan as our variable interest entities, or VIEs, in this annual report.

On May 2, 2019, the ADSs representing our Class A ordinary shares commenced trading on Nasdaq under the symbol “SY.” We raised from our initial public offering US$187.5 million in net proceeds after deducting underwriting commissions and discounts and the offering expenses payable by us.

On June 28, 2021, we entered into definitive agreements with Wuhan Miracle and shareholders of Wuhan Zeqi Technology Co., Ltd. (“Wuhan Zeqi”), a shareholder of Wuhan Miracle, to acquire controlling interest in Wuhan Miracle for a total consideration of RMB 791 million. The transaction was completed on July 22, 2021.

On November 22, 2021, we received a preliminary non-binding proposal letter, or the Proposal Letter, from Mr. Xing Jin, our co-founder and chairman of the board of directors and chief executive officer, to acquire all of our outstanding Class A ordinary shares that are not already owned by Mr. Jin and his affiliates for a purchase price of $5.30 per ADS, or US$6.89 per Class A ordinary share, in cash. On November 22, 2021, our board of directors formed a special committee consisting of three independent directors, Messrs. Charles Zhaoxuan Yang, Chao He and Harry Jiannan Wang, to evaluate and consider the Proposal Letter. The special committee has retained Duff & Phelps, LLC as its independent financial advisor and Gibson, Dunn & Crutcher LLP as its U.S. legal counsel to assist it in this process. As of the date of this annual report, no decisions have been made with respect to the Proposal Letter or any alternative strategic option that we may pursue. See “Item 3. Key Information-D. Risk Factors-Risks Related to Our Business and Industry- Uncertainty resulting from the non-binding proposal letter and other related matters may adversely affect our business.”

Our principal executive offices are located at Tower E, Ronsin Technology Center, Chaoyang District, Beijing, People's Republic of China. Our telephone number at this address is +86 10 5269 9283. Our registered office in the Cayman Islands is located at Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Our agent for service of process in the United States is Puglisi & Associates, located at 850 Library Avenue, Suite 204, Newark, Delaware 19711.

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.soyoung.com. The information contained on our website is not a part of this annual report.

B. Business Overview

Overview

So-Young is the largest and most vibrant social community in China for consumers, professionals and service providers in the medical aesthetics industry. We present users with reliable information through offering high quality and trustworthy content together with a multitude of social functions on its platform, as well as by curating medical aesthetic service providers that are carefully selected and vetted. Leveraging So-Young's strong brand image, extensive audience reach, trust from its users, highly engaging social community and data insights, we are well-positioned to expand both along the medical aesthetic industry value chain and into the massive, fast-growing consumption healthcare service market. Our business model comprises four integrated components: (i) our original, reliable and professional content and its distribution through major social media networks and our targeted media platforms in China, (ii) our engaged social community characterized by signature users of all levels of experience and medical professionals generated content, (iii) our transparent and user-friendly online reservation services for medical aesthetic treatment, and (iv) the research, development, production, sales and agency of laser and other optoelectronic medical beauty equipment.

Our vibrant and trustworthy social community allows our users to discover the latest medical aesthetic treatment trends and helps them make purchase decisions. The personal experience shared by users who had undergone medical aesthetic treatment further builds the trust that is critical for others who wish to have similar treatment. We had a large depository of day-by-day, case-based blogs called *Beauty Diaries*. We also encourage users to rate, review and share their treatment experience on our platform. We believe the user-generated content, ratings and reviews on our platform incentivize medical aesthetic service providers to offer high-quality and diversified treatment with transparent pricing. We continue to optimize the online transaction experience and strengthen our digital capabilities. We believe the robust technology and intelligent algorithms analyze user behavior to make fast and accurate recommendations and help decision-making online. We are also expanding our advantages in surgical area. On the non-surgical product side, we are strengthening the standardization of non-surgical procedures and enhancing our management and control of products and equipment to optimize user experience. We are also expanding into the dental, dermatology, ophthalmology, gynecology, and physical examination services in China.

Our Business Model

Our platform serves as a vibrant and dynamic social community and offers online reservation function that enables users to both discover reliable content and share their own medical aesthetics services experience, which incentivizes users to reserve offline treatment from medical aesthetic service providers. Thus, users are guided through the entire process of seeking and obtaining medical aesthetic treatment on our platform.

Our business model has unique value propositions for its constituents. With reliable content and various social tools on our platform, users seeking medical aesthetic treatment can discover suitable services and obtain comprehensive medical information on the desired treatment. Users can also interact among one another and with medical aesthetic practitioners directly through our social community functions. Once they decide on the type of treatment, users can conveniently reserve treatment through our online reservation function. Our reservation function facilitates reservations by providing insurance service referrals for users. In addition, after users complete their treatment offline, our online platform encourages them to share their experience through *Beauty Diaries* and ratings and reviews systems. This further enriches our content and drives more interaction within our social community.

Medical aesthetic service providers benefit from our business model when more users are drawn to our online platform because of our reliable content offered in rich media formats and our reputation among people seeking aesthetic improvements. The user-generated content in our social community, as well as the ratings and reviews on the services, can effectively and efficiently incentivize service providers to offer high-quality and diversified treatment with transparent pricing. Medical aesthetic service providers can further increase their exposure and boost user conversion rate by communicating with users on an individual basis through our social community functions, and through our information services. Our online reservation function, in return, provides data insights on current user landscape and market trends that allow medical aesthetic service providers to improve their business operation efficiency.

As users and medical aesthetic service providers are inexorably connected through our content, social community, and online reservation function, our business model forms an overall virtuous cycle that fuels its continued growth and expansion. In essence, users are attracted to our platform by our content and services offered on our platform, while medical aesthetic service providers are attracted to our platform by the access to the largest online medical aesthetic user community and the commercial opportunities that they bring. As the number of users grows, more medical aesthetic service providers will want to join our platform. More medical aesthetic service providers will then lead to more tailored treatment in more locations, as well as more targeted content, and ultimately attract more users.

We are also exploring other sectors in the medical aesthetic industry. Our acquisition of the controlling interest in Wuhan Miracle allows us to expand the scope of our business, achieve greater synergy and provide more closed-loop medical aesthetic services leveraging our strong brand image, extensive cooperation with medical aesthetic service providers and leading position in the medical aesthetics industry.

Our Online Platform

Our online platform is realized through various products, including *So-Young* mobile app, *So-Young* Weixin mini program, and *soyoung.com* website, where both users and medical aesthetic service providers can access our rich media content, engaging social community, and transparent online reservation function. In addition, we developed *So-Young Business College*, a Weixin mini program, and an operation dashboard on *soyoung.com* to improve the efficiency and effectiveness of the business operations for our medical aesthetic service providers.

In 2019, 2020 and 2021, our average monthly UVs reached 11.9 million, 16.5 million and 14.3 million, and our average mobile MAUs reached 2.9 million, 7.1 million and 8.5 million, respectively.

Mobile Apps

So-Young Mobile App

Our *So-Young* mobile app serves as a one-stop destination where we offer users relevant medical aesthetic knowledge and experience, guide them along their journey to reach an informed medical aesthetic treatment decision in a supportive community, and allow them to effortlessly act on those decisions and make reservations for treatment from their desired medical professionals and medical aesthetic institutions. We designed the interface of our platform in mint green and light pink, signaling health and beauty respectively, and creating a soft and welcoming texture to our platform.

To strengthen social interactions and enhance user experience on our mobile app, we developed a messaging system and a user dashboard. The messaging system enables users to send private messages to other users, medical professionals and medical aesthetic institutions to retrieve more information on medical aesthetic treatment with fast turnaround time. User dashboard allows users to manage their orders and track participation and contacts in our social community.

Weixin Mini Programs

Mini Program is an innovative platform built into Weixin, facilitating discovery and consumption of services and products. It is useful for discovery and quick actions, and complements full-function native apps by increasing their downloads and traffic.

We develop and operate a number of Mini Programs on Weixin, including, among others, *So-Young Beauty*, *So-Young Q&A*, *So-Young PASS* and *So-Young Business College*. *So-Young Beauty* features similar interfaces and functions as our mobile app. It serves as additional access points to our platform. *So-Young Q&A* allows convenient communications among users and doctors. *So-Young PASS* is our first online aesthetic beauty skin care pass. Adhering to the brand concept to provide professional services, we provide a list of strictly selected treatment and service providers with attractive prices to help users efficiently solve skin problems. Users can easily purchase *So-Young PASS* on Weixin to enjoy medical aesthetic treatments. *So-Young Business College* offers a convenient online training platform for medical aesthetic practitioners, including medical professionals, managers, and medical aesthetic consultants, where they can access textual and video educational materials provided by our medical aesthetic industry experts.

Our Soyoung.com Website

Users can access medical aesthetic community content and our services through our website *soyoung.com*. As more internet users shift to mobile ends, our website mainly serves a comprehensive knowledge base targeting users who are in the process of researching for medical aesthetic options.

Content

We strive to provide our users with the broad range of high-quality and engaging original content on medical aesthetics. We believe that reliable and well-crafted content provides the necessary information that users seek on our platform and enhance transparency of the medical aesthetic industry. Our content is available in a variety of rich media formats on our online platform, generated by users of all levels of experience and medical professionals, including professional generated content, user generated content, professional user generated content and doctor generated content.

Professional generated content

Our in-house proprietary editorial team shares insightful opinions on specific new medical procedures and things trending across the industry through social media networks. This dedicated team also works with medical aesthetic influencers and industry professionals on developing and improving their content quality, driving greater synergies across our community. In addition to medical aesthetic content, our articles, pictures and short videos cover a wide spectrum of user interests, ranging from fitness to shopping hauls.

We distribute our content through all major social network and media platforms in China, encouraging followers and readers to share and repost our content, which amplifies our brand image and enables us to reach a larger audience. Each account we manage on social media networks is designed to have its own tailored content and a distinct strong personality that targets a particular internet user demographic group.

User generated content

We introduced *Beauty Diaries,* our most well-known user generated content and transformed the traditional information flow in this industry. Users who went through medical aesthetic treatment are encouraged to share their experience in detail including the medical institution, doctor, price, and other information on the treatment. The diaries typically start with before-surgery photos, followed by the entire recovery process in the form of diaries where their authors update their status by photos, videos and texts. In addition, by compiling other users’ experience and recovery progress, we offer recovery calendar for various medical aesthetic treatment so that users who are undergoing the same treatment can better prepare themselves with medical knowledge and emotional support.

In March 2020, in order to strengthen trust in both the users and content being posted by them and also enrich our content offering, we made a few strategic developments for *Beauty Diaries*. First, we use effective incentives and users wake up methods such as “diary recall” to encourage users to produce more high-quality content online. Second, we optimized the content format to enable users to generate diaries more efficiently. By simply adding three related photos or one short-form video, users can start to share their medical aesthetic treatments and recovery progresses easily and conveniently. Third, we use both AI-backed screening mechanism and manual content reviewing team to ensure the authenticity of content. We are also increasing the visibility of premium original content and high-quality cases by using effective technology upgrades and label identification. In June 2020, we also launched our “So-Young Ambassadors” project, which promoted content development. Users can produce and share beauty diaries based on their real treatment experiences. The project generated premium articles and has attracted many users to onboard our platform.

Professional user generated content

We have a group of popular content creators whom we refer to as “medical aesthetic influencers.” Medical aesthetic influencers are very active in creating and sharing content on the latest medical aesthetic trends and their treatment experience. Content created by our medical aesthetic influencers helps shape purchasing decisions of other users on our platform and encourage social interactions. Since 2018, we have been expanding our collaboration with key opinion leaders, professional experts and social media to further upgrade our professionally generated content ecosystem.

Doctor generated content

We also encourage and help doctors to generate knowledgeable content in our community to help users. In 2020, we worked with more than 15,000 doctors, who elaborate their experience in particular treatment through broadcasting actual treatment and planning process with real users. Furthermore, doctors could extend their professional services from information to diagnosis through our innovative features and tools.

In 2021, we released our third version of the Emerald Doctor list. Doctors on the Emerald Doctor list must pass verified qualification checks. We have formed an evaluation committee comprised of professionals from different areas to assess the doctors based on numerous rating criteria. We also review the listed doctors regularly. We are committed to creating an industry-recognized list of best doctors that enhances trust and improves user stickiness. We believe this feature will become a standard of quality in the medical aesthetics industry and help drive traffic to the listed doctors.

Trustworthy Social Community

Our platform hosts an open and vibrant community of medical aesthetic consumers, from new comer to medical aesthetic influencers. Users utilize our community to share a wide range of medical aesthetic experiences such as medical aesthetic procedure and skin care tips. Users also frequently provide reviews of medical aesthetic services or products, post questions and receive answers from medical aesthetic service providers and professionals. We offer the following mechanisms to promote social interaction among users and between users and medical aesthetic service providers on our platform:

- *Share*. Users can easily share their experience on particular medical aesthetic treatment on our So-Young app by posting Beauty Diaries and providing short reviews and ratings.

- *Follow*. Users can establish relationships with other users and medical aesthetic service professionals by electing to follow them.

- *Comment, Like, Favorite*. Users can leave comments on all formats of content, including Beauty Diaries, videos and articles, and reviews in online reservation function, by clicking on the “Comment” button, and the author may reply to the comments. If users like the content, they can click on the Like button to express their support for the author. At the bottom of each content module, users can see how many people have commented on or liked the content. Users can also save most types of content into their favorites by clicking on the Favorite button.

- *Messaging*. Users can send private messages among one another or to medical service providers and medical professionals in the form of text or voice recordings and can attach photos or Beauty Diaries on our platform.

- *Q&A.* Users can raise questions addressed to particular medical professionals or medical aesthetic service providers in general. We urge our medical service providers and medical professionals to respond quickly to the questions.

- *Community Project.* We launched our "So-Young Ambassadors" project, which promoted content development and drove community engagement. Users can produce and share beauty diaries based on their real treatment experiences. The project generated premium articles and has attracted many users to onboard our platform.

- *User Experience.* For some online products, users can enjoy advanced medical beauty insurance payment, product authenticity guarantee and a hassle-free experience free of charge.

Through our warm and supportive social community, users are guided through the complete decision-making process in an efficient manner, resulting in significantly shorter time lag than typical medial aesthetic decision-making process. Moreover, filled with user experience and active doctor interaction, our platform enables our users to gain personal psychological support and professional care during the recovery process, thereby further increasing the reliability of our platform.

Our Services

Information Services

Leveraging our rich user generated content that effectively serves our engaging user base, we offer a diverse range of information services primarily to help our medical aesthetic service providers better introduce their services, and increase their customer base. We generally enter into framework supply agreements with our service providers annually based on our standard form. In the contract, service providers agree to comply with all relevant laws and regulations, offer competitive price on our platform, actively resolve complaints and respond to other negative user feedback. We also reserve the right to terminate the contract when the service provider posts exaggerated information, relies on expired certifications, engages in illegal conducts, or encounters serious customer complaints.

We help our service providers introduce their services through information display on our platform. Medical aesthetic service providers can also participate in live-streaming services and short-form video series to strengthen their branding effects. When a service provider joins our platform, it automatically participates in a multiple tiered growth system. Service providers are re-evaluated regularly based on their past performance indicators, such as user feedback. Under-performing statistics, often because of unsatisfactory user feedbacks, may result in downgrade in the growth system. The growth system incentivizes medical aesthetic service providers to improve their service quality on our platform in long term by providing exclusive benefits to higher level service providers. There is an increasing amount of information service fee discount as the level grows. Moreover, participants at higher levels enjoy more availability of information services, such as customized short videos, pop-up information display in mobile app, and participation in live-streaming services. Internally, the growth system also gives our business development team guidance on the amount of resource we invest in certain medical aesthetic service providers and results in more targeted consulting and assistance on our platform.

As of December 31, 2019, 2020 and 2021, there were over 8,700, 11,000 and 13,000 medical service providers on our platform, respectively, including approximately 6,100 medical aesthetic service providers and 2,600 other consumption healthcare service providers in 2019, approximately 6,900 medical aesthetic service providers and 4,200 other consumption healthcare service providers in 2020 and approximately 8,400 medical aesthetic service providers and 5,000 other consumption healthcare service providers in 2021. Consumption healthcare services that can be reserved through our platform include dermatology, dentistry and orthodontics, ophthalmology, physical examinations, gynecology and human papilloma virus vaccines, and postnatal care.

Reservation Services

We provide reservation services on behalf of medical aesthetic service providers when a medical or beauty treatment is performed for our user through reservation from our platform. We typically charge an average rate of approximately 10% of the total amount paid by users for services introduced through our online reservation function. In 2021, we had 556.1 thousand users who purchased medical aesthetic services through our platform. In addition, we launched our *So-Young PASS* program in 2020. We collaborate with medical aesthetic service providers to provide standardized services with transparency on medical aesthetic treatment details, such as the medical aesthetic devices used and the service provider credentials. Users can purchase *So-Young PASS* through So-Young mobile app or So-Young PASS from Weixin Mini programs to receive certain number of medical aesthetic services depending on the type of treatment they intend to receive and their aesthetics needs.

As per our agreements with service providers, we collect reservation service fees for all services provided to a user as long as (i) the user was brought to the particular service provider through our platform and (ii) the service provider is still active on our platform. This includes the situations where the user visits the service provider directly without online ordering, chooses treatment at site that is different from the online reservation, adds more services during the time of visit, and visits the service provider for other treatment in the future. The service provider will place an order through their interface on our reservation function on behalf of the user.

To ensure that we have the right basis to calculate the reservation service fee pursuant to our contracts with our service providers, we actively follow up with our users on our platform. At the same time, users actively provide ratings and reviews online on the treatment that they consumed offline, which feedback allows us to check the accuracy of orders reported by service providers. In addition, as we form long-term relationships with our service providers, our penalty and policing system renders conformity to service agreements a reasonable and cost-effective choice for them.

Software as a Service (SaaS)

From operation dashboard, medical aesthetic service providers are able to obtain real-time and historical statistics of their performance, including page view, unique visitors, private messages, orders and payments, and user feedback. User ratings help medical aesthetic service providers to manage their customers and provide guidance on their approach to particular users.

Training Service

We provide guiding and consulting services for new medical aesthetic providers so that they learn better ways to manage their online presence. We assist them by hosting various training programs both online and offline. On our *So-Young Business College* Weixin mini program, medical aesthetic service providers may choose online training courses ranging from customer acquisition and operation, medical knowledge, consulting service, and management skills. In addition to online courses that medical aesthetic service providers can access 24/7, we offer offline training camps. Participants are arranged in groups to complete various social and team building activities so that they can broaden their networks in the industry.

Wuhan Miracle

Wuhan Miracle is mainly engaged in the research and development, production, sales and agency of laser and other optoelectronic medical beauty equipment, providing users with a variety of laser and other optoelectronic medical and beauty solutions. Its products primarily include laser and other optoelectronic medical beauty equipment in cosmetic and urological sectors. It also provides sales and technical services for spare parts of related products. Wuhan Miracle has developed and maintained an integrated system of raw material procurement, research and development, production and distribution suitable for its growth.

Medical beauty equipment

Wuhan Miracle's medical beauty equipment products primarily include Photon therapy device, LED light wave therapy device, laser/intense pulsed light therapy system, ruby laser therapy device, semiconductor laser hair removal machine, hydrodynamic assisted liposuction system, and Jetpeel-Mini medical beauty device. These can be used for refining dull skin, loose skin, wrinkles, large pores, rough skin, hair removal, cutting vaporized skin tissue; removing vascular and pigmented blemishes in the skin; treating psoriasis, vitiligo, allergic dermatitis; hydrodynamic assisted liposuction treatment in plastic surgery for; and general beauty care. Below are the details of each of these products:

- *Photonic therapy device*: Treatment of pigmented skin, vascular skin, abnormal lesions due to ageing and removal of unwanted hair;

- *Semiconductor laser hair removal device*: Removal of unwanted hair;

- *Nd:YAG laser therapy device*: 1064nm laser for treatment of blue-black tattoos, nevus of Ota, nevus of melanosis, and secondary hyperpigmentation; 532nm laser for treatment of freckles, age spots and coffee spots;

- *Carbon dioxide laser treatment machine*: Treatment of pigmented moles, sweat tumors, flat warts and common warts with an area less than 1 cm^2;

- *LED light wave therapy device*: Irradiating human soft tissues to achieve anti-inflammatory, analgesic, anti-infective and restorative effects;

- *Pneumatic liquid injector*: Injecting sodium hyaluronate to the dermis of face;

- *UV excimer therapy device*: Assisted irradiation therapy for vitiligo and psoriasis;

- *Excimer laser treatment system*: UVB light therapy for psoriasis, vitiligo, hereditary allergic dermatitis and leukoplakia;

- *Semiconductor laser hair removal machine*: Removal of excessive skin hair;

- *Erbium (Er: YAG) laser therapy machine*: Treatment of acne scars and wrinkles;

- *Ruby laser therapy device*: Treatment of benign skin pigmented lesions and removal of black, dark blue and green tattoos;

- *Laser/intense pulse light treatment system*: 1064 nm wavelength for hair removal, wrinkle improvement and treatment of benign vascular lesions; 1320 nm wavelength for wrinkle improvement; 2940 nm wavelength for skin peeling and wrinkle improvement; and intensely pulsed light for benign skin pigmented lesions, benign vascular lesions treatment and hair removal;

- *Hydrodynamic assisted liposuction system*: Hydrodynamic assisted liposuction treatment in plastic surgery;

- *Jetpeel-Mini medical beauty device*: Deep skin cleansing and needle-free introduction of skin care products.

Urological equipment

Wuhan Miracle's urological equipment mainly consists of its semiconductor laser therapy machine, which can be used for treatment of benign prostatic hyperplasia and urinary stones.

Branding and Marketing

We believe that our rich content and satisfactory user experience have contributed to the expansion of our user base and the increase in user engagement, leading to a strong word-of-mouth effect that strengthens our brand awareness.

We promote our platform and enhance brand awareness through a variety of online and offline marketing and brand promotion activities. We engage passionate and active medical aesthetic influencers and arrange for them to attend marketing and brand promotion campaigns and produce interesting video and textual professional medical aesthetic content on various social media networks. We cooperate with application stores, third-party apps, popular search engines and social media platforms for online and mobile marketing. We also conduct offline marketing primarily in the form of cinema advertising, television commercials, and promotion events.

Sales

We sell medical and medical beauty equipment, including self-produced products and third-party produced products, to offline medical aesthetic service providers and hospitals.

Manufacturing

We manufacture our medical and medical beauty equipment at our facilities in China.

We purchase both custom and off-the-shelf components from a large number of suppliers and subject them to stringent quality specifications and processes. We work closely with our suppliers to help ensure continuity of supply while maintaining high quality and reliability. Generally, we have been able to obtain adequate supplies of raw materials and components. We purchase the majority of our components and components through purchase orders rather than long-term supply agreements and generally do not maintain large volumes of finished goods relative to our anticipated demand.

Technology and Infrastructure

The success of our business is supported by our strong technological capabilities that enable us to deliver superior user experience and increase our operational efficiency. We provide interactive medical aesthetic features and other AI analysis tools, including our “3D try and test” surgery selection, skin texture testing, and eye shape and eyebrow design, as solutions for our growing community of users who are looking for effective services and tools to facilitate their decision making. At the same time, these features and tools increase users’ exposure to highly relatable and relevant information that enriches the overall user experience.

Our technology team, coupled with our proprietary artificial intelligence technology and the large volume of data generated and collected on our platform each day, have created opportunities for continued improvements in our technology capabilities, empowering reliability, scalability and flexibility.

As of December 31, 2021, we had a research and development team with 605 employees, including those focusing on technology development to support every aspect of our business operation, those focusing on artificial intelligent algorithm design and development, those focusing on underlying data and technology maintenance, and those focusing on the constant improvement of our existing products and the introduction of new products.

Artificial Intelligence

We believe we are in a unique position to capitalize on the use of artificial intelligence technologies, including computer vision, machine learning, and natural language processing, to further lead the revolution in medical aesthetic industry. Notable artificial intelligence products include:

- *AI Diagnosis*. A key area of our research in artificial intelligence focuses on improved facial and object recognition technology powered by advanced neural network algorithms. Through our AI analysis tool, users can obtain preliminary diagnosis information on how to improve their personal appearances.

- *Cosmetic Surgery Simulation*. We have applied various artificial intelligence and facial recognition technologies to offer users convenient facial analysis and allow users to simulate medical aesthetic treatment results on their pictures. Users can adjust multiple parameters on their facial data.

- *Intelligent Image Search*. Based on our facial analysis technologies, we enable users to search on our platform with their facial pictures to directly return relevant medical aesthetic content and treatment information.

- *Content Ranking and Recommendation*. We utilize artificial intelligence and machine learning technologies to power our ranking and recommendation system. We employ an intelligent ranking formula based on user preference and content quality.

- *Live video diagnosis*. We bring consultation process online to help users get more direct and targeted medical aesthetic service advices. Service providers can easily use our live streaming feature to engage viewers and offer accessible and cost-effective medical aesthetic diagnosis services.

- *Automatic Messaging System*. We utilize natural language processing algorithms and machine learning technologies to develop automated messaging system, which have significantly improved user experience by providing instant and helpful feedback, reducing the operating expenses for medical aesthetic service providers.

Big Data

We build proprietary big data analysis framework on our platform to improve operating efficiencies and user satisfaction. We leverage big data analytics and artificial intelligence technologies to enhance the accuracy of user behavior predictions and user profiling and optimize our operation, targeted content and user experience.

The seamless collaboration among our technology and operational teams, together with our big data analytics capability, result in improved operational efficiency for our company and our medical aesthetic service providers. Our data engineers are involved in all critical operational areas. They have thorough understanding of the computational needs from different business segments, and are therefore capable of providing technological support to address diversified needs in operating our platform.

Security and Data Privacy

We are committed to protecting information of all participants on our platform. We collect personal information and data only with users' prior consent. We do not provide sensitive user data to medical aesthetic service providers or other third-parties.

We have a security team of engineers and technicians dedicated to protecting the security of our platform. Our back-end proprietary security system is capable of handling malicious attacks each day to safeguard the security of our platform and to protect the privacy of our users and medical aesthetic service providers. We back up our user and certain other critical forms of data on a daily basis in separate and various secured data back-up systems to minimize the risk of data lost. We encrypt confidential personal information we gather from our platform. To further ensure data security and avoid data leakage, we have established internal protocols under which we grant classified access to confidential personal data to limited employees with strictly defined and layered access authority. We strictly control and manage the use of data within our various teams.

Risk Management and Internal Control

We have adopted and implemented various policies and procedures to ensure rigorous risk management and internal control.

Content Screening and Monitoring

We are committed to complying with relevant laws and regulations on online content. We have invested significant resources in developing advanced content monitoring technologies, policies and procedures.

We maintain content management and review procedures to monitor Beauty Diaries, live video broadcasting, short-form videos, treatment reviews, featured articles, chat messages and other content on our platform to ensure that we are able to promptly identify content that may be deemed to be inappropriate, in violation of laws, regulations and government policies or infringing upon third-party rights. When any inappropriate or illegal content is identified, we promptly remove the content. Further actions may also be taken to hold relevant content creators accountable.

We have an automated AI-backed screening mechanism that serves as the first layer of defense in our content review system. This system automatically flags and screens out content that duplicates other content, or involve inappropriate or illegal audio, video, comments or texts. Once the content is processed by the automated screening mechanism, our system then extracts the content and sends to our manual content screening team, our second layer of defense, for further review. We have a dedicated team reviewing and handling content on our platform for compliance with applicable laws and regulations, and ensuring the quality of our content.

Quality Control

In addition to the strict selection process to ensure qualification of our medical aesthetic providers, we have built a framework in which we constantly monitor the service provided by medical institution, through our online system and on-site visits. We establish a credit score system for medical aesthetic service providers where we deduct the score if we find malicious competition, spam orders and ratings, repetitive unsatisfactory user services, or negative media exposure. Lower credit scores result in less exposure and lower ranking on our platform. If we are no longer satisfied by the action of medical aesthetic service providers, we may initiate termination process to remove them from our online platform, thereby protecting our brand image and our users.

Competition

The online medical aesthetics industry in China is highly competitive and rapidly evolving. Our primary competitors in the online medical aesthetics industry include (i) leading search engines, (ii) other online medical aesthetic service platforms, and (iii) general online e-commerce platforms. The medical and beauty equipment industry is also highly competitive and we expect that it will become even more competitive in future. We primarily compete with other medical and beauty equipment providers.

We compete primarily on the basis of the following factors: (i) the rich and specialized content on medical aesthetic treatment for our targeted user base; (ii) our ability to seamlessly connect content and users with medical aesthetic service providers; (iii) the superior decision-making process on our platform; (iv) our large and active user base; (v) pricing of medical aesthetic treatment that could be reserved on our platform; (vi) our ability to attract and retain medical aesthetic service providers; (vii) medical aesthetic service provider validation, and treatment quality control; (viii) brand recognition and reputation; (ix) our product and service quality; (x) the effectiveness of our branding and marketing activities; (xi) technological innovation and (xii) the experience and expertise of our management team.

Intellectual Property

We regard our trademarks, copyrights, patents, domain names, know-how, proprietary technologies, and similar intellectual property as critical to our success, and we rely on copyright, trademark and patent law in the PRC, as well as confidentiality procedures and contractual provisions with our employees, contractors and others to protect our proprietary rights.

As of December 31, 2021, we own 863 registered trademarks, copyrights to 154 software programs developed by us relating to various aspects of our operations, copyrights to 108 literature and art works, 99 issued patents, and 40 registered domain names, including *soyoung.com*.

Insurance

We maintain various insurance policies to safeguard against risks and unexpected events. We provide social security insurance including pension insurance, unemployment insurance, work-related injury insurance and medical insurance for our employees. We consider our insurance coverage to be sufficient for our business operations in China.

Regulations

This section sets forth a summary of the most significant rules and regulations that affect our business activities in China or our shareholders' rights to receive dividends and other distributions from us.

Regulations on Value-added Telecommunication Services

On September 25, 2000, the State Council promulgated the Telecommunications Regulations of the People's Republic of China, or the Telecom Regulations, which was amended on July 29, 2014 and February 6, 2016. The Telecom Regulations is the primary PRC law governing telecommunication services and sets out the general regulatory framework for telecommunication services provided by PRC companies. The Telecom Regulations distinguishes between "basic telecommunication services" and "value-added telecommunication services." The Telecom Regulations defines value-added telecommunications services as telecommunications and information services provided through public networks. Pursuant to the Telecom Regulations, commercial operators of value-added telecommunications services must first obtain an operating license from the Ministry of Industry and Information Technology, or the MIIT, or its provincial level counterparts.

The Catalog of Telecommunications Business, or the Catalog, which was issued as an attachment to the Telecom Regulations and updated on February 21, 2003, December 28, 2015 and June 6, 2019, further categorizes value-added telecommunication services into two classes: Class 1 value-added telecommunication services and Class 2 value-added telecommunication services. Internet information services and online data processing and transaction processing services fall within Class 2 value-added telecommunications services, and the provider of Internet information services and online data processing and transaction processing services shall obtain ICP License and EDI Licenses from the MIIT, or its provincial branches, prior to the provision of ICP Services or EDI Services.

On July 3, 2017, the MIIT issued the Measures on the Administration of Telecommunications Business Operating Permits, or the Telecom License Measures, which became effective on September 1, 2017, to supplement the Telecom Regulations. The Telecom License Measures sets forth the types of licenses required to operate value-added telecommunications services and the qualifications and procedures for obtaining such licenses. The Telecom License Measures also provides that an operator providing value-added telecommunication services in multiple provinces is required to obtain an inter-regional license, whereas an operator providing value-added telecommunication services in one province is required to obtain an intra-provincial license. Any telecommunication services operator must conduct its business in accordance with the specifications in its license.

We engage in business activities that are value-added telecommunication services as defined in the Telecom Regulations and the Catalog. To comply with the relevant laws and regulations, Beijing So-Young, the consolidated affiliated entity, has obtained a Value-Added Telecommunications Services Operating License for providing information services via the internet, or the ICP License, which will remain effective until August 20, 2025, and an EDI License which will remain effective until January 3, 2024. Beijing Meifenbao Technology Co., Ltd., a subsidiary of Beijing So-Young, has also obtained an ICP License, which will remain effective until April 25, 2023. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—Our failure to obtain and maintain approvals, licenses or permits applicable to our business could have a material adverse impact on our business, financial conditions and results of operations."

Regulations on Foreign Investment

The Foreign Investment Catalog

Investments conducted by foreign investors in the PRC are subject to the Catalog of Industries for Encouraging Foreign Investment, or the Catalog, and the Special Administrative Measures (Negative List) for Foreign Investment Access (2021), or the Negative List, which were jointly promulgated by the National Development and Reform Commission and the MOFCOM on December 27, 2020 and December 27, 2021, and became effective on January 27, 2021 and January 1, 2022, respectively. The Negative List sets out the special administrative measures stipulated by the State for foreign investment's access to specific areas, pursuant to which foreign investors would not be allowed to make investments in prohibited industries under the Negative List, while foreign investments must satisfy certain conditions stipulated in the Negative List for investment in the fields that are included in the Negative List. According to the Negative List, the proportion of foreign investment in entities engaged in value-added telecommunication services (excluding e-commerce, domestic multi-party communications services, store-and-forward services, and call center services) shall not exceed 50%.

Foreign Investment Law

The Foreign Investment Law, promulgated by the National People's Congress on March 15, 2019, has come into effect on January 1, 2020 and has replaced the trio of old laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The Foreign Investment Law is formulated to further expand opening-up, vigorously promote foreign investment and protect the legitimate rights and interests of foreign investors. According to the Foreign Investment Law, China adopts a system of national treatment plus Negative List with respect to foreign investment administration, and the Negative List will be issued by, amended or released upon approval by the State Council, from time to time. Foreign investment and domestic investment in industries outside the scope of the Negative List would be treated equally.

According to the Foreign Investment Law, "foreign-invested enterprises" thereof refer to enterprises that are wholly or partly invested by foreign investors and registered within the territory of the PRC under the PRC laws, "foreign investment" thereof refer to any foreign investor's direct or indirect investment in mainland China, including: (i) establishing foreign-invested enterprises s in mainland China either individually or jointly with other investors; (ii) obtaining stock shares, stock equity, property shares, other similar interests in PRC domestic enterprises; (iii) investing in new projects in mainland China either individually or jointly with other investors; and (iv) making investment through other means provided by laws, administrative regulations, or State Council provisions. According to the Foreign Investment Law, the business forms, structures, and rules of activities of foreign-invested enterprises shall be governed by the Company Law of the People's Republic of China, the Partnership Law of the PRC, and other laws. The existing foreign invested enterprises established prior to the effective of the Foreign Investment Law may keep their corporate forms within five years.

Foreign investors' investment, earnings and other legitimate rights and interests within the territory of China shall be protected in accordance with the law, and all national policies on supporting the development of enterprises shall equally apply to foreign-invested enterprises. Among others, the state guarantees that foreign-invested enterprises participate in the formulation of standards in an equal manner and that foreign-invested enterprises participate in government procurement activities through fair competition in accordance with the law. Further, the state shall not expropriate any foreign investment except under special circumstances. In special circumstances, the state may levy or expropriate the investment of foreign investors in accordance with the law for the needs of the public interest. The expropriation and requisition shall be conducted in accordance with legal procedures and timely and reasonable compensation shall be given. In carrying out business activities, foreign-invested enterprises shall comply with relevant provisions on labor protection.

On December 26, 2019, the State Council issued the Implementation Regulations for the Foreign Investment Law of the PRC, or the Implementation Regulations, which also became effective on January 1, 2020. Under the Implementation Regulations, in the event of any discrepancy between provisions or regulations on foreign investment formulated or promulgated prior to January 1, 2020 and the Foreign Investment Law and the Implementation Regulations, the Foreign Investment Law and the Implementation Regulations shall prevail. The Implementation Regulations also indicated that foreign investors that invest in sectors on the Negative List in which foreign investment is restricted shall comply with special management measures with respect to shareholding, senior management personnel and other matters in the Negative List. The Foreign Investment Law and the Implementation Regulations do not mention the relevant concept and regulatory regime of VIE structures. However, since it is relatively new, uncertainties still exist in relation to its interpretation and implementation. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—Uncertainties exist with respect to the interpretation and implementation of the newly enacted PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations."

On December 30, 2019, the MOFCOM and the State Administration for Market Regulation, or the SAMR, jointly issued the Measures for Reporting of Foreign Investment Information, or the Foreign Investment Information Measures, which came into effect on January 1, 2020 and replaced the Interim Administrative Measures for the Record-filing of the Establishment and Modification of Foreign-invested Enterprises. Since January 1, 2020, for foreign investors carrying out investment activities directly or indirectly in the PRC, foreign investors or foreign-invested enterprises shall submit investment information through the Enterprise Registration System and the National Enterprise Credit Information Publicity System operated by the SAMR. Foreign investors or foreign-invested enterprises shall disclose their investment information by submitting reports for their establishments, modifications and cancellations and their annual reports in accordance with the Foreign Investment Information Measures, and relevant information will be shared by the competent market regulation department to the competent commercial department, and separate report to the commercial department is no longer required.

Regulations on Foreign Investment in the Value-added Telecommunications Industry

Foreign direct investment in telecommunications companies in China is governed by the Provisions on the Administration of Foreign-Invested Telecommunications Enterprises, or the FITE Regulations, which was promulgated by the State Council on December 11, 2001 and amended on September 10, 2008 and February 6, 2016. These regulations require that foreign-invested value-added telecommunications enterprises in China must be established as Sino-foreign equity joint ventures and that foreign investors may not hold a majority equity interest in such joint ventures. In addition, foreign investors must demonstrate significant experience in a value-added telecommunications business as well as a good business track record, which will be repealed by the Decision of the State Council on Revising and Repealing Certain Administrative Regulations, or the Decision, on May 1, 2022. As of the date of this annual report, the Decision has not become effective, and due to the lack of further clarification or detailed rules and regulations, there are still uncertainties regarding the interpretation and implementation of the Decision.

On July 13, 2006, the Ministry of Information Industry (the predecessor of the MIIT) issued the Circular on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business, pursuant to which a PRC company that holds an ICP License is prohibited from leasing, transferring or selling the ICP License to foreign investors in any form, and from providing any assistance, including resources, sites or facilities, to foreign investors that conduct value-added telecommunications business illegally in China. Moreover, the domain names and registered trademarks used by an operating company providing value-added telecommunications services shall be legally owned by such company and/or its shareholders. In addition, such company's operation premises and equipment must comply with its approved ICP License, and such company must improve its internal internet and information security standards and emergency management procedures.

On June 19, 2015, the MIIT issued the Circular on Loosening the Restrictions on Shareholding by Foreign Investors in Online Data Processing and Transaction Processing Business (for-profit E-commerce), or the Circular 196. The Circular 196 allows a foreign investor to hold 100% of the equity interest in a PRC entity that provides online data processing and transaction processing services (for-profit E-commerce). With respect to the applications for a license for on-line data processing and transaction processing businesses (for-profit E-commerce), the requirements for the proportion of foreign equity are governed by this Circular; other requirements and corresponding approval procedures are subject to the FITE Regulations.

In view of these restrictions on foreign direct investment in value-added telecommunications services and certain other types of businesses under which our business may fall, including internet audio-visual program services and radio/television programs production and operation businesses, we have established various domestic consolidated affiliated entities to engage in value-added telecommunications services. For more information, please see "Item 4. Information on the Company—C. Organizational Structure." Due to the lack of interpretative guidance 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 Related to Our Corporate Structure—If the PRC government finds that the agreements that establish the structure for operating 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". 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 value-added telecommunications services and other types of businesses in which foreign investment is restricted or prohibited, we could be subject to severe penalties.

Regulations on Internet Content Providers

The Administrative Measures on Internet Information Services, or the Internet Content Measures, which was promulgated by the State Council on September 25, 2000 and amended on January 8, 2011, sets out guidelines on the provision of internet information services. The Internet Content Measures specifies that internet information services regarding news, publications, education, medical and health care, pharmacy and medical appliances, among other things, are required to be examined, approved and regulated by the relevant authorities. In December 2019, the Cyberspace Administration of China, or the CAC, issued the Provisions on Ecological Governance of the Internet Information Content, which came into effect on March 1, 2020. The Provisions on Ecological Governance of the Internet Information Content further strength the supervision on the platform of Internet information content provider, and impose a stricter management requirement on the Internet information providers.

For instance, Internet information providers are prohibited from providing services beyond those included in the scope of their licenses or filings. Furthermore, the Internet Content Measures and the Provisions on Ecological Governance of the Internet Information Content specify a list of illegal content. Internet information providers are prohibited from producing, copying, publishing or distributing illegal or prohibited information that is humiliating or defamatory to others, or contains obscene, incendiary, political content or that infringes the legal rights of others. Internet information providers that violate such prohibition may face criminal charges or administrative sanctions, including legal sanctions, suspending our business for rectification, closing our website, revoking the licenses needed to operate our platform, or removing our So- Young mobile app from application stores. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—We may be held liable for information or content displayed on, retrieved from or linked to our platform, which may materially and adversely affect our business and operating results." Internet information providers must monitor and control the information posted on their websites. If any prohibited content is found, they must remove the content immediately, keep a record of such content and report to the relevant authorities.

The Internet Content Measures classifies internet information services into commercial internet information services and non-commercial internet information services. Commercial internet information services refer to services that provide information or services to internet users with charge. A provider of commercial internet information services must obtain an ICP License.

Regulations on Advertising

On October 27, 1994, the SCNPC promulgated the Advertising Law, as amended most recently on April 29, 2021. The Advertising Law requires that advertisers, advertising operators, and advertisement publishers shall abide by the laws and administrative regulations, and by the principles of fairness and good faith while engaging in advertising activities. Administrative departments for market regulation at and above the county level are in charge of supervision and administration of advertising.

On July 4, 2016, the State Administration for Industry & Commerce (the predecessor of the State Administration of Market Regulation), or the SAIC, promulgated the Interim Measures for the Administration of Internet Advertising, or the Internet Advertising Measures, which became effective as of September 1, 2016. The Internet Advertising Measures set forth further compliance requirements for online advertising business in addition to those in the Advertising Law. Pursuant to the Internet Advertising Measures, Internet Advertising refers to the commercial advertising for direct or indirect marketing goods or services in the form of text, image, audio, video, or others means through websites, webpages, internet apps, or other internet media. Major additional compliance requirements are: (i) advertisements must be identifiable and marked with the word "advertisement," enabling consumers to distinguish them from non-advertisement content; (ii) publishing advertisements on the Internet through a pop-up page or in other forms shall provide a prominently marked "CLOSE" button to ensure "one-click closure"; (iii) sponsored search results must be clearly distinguished from organic search results; (iv) it is forbidden to send advertisements or advertisement links by email without the recipient's permission or induce Internet users to click on an advertisement in a deceptive manner; (v) internet information service providers that do not participate in the operation of internet advertisements should stop publishing illegal advertisements if they know or should know that the advertisements are illegal; and (vi) no advertisement of any medical treatment, medicines, foods for special medical purpose, medical apparatuses, pesticides, veterinary medicines, dietary supplements or other special commodities or services which are subject to review by advertisement review authorities as stipulated by laws and regulations shall be released unless it has passed such review.

The Administrative Measures on Medical Advertisement, which were jointly promulgated by the SAIC and the National Health and Family Planning Commission of China, or the NHFPC (the predecessor of the National Health Commission of China) on November 10, 2006 and came into effect on January 1, 2007, require that medical advertisements shall be reviewed by relevant health authorities and obtain a Medical Advertisement Review Certificate before they may be released by a healthcare institution. The Medical Advertisement Review Certificate has an effective term of one year and may be renewed upon application.

The Interim Administrative Measures for Censorship of Advertisements for Drugs, Medical Devices, Dietary Supplements and Foods for Special Medical Purpose, or the Interim Administrative Measures, was issued by the SAMR on December 24, 2019, which took effect on March 1, 2020 and replaced the Measures for Drug Advertisements Examination promulgated by the China Food and Drug Administration (replaced by the SAMR, and the National Medical Products Administration), or the CFDA, on March 13, 2007 and the Measures for the Examination of Medical Device Advertisements released by the SAIC, the CFDA and the NHFPC on April 7, 2009. The Interim Administrative Measures stipulate the scope of application, contents of advertisement, competent authorities, examination procedures and legal liabilities in respect to advertisements examination of drugs and medical devices with a view to strengthening the supervision and administration of advertisements for drugs and optimizing examination procedure of advertisement for drugs and medical devices.

Pursuant to the Interim Administrative Measures, the contents of a drug advertisement shall be subject to the drug instructions approved by the medical products administration authority under the State Council, and the contents of a medical device advertisement shall be subject to the registration certificate or record-filing certificate approved by, or the product instructions registered by or filed with the competent medical products administration. Advertisement publishers shall publish advertisements for drugs and medical devices strictly accordance with the contents censored and shall not make any editing, splicing or modification.

In addition, an applicant seeking to advertise its drugs or medical devise must apply for an advertising license number. The validity period of a drug advertisement or a medical devise advertisement shall be consistent with the validity period of the registration certificate or record-filing certificate or production license of such drugs or medical devises, whichever is the shortest. Where no validity period is set forth in the registration certificate or the record-filing certificate or the production license of the drugs or medical devises, the validity period of such advertisement license number shall be two years. The applicants for drug advertisement license or medical advertisement license must be product registration certificate holder or product record-filing certificate holder or their authorized manufacture enterprise or operation enterprise.

On November 11, 2021, the SAMR enacted the Law Enforcement Guide on Medical Cosmetology Advertising, or the Guide, which indicted that “medical cosmetology advertising” refers to any commercial advertising that directly or indirectly introduces a medical cosmetology institution or medical cosmetology services through certain media or in any form. Market regulatory authorities shall rectify various medical cosmetology advertising chaos according to law and strive to solve problems with great harm and high public concern, with focus on crackdown on the following circumstances: (i) violating good social practices by creating “appearance anxiety”; (ii) advertising any drug or medical device that has not been approved by or filed for record with the drug authority in violation of laws and regulations governing drugs, medical devices, advertising, etc.; (iii) publicizing an y medical treatment item or service item that has not been approved by or filed for record with the health authority; (iv) publicizing the treatment effect or making any promise on the safety and efficacy of treatment; (v) using the name and image of the industry association or any other social community or organization as proof or using the name or image of a patient to compare the effects of treatment before and after treatment or to prove the same; (vi) using an advertising spokesperson to recommend or certify for medical cosmetology, and a so-called “recommendation officer” or “experience officer” appearing in a medical cosmetology treatment advertisement shall be deemed as an advertising spokesperson if he/she uses his/her own name or image to recommend a medical cosmetology treatment; (vii) publishing medical cosmetology treatment advertisings in a disguised form such as introduction of health or youth preservation knowledge, personal interviews, or news reports, etc. (viii) publicizing disease treatment functions relating to medical cosmetology treatment on food, health food, disinfection products or cosmetics; and (ix) other violations of advertising laws and regulations that seriously infringe upon the rights and interests of the people.

See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—Characterization of our business as engaging in medical, drug and/or medical device advertisement distribution in China without proper licenses or permits may have material impacts on our operations.”

Regulations on E-commerce

On August 31, 2018, the SCNPC promulgated the PRC E-Commerce Law, or the E-Commerce Law, which became effective on January 1, 2019. The E-Commerce Law establishes the regulatory framework for the e-commerce sector in the PRC for the first time by laying out certain requirements on e-commerce operators, including e-commerce platform operators like us. Pursuant to the E-Commerce Law, e-commerce platform operators are required to (i) take necessary actions or report to relevant competent government authorities when such operators notice any illegal production or services provided by merchants on the e-commerce platforms; (ii) verify the identity of the business operators on the platforms, including but not limited to verify the business license, Medical Institution Practicing License, Medical Advertisement Review Certificate, physician qualification certificate, or license of aesthetic medical attending in-charge physician of services provider, as appropriate; (iii) provide identity and tax related information of merchants to local branches of the State Administration for Market Regulation and tax bureaus; or (iv) record and preserve goods and service information and transaction information on the e-commerce platform. The E-Commerce Law also specifically stipulates that e-commerce platform operators shall not impose unreasonable restrictions or conditions on the transactions of their business operators on the platforms. According to the E-Commerce Law, failures to comply with these requirements may subject the e-commerce platform operators to administrative penalties, fines and/or the suspension of business. In addition, for goods and services provided via e-commerce platforms and pertinent to the life and health of consumers, e-commerce platform operators shall bear relevant responsibilities, which may give rise to civil or criminal liabilities if the consumers suffered damages due to the e-commerce platform operators’ failure to duly verify the qualifications or the licenses of the business operators on the platforms or to duly perform their safety protection obligations as required by the E-Commerce Law. For details about medical liabilities that might arise, please refer to “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations on Medical Liabilities.”

Regulations on Consumer Protection

On October 31, 1993, the SCNPC promulgated the Law on the Protection of Rights and Interests of Consumers, or the Consumer Protection Law, which was amended on August 27, 2009 and October 25, 2013. Pursuant to the Consumer Protection Law, business operators must ensure that the commodities they sell satisfy safety requirements, provide consumers with authentic information, and guarantee the quality, function, term of use of the commodities. Failure to comply with the Consumer Protection Law may subject business operators to liabilities such as refund, returns, repairs, and the payment of damages. If business operators infringe upon the legal rights and interests of consumers, they may be subject to criminal liabilities. The amended Consumer Protection Law launched in October 2013 further enhances consumer protection and intensifies the obligations imposed on online trading platforms and business operators.

The PRC Civil Code, which was promulgated by the NPC on May 28, 2020 and became effective on January 1, 2021 and replaced the Tort Liability Law promulgated by the SCNPC on December 26, 2009, provides that if an online services provider is aware that an online user is engaged in infringing activities but fails to take necessary measures, it shall be held jointly liable. If the online service provider receives any notice from the infringed party on any infringing activities, the online service provider shall take necessary measures, including removing, blocking and unlinking the infringing content, in a timely manner. Otherwise, it shall be held jointly liable with the relevant online user.

In March 2021, the SAMR promulgated the Administrative Measures for Online Trading Supervision, or Online Trading Measures, which became effective on May 1, 2021, to regulate the business of products sale and services provision through the internet, which provides general obligations and responsibilities of online trading operators and online trading platform providers. The SAIC issued the Guidelines for the Performance of Social Responsibilities by Online Trading Platform Operators on May 28, 2014 to regulate online product trading and the relevant services, guide online trading platform operators to actively perform social responsibilities, protect the lawful rights and interests of consumers and business operators, and promote the sustainable and healthy development of the online economy. These guidelines aim at enhancing the social responsibilities of online trading platforms.

Regulations on Medical Liabilities

The PRC Civil Code provides that, if a medical institution or its medical personnel are at fault for damage inflicted on a patient during the course of diagnosis and treatment, the medical institution will be liable for compensation. Medical institutions shall be liable and pay for the damage caused by the failure of the medical personnel to fulfill their statutory obligations in the course of diagnosis and treatment. Medical institutions and their medical personnel shall protect the privacy of their patients and will be subject to tortious liabilities for any damage caused by divulging the patients' private or medical records without their consent.

The Regulations on Handling Medical Incidents, which were promulgated by the State Council on April 4, 2002 and came into effect on September 1, 2002, provide detailed provisions regarding the prevention, disposition, technical identification, administrative disposition and supervision and compensation of medical incidents. "Medical incident" means an accident caused by a medical institution or its medical personnel resulting in personal injuries to a patient due to faults in medical activities as a result of any violation of the laws, administrative regulations or departmental rules on medical and health administration, or of standards or procedures for diagnosis, cure and nursing. The medical institution and the patient may, through negotiation, settle the disputes on civil liability such as the compensation for medical incidents; if they are unwilling or fail to reach settlement, the parties concerned may apply for mediation to the health administration department, or may directly bring a civil lawsuit in the people's court. The following factors shall be taken into account for determining the actual amount of compensation for medical incidents: the grade of the medical incidents; the extent of responsibility of the medical fault for the injury in the medical incidents; and the relationship between the injury in the medical incidents and the illness of the patient. Where a medical institution produces a medical accident, the health administration department may give the penalty to the medical institution according to the grade of the medical accident and circumstances.

Under the Regulations on Handling Medical Incidents, a medical incident can be classified as four degrees according to the seriousness of personal injuries to patients: (i) first degree medical incident: causing death or heavy disability of a patient, (ii) second degree medical incident: causing medium disability, or organ or tissue damage of a patient, thus resulting in severe dysfunction, (iii) third degree medical incident: causing minor disability, or organ or tissue damage of a patient, thus resulting in common dysfunction, and (iv) fourth degree medical incident: causing other tangible personal injuries to a patient. According to the Interim Measures for Medical Incident Appraisal, liability for medical incidents can be classified into four levels: (i) complete liability: the patient's injuries were entirely attributable to the healthcare provider's fault, (ii) primary liability: the patient's injuries were primarily attributable to the healthcare provider's fault, with other factors playing a secondary role, (iii) secondary liability: the patient's injuries were primarily attributable to other factors, with the healthcare provider's fault playing a secondary role, and (iv) minor liability: the patient's injuries were for the most part attributable to other factors, with the healthcare provider's fault playing a minor role. In practice, medical associations administered by the respective local branch of the NHFPC may also adjudicate peer liability which denotes a 50% liability attributable to the healthcare provider.

Regulations on Payment Services

In June 2010, the People's Bank of China, or PBOC, issued the Administrative Measures for the Payment Services of Non-Financial Institutions, or the Payment Services Measures, effective September 2010 and amended on April 29, 2020. Under the Payment Services Measures, a non-financial institution must obtain a payment business license, or Payment License, to qualify as a paying institution and provide payment services. With the Payment License, a non-financial institution may serve as an intermediary between payees and payers and provide services including online payment, issuance and acceptance of prepaid card, bank card acceptance, and other payment services as specified by PBOC. Without PBOC's approval. Non-financial institution or individual may not engage in payment business explicitly or in a disguised form.

In November 2017, PBOC published a notice, or the PBOC Notice, on the investigation and administration of illegal offering of settlement services by financial institutions and third-party payment service providers to unlicensed entities. The PBOC Notice intended to prevent unlicensed entities from using licensed payment service providers as a conduit for conducting the unlicensed payment settlement services in order to safeguard fund security and information security.

Regulations on Healthcare Institutions

The Administrative Measures on Healthcare Institutions, which was promulgated on February 26, 1994 by the State Council and came into effect on September 1, 1994, and was revised on February 6, 2016, and the Implementation Measures of the Administrative Measures on Healthcare Institutions, which were promulgated by the NHFPC on August 29, 1994 and came into effect on September 1, 1994, and was revised on November 1, 2006, June 24, 2008 and February 21, 2017, respectively, stipulate that the establishment of healthcare institutions shall be reviewed and approved by healthcare administrative departments at or above the county level and obtain an Approval Letter of Establishment of Medical Institution. Any entity or individual that intends to establish a healthcare institution must follow the application approval procedures and register with the relevant healthcare administrative authorities to obtain the Medical Institution Practicing License.

According to the Administrative Measures for Verification of Medical Institutions (For Trial Implementation), which was promulgated by the NHFPC and came into effect on June 15, 2009, the registration authorities shall periodically verify the Medical Institution Practicing License. The verification period shall be 3 years for general hospitals, hospitals of traditional Chinese medicine, hospitals of western medicine and traditional Chinese medicine, hospitals of ethnic minority medicine and specialized hospitals, as well as sanitariums, rehabilitation hospitals, maternity and children's health care centers, emergency centers, clinical laboratories and specialized disease prevention institutions equipped with more than 100 beds, while the verification period shall be 1 year for other medical institutions. In the event that a medical institution fails to apply for verification as required and post re-verification procedures or unsuccessful in its re-verification application, the registration authorities may cancel its Medical Institution Practicing License.

Regulations on Aesthetic Medical Services

The Administrative Measures for Aesthetic Medical Services, which were promulgated by the NHFPC on January 22, 2002, came into effect on May 1, 2002 and amended on February 13, 2009 and January 19, 2016, stipulate that aesthetic medical item shall be classified as a first-level subject, and aesthetic surgery, aesthetic dentistry, aesthetic dermatology and aesthetic Chinese medicine shall be classified as a secondary subject. Medical practitioners of aesthetic medical services shall obtain the qualification license of aesthetic medical attending in-charge physician or provide aesthetic medical clinical services under the supervision of a licensed attending in-charge physician. An aesthetic medical attending in-charge physician shall meet certain requirements and provincial level health authorities shall be responsible for the qualification review of aesthetic medical attending in-charge physicians.

The Classification Catalog of Aesthetic Medical Item, which was promulgated by the NHFPC on December 11, 2009 and came into effect on the same date, classifies aesthetic medical services into four categories: (i) aesthetic surgery items; (ii) aesthetic dentistry items; (iii) aesthetic dermatological items and (iv) aesthetic Chinese medicine items. Provincial-level counterparts of the NHFPC may adjust the catalog based on local circumstances. In accordance with the difficulty and complexity of the surgery, the possibility of medical malpractice and the level of surgery risk, the aesthetic surgical items are divided into four grades. Surgeries that involve uncomplicated operation processes and less technical difficulty and risk shall be classified as grade 1. Surgeries that involve general complexity of operation processes and certain technical difficulty and risk, as well as requiring the use of epidural space block anesthesia and intravenous anesthesia, shall be classified as grade 2. Surgeries involving relatively high complexity of operation processes and relatively huge technical difficulties and risk, as well as requiring the preoperative blood preparation and tracheal intubation for general anesthesia, shall be classified as grade 3. If highly complicated operation processes are needed and huge technical difficulty and high risk are involved, the surgeries shall be classified as grade 4.

The Basic Standard for Aesthetic Medical Institution and Aesthetic Medical Department (For Trial Implementation), which was promulgated by the NHFPC on April 16, 2002 and came into effect on the same date, specifies basic standards that aesthetic medical hospitals, aesthetic medical out-patient departments, aesthetic medical clinics and aesthetic medical departments should meet, such as the number of beds, clinical departments and medical personnel.

Regulations on Medical Personnel

The Law on Medical Practitioners of the People's Republic of China, which was promulgated by the SCNPC on June 26, 1998 and came into effect on May 1, 1999 and revised on August 27, 2009, provides that doctors in the PRC must obtain qualification licenses for their medical profession. Qualified physicians must register with the relevant public health administrative authorities at or above the county level. After registration, doctors may work at healthcare institutions in their registered location in the types of jobs and within the scope of medical treatment, disease-prevention or healthcare business as provided in their registration.

The Notice on the Several Opinions on Promoting and Regulating Concerning Multi-site Practice of Doctors, which was jointly promulgated by the NHFPC and other four departments on November 5, 2014 and came into effect on the same date, provides that doctors may practice in cooperative healthcare institutions after performing relevant registration procedures with the authorities. The local NHFPC shall propose and implement its own multi-site practice policies. Key areas of such policies include: (i) doctors should obtain approval from the local NHFPC for multi-site practice; (ii) doctors should satisfy certain criteria before they become eligible to engage in multi-site practice; (iii) no multi-site doctor should have more than three practice sites in the same province; and (iv) doctors should enter into a written agreement with the hospitals that they intend to engage in multi-site practice with, which should clearly provide for legal liabilities in the event of disputes and other related matters prior to commencement of multi-site practice.

The Several Opinions on Accelerating the Development of Healthcare institutions with Social Capital, which were promulgated and made effective on December 30, 2013 by the NHFPC and the State Administration of Traditional Chinese Medicine, specifically stipulate that multi-site practice of doctors shall be permitted and relevant authorities should provide favorable support for the orderly movements of the medical personnel.

The Administrative Measures for Temporary Medical Practicing in China by Foreign Doctors, which were promulgated by the NHFPC on October 7, 1992, came into effect on January 1, 1993 and amended on January 19, 2016, provide that temporary medical practicing in China by foreign doctors refers to those clinical diagnosis and treatment business activities that are carried out for a period of less than one year by foreign doctors licensed in other countries who are invited to apply to come to, or employed in, China. Temporary medical practicing in China by foreign doctors shall be registered and be issued a License of Temporary Medical Practicing in China by Foreign Doctors. The effective period for a short-term foreign doctor practicing permit in China should not exceed one year. Foreign doctors can re-apply for their registration of medical practicing upon the expiration of their previous registration.

Regulations on Internet Medical Services

According to the Opinion Concerning the Promotion of the Development of Internet Plus Medical and Health, promulgated and implemented on April 25, 2018 by the General Office of the State Council, third-party organizations such as the internet medical health service platform shall ensure that the qualifications of their medical service staffs are in compliance with the relevant regulation provisions and bear the responsibilities for the services provided. The internet medical health service platform shall also be strictly in accordance with the relevant regulation provisions regarding information security and confidentiality obligations for health and medical data, and establish or improve its privacy information protection system.

According to the Notice of Publishing of the Measures on the Administration of the Internet Diagnosis and Treatment (For Trial Implementation) and Other Two Documents, which was promulgated and implemented on July 17, 2018 by the National Health Commission and State Administration of Traditional Chinese Medicine, Internet diagnosis and treatment refers to the use of doctors registered in the institution using the Internet and other information technology to carry out diagnosis of some common diseases, chronic diseases re-diagnosis and “Internet Plus” family doctor contract services. Internet diagnosis and treatment activity shall be provided by medical institution that has obtained the Medical Institution Practicing License and the medical institution shall apply for registration of Internet diagnosis and treatment activity. Medical institutions carrying out Internet diagnosis and treatment activities should be consistent with their diagnosis and treatment subjects.

Regulations on Internet Drug Information Service

The Administrative Measures on Internet Drug Information Service was promulgated by the CFDA in July 8, 2004 and amended in November 17, 2017 and came into effect on November 17, 2017, pursuant to which the internet drug information services is to provide drug (including medical device) information services to online users; services are divided into commercial internet drug information services and non-commercial internet drug information services. The website operator that provides drugs (including medical devices) information services must obtain an Internet Drug Information Service Qualification Certificate from the competent counterpart of the CFDA. The valid term for an Internet Drug Information Service Qualification Certificate is five years and may be renewed at least six months prior to its expiration date upon a re-examination by the relevant governmental authorities. Furthermore, as requested by Internet Drug Measures, the information relating to drugs shall be accurate and scientific in nature, and its provision shall comply with the relevant laws and regulations. No product information of stupefacient, psychotropic drugs, medicinal toxic drugs, radiopharmaceutical, detoxification drugs and pharmaceutics made by medical institutes shall be distributed on the website. In addition, advertisements relating to drugs (including medical devices) shall be approved by the CFDA or its competent counterparts. To comply with the relevant laws and regulations, Beijing So-Young, the consolidated affiliated entity, has obtained an Internet Drug Information Service Qualification Certificate, which will remain effective until December 27, 2023.

Regulations on Medical Devices

Sales of Medical Devices

In the PRC, medical devices are classified into three different categories, Class I, Class II and Class III, based on the invasiveness of and risks associated with each medical device. According to the Measures on the Supervision and Administration of the Business Operations of Medical Devices, which were promulgated by the CFDA on July 30, 2014 and last amended on March 10, 2022, and which will become effective on May 1, 2022, business operations of medical devices are administered by category depending on the degree of risks of medical devices. Doing business for Class I medical devices will not require licensing or record-filing, while operations of Class II medical devices and Class III medical devices shall be subject to administration by record-filing and by licensing respectively. Also, the medical device operator shall bear the legal liability for any act of purchasing or selling medical devices performed by its offices or sales persons in its name, shall establish and put in practice the purchase inspection records system, and shall purchase medical devices from qualified manufacturers or operators. According to the Measures for the Administration and Supervision of Online Sales of Medical Devices, which were promulgated by the CFDA on December 20, 2017, and came into effect on March 1, 2018, enterprises engaged in online sales of medical devices shall be medical device production and operation enterprises that have obtained, or filed application of, a medical device production license or operation license in accordance with the law, unless such license or application is not required by laws and regulations. Providers of third-party platforms providing online trading service for medical devices shall take technical measures to guarantee that data and materials in respect of online sales of medical devices are authentic, complete and traceable and shall obtain the Qualification Certificate for Medicine Information Services on the Internet in accordance with the law.

Beijing So-young Qingyang Medical Devices Co., Ltd. has obtained a Medical Devices Operating License for wholesale of Class-III medical devices, which will remain effective until April 13, 2022, and a Medical Devices Operating Filing for wholesale of Class II medical devices. In addition, Hainan So-young Medical Technology Co., Ltd. has obtained a Medical Devices Operating License, which will remain effective until November 28, 2026, and a Medical Devices Operating Filing for wholesale of Class II medical devices.

Production of Medical Devices

According to the Regulations on the Supervision and Administration of Medical Devices, which were promulgated by the PRC State Council on January 4, 2000 and latest amended and came into effect on June 1, 2021, to engage in the production of Class II and Class III medical devices, an entity shall apply for a production permit to the drug regulatory department of the people’s government of the province, autonomous region or municipality where it is located and submit the relevant materials that meet the conditions and the registration certificate of the medical devices to be produced. Enterprises engaged in the production of Class I medical devices only need to make filing relating to the production of such Class I medical devices with the food and drug supervision and administration department of the people’s government of the local city with districts and provide supporting materials to prove its satisfaction of the relevant conditions of engaging in the production of medical devices.

The production permit of the production of Class II and/or Class III medical devices is valid for five years and the producer of the relevant medical device is responsible for renewal. Entities who engaged in manufacturing or operation Class-II or Class-III medical devices without obtaining such permit may be ordered to suspend or terminate the provision of services, confiscation of illegal income, fines or other penalties.

Wuhan Miracle Laser Systems, Inc has obtained the production permit from Hubei Provincial Drug Administration, which will remain effective until August 19, 2024.

Registration and Filing of Medical Devices

According to the Regulations on the Supervision and Administration of Medical Devices, the Class I medical devices are subject to record-filing requirements, and Class II and Class III medical devices are subject to registration requirements.

According to the Administrative Measures on the Registration and Filing of Medical Devices, which were promulgated by the SAMR on August 26, 2021 and came into effect on October 1,2021, filing is required for domestic Class I medical devices, and the filing applicants shall submit the filing materials to the food and drug supervision and administration departments of the people's governments of the local municipalities with districts. Domestic Class II and Class III medical devices are subject to registration requirements. Class II medical devices shall be examined by the drug supervision and administration departments of the people's governments of the provinces, autonomous regions and municipalities directly under the central government where the registration applicants are located, and a Medical Device Registration Certificate for such medical devices shall be issued upon approval. Class III medical devices shall be examined by the National Medical Products Administration, or the NMPA, and a Medical Device Registration Certificate for such medical devices shall be issued upon approval. In case of any substantial change, including the designs, raw materials, production technologies, scopes of application and application methods, of the registered Class II or Class III medical devices, which may affect the safety and effectiveness of such medical devices, the registrants shall apply to the original registration departments for changing registration.

Regulations on Internet Audio-Visual Program Services

Audio-Visual License

On December 20, 2007, the State Administration of Radio, Film and Television, or the SARFT (the predecessor of NRTA) and the MIII jointly promulgated the Administrative Provisions on Internet Audio-Visual Program Services, or the Audio-Visual Program Provisions, which became effective as of January 31, 2008 and were subsequently amended on August 28, 2015. Providers of internet audio-visual program services are required to obtain the license for online transmission of audio-visual programs, or the Audio-Visual License issued by SARFT, or complete record-filing procedures with SARFT. In general, providers of internet audio-visual program services must be either state-owned or state-controlled entities, and their businesses must satisfy the overall planning and guidance catalog for internet audio-visual program service determined by SARFT.

On May 21, 2008, SARFT issued a Notice on Relevant Issues Concerning Application and Approval of License for the Online Transmission of Audio-Visual Programs, which was amended on August 28, 2015, and further sets out detailed provisions concerning the application and approval process regarding the Audio-Visual License. The notice also stipulates that internet audiovisual program services providers that had engaged in such services prior to the promulgation of the Audio-Visual Program Provisions are able to apply for the license so long as (i) the violation of the laws and regulations is minor in scope and can be rectified in a timely manner, and (ii) the providers had no violations of laws during the last three months prior to the promulgation of the Audio-Visual Program Provisions.

On March 30, 2009, SARFT promulgated the Notice on Strengthening the Administration of the Content of Internet Audio-Visual Programs, which prohibits internet audio-visual programs containing violence, pornography, gambling, terrorism, superstition or other similarly prohibited elements.

On March 17, 2010, the SARFT issued the Internet Audio-visual Program Services Categories for trial implementation, or the Categories, which were amended on March 10, 2017. In addition, the Notice concerning Strengthening the Administration of the Live Video Broadcast Service of Online Audio-Visual Programs promulgated by the State Administration of Press and Publication Radio, Film and Television, or SAPPRFT (the predecessor of NRTA) on September 2, 2016 emphasizes that, unless a specific license is granted, an audio-visual programs service provider is forbidden from engaging in live video broadcasting on major political, military, economic, social, cultural, or sports events, among others.

CAC Rules

On November 4, 2016, the Cyberspace Administration of China, or the CAC, promulgated the Provisions on the Administration of Online Live Video Broadcast Services effective as of December 1, 2016. Under these provisions, an online live video broadcasting service provider shall (i) establish a live video broadcasting content review platform; (ii) conduct authentication registration of internet live video broadcasting issuers based on their identity certificates, business licenses and organization code certificates; and (iii) enter into a service agreement with internet live video broadcasting services user to specify both parties' rights and obligations.

On July 12, 2017, in order to tighten its scrutiny on content distributed through live video broadcasting platforms, the CAC issued a notice requiring that online live video broadcasting service providers to file with local branches of the CAC starting July 15, 2017.

See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—Our failure to obtain and maintain approvals, licenses or permits applicable to our business could have a material adverse impact on our business, financial conditions and results of operations."

Regulations on Production and Operation of Radio/Television Programs

On July 19, 2004, the SARFT promulgated the Administrative Measures on the Production and Operation of Radio and Television Programs, or the Radio and Television Program Production Measures, which came into effect on August 20, 2004 and was amended on August 28, 2015 and October 29, 2020. The Radio and Television Program Production Measures provides that any business that produces or operates radio or television programs must first obtain a Radio and Television Program Production and Operation Permit. Entities holding such permits shall conduct their business within the permitted scope as provided in their permits. In addition, foreign-invested enterprises are not allowed to engage in the above-mentioned services. To comply with the relevant laws and regulations, Beijing So-Young has obtained a Radio and Television Program Production and Operation Permit, which will remain effective until June 30, 2023.

Regulations on Online Publishing

On February 4, 2016, the SAPPRFT and the MIIT jointly issued the Rules for the Administration for Internet Publishing Services, or the Internet Publishing Rules, which became effective on March 10, 2016, to replace the Provisional Rules for the Administration for Internet Publishing that had been jointly issued by the SAPPRFT and the MIIT on June 27, 2002. The Internet Publishing Rules defines "internet publications" as digital works that are edited, produced, or processed to be published and provided to the public through the internet, including (a) original digital works, such as pictures, maps, games, and comics; (b) digital works with content that is consistent with the type of content that, prior to the internet age, typically was published in media such as books, newspapers, periodicals, audio-visual products, and electronic publications; (c) digital works in the form of online databases compiled by selecting, arranging, and compiling other types of digital works; and (d) other types of digital works identified by the SAPPRFT. Under the Internet Publishing Rules, internet operators distributing such publications via internet are required to apply for an internet publishing license with the relevant governmental authorities and for SAPPRFT approval before distributing internet publications.

Regulations on Internet Security

Internet information in China is regulated and restricted from a national security standpoint. The SCNPC, has enacted the Decisions on Maintaining Internet Security on December 28, 2000, amended on August 27, 2009, which may subject violators to criminal punishment in China for any effort to: (i) gain improper entry into a computer or system of strategic importance; (ii) disseminate politically disruptive information; (iii) leak state secrets; (iv) spread false commercial information; or (v) infringe intellectual property rights. In 1997, the Ministry of Public Security promulgated measures that prohibit use of the internet in ways which, among other things, result in a leakage of state secrets or a spread of socially destabilizing content. If an internet information service provider violates these measures, the Ministry of Public Security and the local security bureaus may revoke its operating license and shut down its websites.

On November 7, 2016, the SCNPC promulgated the Cybersecurity Law of the PRC, or the Cybersecurity Law, which became effective on June 1, 2017. The Cybersecurity Law requires network operators, including online lending information intermediaries, to comply with laws and regulations and fulfill their obligations to safeguard security of the network when conducting business and providing services. The Cybersecurity Law further requires network operators to take all necessary measures in accordance with applicable laws, regulations and compulsory national requirements to safeguard the safe and stable operation of the networks, respond to network security incidents effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data.

On June 10, 2021, the SCNPC issued the Data Security Law of the People's Republic of China, or the Data Security Law, which has taken effect on September 1, 2021. The Data Security Law provides a national data security review system, under which data processing activities that affect or may affect national security shall be reviewed. In addition, it clarifies the data security protection obligations of organizations and individuals carrying out data activities and implementing data security protection responsibility, data processors shall establish and improve the whole-process data security management rules, organize and implement data security trainings as well as take appropriate technical measures and other necessary measures to protect data security. Any organizational or individual data processing activities that violate the Data Security Law shall bear the corresponding civil, administrative or criminal liabilities depending on specific circumstances.

On November 14, 2021, the CAC published Regulations on Network Data Security Management (Consultation Draft), or the Draft Regulations on Network Data Security Management, which stipulates that data processing entities should apply for cybersecurity review in the event of. As of the date of this annual report, the Draft Regulations on Network Data Security Management has not come into effect yet.

Regulations on Privacy Protection

In December 2011, the MIIT issued Several Provisions on Regulating the Market Order of Internet Information Services, which provides that an internet information service provider may not collect any user's personal information or provide any such information to third parties without such user's consent. Pursuant to The Several Provisions on Regulating the Market Order of Internet Information Services, internet information service providers are required to, among others, (i) expressly inform the users of the method, content and purpose of the collection and processing of such users' personal information and may only collect such information necessary for the provision of its services; and (ii) properly maintain the users' personal information, and in case of any leak or possible leak of a user's personal information, online lending service providers must take immediate remedial measures and, in severe circumstances, make an immediate report to the telecommunications regulatory authority.

In addition, pursuant to the Decision on Strengthening the Protection of Online Information, issued by the SCNPC in December 2012, and the Order for the Protection of Telecommunication and Internet User Personal Information, issued by the MIIT in July 2013, any collection and use of any user personal information must be subject to the consent of the user, and abide to the applicable law, rationality and necessity of the business and fall within the specified purposes, methods and scopes in the applicable law.

Pursuant to the Ninth Amendment to the Criminal Law, issued by the SCNPC in August 2015, which became effective in November, 2015, any internet service provider that fails to fulfill its obligations related to internet information security administration as required under applicable laws and refuses to rectify upon orders shall be subject to criminal penalty. In addition, Interpretations of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues Concerning the Application of Law in the Handling of Criminal Cases Involving Infringement of Personal Information, issued on May 8, 2017 and effective as of June 1, 2017, clarified certain standards for the conviction and sentencing of the criminals in relation to personal information infringement.

The PRC government promulgated the Measures for Cybersecurity Review in April 2020, which became effective in June 2020. Under these measures, critical information infrastructure operators must pass a cybersecurity review when purchasing network products and services which do or may affect national security. On December 28, 2021, the CAC, together with certain other PRC governmental authorities, jointly released the Revised Cybersecurity Review Measures, which took effect on February 15, 2022. Pursuant to the Revised Cybersecurity Review Measures, 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. 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 Cybersecurity Review Measures set out certain general factors which would be the focus in assessing the national security risk during a cybersecurity review.

On August 20, 2021, the SCNPC promulgated the Law of Personal Information Protection of PRC, or the Personal Information Protection Law, which became effective on November 1, 2021. The Personal Information Protection Law specifically specified the rules for handling sensitive personal information, which means personal information that, once leaked or illegally used, may easily cause harm to the dignity of natural persons or grave harm to personal or property security, including information on biometric characteristics, financial accounts, individual location tracking, etc., as well as the personal information of minors under the age of 14. Personal information handlers shall bear responsibility for their personal information handling activities and adopt the necessary measures to safeguard the security of the personal information they handle. Otherwise, the personal information handlers will be ordered to correct or suspend or terminate the provision of services, confiscation of illegal income, fines or other penalties.

On August 17, 2021, the PRC State Council promulgated the Regulations on Security Protection of Critical Information Infrastructure, which became effective on September 1, 2021. Pursuant to such regulations, "critical information infrastructure" shall mean any important network facilities or information systems of important industries or fields such as public communication and information service, energy, communications, water conservation, finance, public services, e-government affairs and national defense science, and any other important network facilities or information systems which may endanger national security, people's livelihood and public interest in case of damage, function loss or data leakage. In addition, relevant administration departments of each critical industry and sector, or Protection Departments, shall be responsible to formulate eligibility criteria and determine the critical information infrastructure operator in the respective industry or field. The operators shall be informed about the final determination as to whether they are categorized as critical information infrastructure operators.

In addition, the PRC Civil Code requires personal information of individuals to be protected. Any organization or individual requiring personal information of others shall obtain such information legally and ensure the security of such information, and shall not illegally collect, use, process, or transmit such personal information, or illegally buy, sell, provide, or publish such personal information.

While we have taken measures to protect the confidentiality of information that we have access to, our security measures could be breached. Any accidental or willful security breaches or other unauthorized access to our platform could cause confidential information of users to be stolen and used for criminal purposes. Any security breaches or unauthorized access to confidential information could also expose us to liability for loss of information and negative publicity.

Regulations on Mobile Internet Applications Information Services

Administration of mobile internet application information services is strengthened through Regulations for Administration on Mobile Internet Applications Information Services, or the MIAIS Regulations, which was promulgated by the CAC, on June 28, 2016 and became effective on August 1, 2016. The MIAIS Regulations were enacted to regulate mobile app information service providers. Pursuant to the MIAIS Regulations, the CAC and local offices of cyberspace administration shall be responsible for the supervision and administration of nationwide or local mobile app information, respectively.

Under the MIAIS Regulations, mobile app information service providers are required to obtain relevant qualifications and are responsible for the supervision and administration of mobile app information. Mobile app information service providers are required to strictly implement information security management responsibilities, including, but not limited to: (i) authenticate the identity of the registered users, (ii) protect user information and obtain users' consents for collecting and using their personal information in a lawful manner, (iii) establish information content audit and management mechanism, and prohibit any content in violation of laws or regulations, and (iv) record and keep users' logged information for 60 days.

Regulations on Account Names of Internet Users

On February 4, 2015, the CAC promulgated the Administrative Provisions on the Account Names of Internet Users, which became effective as of March 1, 2015. These provisions strengthened the administration of the account names of internet users. In addition to the authentication requirement for the real identity of internet users by requiring users to provide their real names during the registration process, these provisions specifically require that any internet information service provider shall enhance security administration, perfect the user service agreement, purge any illegal or malicious information from account names, photos, personal profiles and user registration information. Service providers must employ specialized personnel in proportion to its service scale, to (i) review account names, photos, personal profile and all relevant user registration information of internet users, (ii) deregister account names containing illegal and malicious information, and (iii) protect the information of the users, accept the supervision from the public, and purge the illegal and malicious information in account names, photos, self-introductions and other registration-related information reported by the public in a timely manner.

Regulations on Intellectual Property

Patent Law

According to the Patent Law of the PRC (revised in 2008), which was last amended in 2020 and became effective in June 2021, the State Intellectual Property Office is responsible for administering patent law in the PRC. The patent administration departments of provincial, autonomous region or municipal governments are responsible for administering patent law within their respective jurisdictions. The Chinese patent system adopts a first-to-file principle, which means that when more than one person files different patent applications for the same invention, only the person who files the application first is entitled to obtain a patent of the invention. To be patentable, an invention or a utility model must meet three criteria: novelty, inventiveness and practicability. A patent is valid for twenty years in the case of an invention, ten years in the case of utility models and fifteen years in the case of designs. Patents cannot be granted for scientific discoveries, rules and methods for intellectual activities, methods used to diagnose or treat diseases, animal and plant breeds or substances obtained by means of nuclear transformation. The Patent Office under the State Intellectual Property Office is responsible for receiving, examining and approving patent applications. Except under certain specific circumstances provided by law, any third-party user must obtain consent or a proper license from the patent owner to use the patent, or else the use will constitute an infringement of the rights of the patent holder.

Regulations on Copyright

The Copyright Law of the PRC, or the Copyright Law, which took effect on June 1, 1991 and last amended in 2021, provides that Chinese citizens, legal persons, or unincorporated organizations shall, whether published or not, own copyright in their copyrightable works, which include, among others, works of literature, art, science, engineering technology and computer software. Copyright owners enjoy certain legal rights, including right of publication, right of authorship and right of reproduction. The Copyright Law as revised in 2010 extends copyright protection to Internet activities, products disseminated over the Internet and software products. In addition, the Copyright Law provides for a voluntary registration system administered by the China Copyright Protection Center, or the CPCC.

According to the Copyright Law, an infringer of the copyrights shall be subject to various civil liabilities, which include ceasing infringement activities, apologizing to the copyright owners and compensating the loss of copyright owner. Infringers of copyright may also be subject to fines and/or administrative or criminal liabilities in severe situations.

Pursuant to the Computer Software Copyright Protection Regulations promulgated by the State Council on December 20, 2001 and last amended on January 30, 2013, the software copyright owner may go through the registration formalities with a software registration authority recognized by the State Council's copyright administrative department. The software copyright owner may authorize others to exercise that copyright, and is entitled to receive remuneration.

Trademark Law

Trademarks are protected by the Trademark Law of the PRC, which was adopted on August 23, 1982, and subsequently amended in 1993, 2001, 2013 and 2019 respectively as well as by the Implementation Regulations of the PRC Trademark Law adopted by the State Council in 2002 and as most recently amended on April 29, 2014. The Trademark Office under the State Administration for Industry and Commerce handles trademark registrations. The Trademark Office grants a ten-year term to registered trademarks and the term may be renewed for another ten-year period upon request by the trademark owner. A trademark registrant may license its registered trademarks to another party by entering into trademark license agreements, which must be filed with the Trademark Office for its record. As with patents, the Trademark Law has adopted a first-to-file principle with respect to trademark registration. If a trademark applied for is identical or similar to another trademark that has already been registered or subject to a preliminary examination and approval for use on the same or similar kinds of products or services, such trademark application may be rejected. Any person applying for the registration of a trademark may not injure existing trademark rights first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a "sufficient degree of reputation" through such party's use.

Regulations on Domain Names

The MIIT promulgated the Measures on Administration of Internet Domain Names, or the Domain Name Measures, on August 24, 2017, which took effect on November 1, 2017 and replaced the Administrative Measures on China Internet Domain Name first promulgated by the MIIT on August 1, 2002. According to the Domain Name Measures, the MIIT is in charge of the administration of PRC internet domain names. The domain name registration follows a first-to-file principle. Applicants for registration of domain names must provide the true, accurate and complete information of their identities to domain name registration service institutions. The applicants will become the holder of such domain names upon the completion of the registration procedure.

Regulations on Foreign Exchange

General Administration of Foreign Exchange

Under the PRC Foreign Currency Administration Rules promulgated on January 29, 1996 and most recently amended on August 5, 2008 and various regulations issued by the State Administration of Foreign Exchange of the PRC, or the SAFE and other relevant PRC government authorities, Renminbi is convertible into other currencies for current account items, such as trade-related receipts and payments and payment of interest and dividends. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside the PRC for capital account items, such as direct equity investments, loans and repatriation of investment, requires the prior approval from the SAFE or its local office.

Payments for transactions that take place within the PRC must be made in Renminbi. Unless otherwise approved, PRC companies may not repatriate foreign currency payments received from abroad or retain the same abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks under the current account items subject to a cap set by the SAFE or its local office. Foreign exchange proceeds under the current accounts may be either retained or sold to a financial institution engaged in settlement and sale of foreign exchange pursuant to relevant SAFE rules and regulations. For foreign exchange proceeds under the capital accounts, approval from the SAFE is generally required for the retention or sale of such proceeds to a financial institution engaged in settlement and sale of foreign exchange.

Pursuant to the Circular of the SAFE on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment, or the SAFE Circular No. 59 promulgated by SAFE on November 19, 2012, which became effective on December 17, 2012, and last amended in 2018, approval of SAFE is not required for opening a foreign exchange account and depositing foreign exchange into the accounts relating to the direct investments. The SAFE Circular No. 59 also simplified foreign exchange-related registration required for the foreign investors to acquire the equity interests of Chinese companies and further improve the administration on foreign exchange settlement for foreign-invested enterprises.

The Circular on Further Simplifying and Improving the Foreign Currency Management Policy on Direct Investment, or the SAFE Circular No. 13, effective from June 1, 2015, cancels the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment and simplifies the procedure of foreign exchange-related registration. Pursuant to the SAFE Circular No. 13, the investors shall register with banks for direct domestic investment and direct overseas investment.

The Circular on Reforming the Management Approach regarding the Settlement of Foreign Capital of Foreign-invested Enterprise, or the SAFE Circular No. 19, which was promulgated by the SAFE on March 30, 2015 and became effective on June 1, 2015, provides that a foreign-invested enterprise may, according to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange administration has confirmed monetary capital contribution rights and interests (or for which the bank has registered the injection of the monetary capital contribution into the account).

Pursuant to the SAFE Circular No. 19, for the time being, foreign-invested enterprises are allowed to settle 100% of their foreign exchange capitals on a discretionary basis; a foreign-invested enterprise shall truthfully use its capital for its own operational purposes within the scope of business; where an ordinary foreign-invested enterprise makes domestic equity investment with the amount of foreign exchanges settled, the invested enterprise must first go through domestic re-investment registration and open a corresponding account for foreign exchange settlement pending payment with the foreign exchange administration or the bank at the place where it is registered.

The Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts, or the SAFE Circular No. 16, which was promulgated by the SAFE and became effective on June 9, 2016, provides that enterprises registered in the PRC may also convert their foreign debts from foreign currency into Renminbi on self-discretionary basis. The SAFE Circular No. 16 also provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on a self-discretionary basis, which applies to all enterprises registered in the PRC.

Pursuant to the SAFE Circular No. 13 and other laws and regulations relating to foreign exchange, when setting up a new foreign invested enterprise, the foreign invested enterprise shall register with the bank located at its registered place after obtaining the business license, and if there is any change in capital or other changes relating to the basic information of the foreign-invested enterprise, including without limitation any increase in its registered capital or total investment, the foreign invested enterprise must register such changes with the bank located at its registered place after obtaining the approval from or completing the filing with competent authorities. Pursuant to the relevant foreign exchange laws and regulations, the above-mentioned foreign exchange registration with the banks will typically take less than four weeks upon the acceptance of the registration application.

Based on the forgoing, if we intend to provide funding to our wholly foreign-owned subsidiaries through capital injection at or after their establishment, we must register the establishment of and any follow-on capital increase in our wholly foreign-owned subsidiaries with the SAMR or its local counterparts, file such via the FICMIS and register such with the local banks for the foreign exchange related matters.

Loans by the Foreign Companies to their PRC Subsidiaries

A loan made by foreign investors as shareholders in a foreign-invested enterprise is considered to be foreign debt in China and is regulated by various laws and regulations, including the Regulation of the People's Republic of China on Foreign Exchange Administration, the Interim Provisions on the Management of Foreign Debts, the Statistical Monitoring of Foreign Debts Tentative Provisions, the Detailed Rules for the Implementation of Provisional Regulations on Statistics and Supervision of External Debt, and the Administrative Measures for Registration of Foreign Debts. Under these rules and regulations, a shareholder loan in the form of foreign debt made to a PRC entity does not require the prior approval of SAFE. However, such foreign debt must be registered with and recorded by SAFE or its local branches within fifteen (15) business days after entering into the foreign debt contract. Pursuant to these rules and regulations, the balance of the foreign debts of a foreign invested enterprise shall not exceed the difference between the total investment and the registered capital of the foreign invested enterprise, or Total Investment and Registered Capital Balance.

On January 11, 2017, the People's Bank of China, or the PBOC, promulgated the Notice of the People's Bank of China on Matters concerning the Macro-Prudential Management of Full-Covered Cross-Border Financing, or the PBOC Notice No. 9. Pursuant to the PBOC Notice No. 9, within a transition period of one year from January 11, 2017, the foreign-invested enterprises may adopt the currently valid foreign debt management mechanism, or Current Foreign Debt Mechanism, or the mechanism as provided in the PBOC Notice No. 9, or Notice No. 9 Foreign Debt Mechanism, at their own discretion. The PBOC Notice No. 9 provides that enterprises may conduct independent cross-border financing in RMB or foreign currencies as required. Pursuant to the PBOC Notice No. 9, the outstanding cross-border financing of an enterprise (the outstanding balance drawn, here and below) shall be calculated using a risk-weighted approach, or Risk-Weighted Approach, and shall not exceed the specified upper limit, namely: risk-weighted outstanding cross-border financing £ the upper limit of risk-weighted outstanding cross-border financing. Risk-weighted outstanding cross-border financing = S outstanding amount of RMB and foreign currency denominated cross-border financing * maturity risk conversion factor * type risk conversion factor + S outstanding foreign currency denominated cross-border financing * exchange rate risk conversion factor. Maturity risk conversion factor shall be 1 for medium- and long-term cross-border financing with a term of more than one year and 1.5 for short-term cross-border financing with a term of less than one year. Type risk conversion factor shall be 1 for on-balance-sheet financing and 1 for off-balance-sheet financing (contingent liabilities) for the time being. Exchange rate risk conversion factor shall be 0.5. The PBOC Notice No. 9 further provides that the upper limit of risk-weighted outstanding cross-border financing for enterprises shall be 200% of its net assets, or Net Asset Limits. Enterprises shall file with SAFE in its capital item information system after entering into the relevant cross-border financing contracts and prior to three business day before drawing any money from the foreign debts.

Based on the foregoing, if we provide funding to our wholly foreign-owned subsidiaries through shareholder loans, the balance of such loans shall not exceed the Total Investment and Registered Capital Balance and we will need to register such loans with SAFE or its local branches in the event that the Current Foreign Debt Mechanism applies, or the balance of such loans shall be subject to the Risk-Weighted Approach and the Net Asset Limits and we will need to file the loans with SAFE in its information system in the event that the Notice No. 9 Mechanism applies. According to the PBOC Notice No. 9, after a transition period of one year from January 11, 2017, the PBOC and SAFE will determine the cross-border financing administration mechanism for the foreign-invested enterprises after evaluating the overall implementation of the PBOC Notice No. 9. As of the date hereof, neither PBOC nor SAFE has promulgated and made public any further rules, regulations, notices or circulars in this regard. It is uncertain which mechanism will be adopted by PBOC and SAFE in the future and what statutory limits will be imposed on us when providing loans to our PRC subsidiaries.

Offshore Investment

Under the Circular of the State Administration of Foreign Exchange on Issues Concerning the 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, issued by the SAFE and effective on July 4, 2014, PRC residents are required to register with the local SAFE branch prior to the establishment or control of an offshore special purpose vehicle, or SPV, which is defined as offshore enterprises directly established or indirectly controlled by PRC residents for offshore equity financing of the enterprise assets or interests they hold in China. An amendment to registration or subsequent filing with the local SAFE branch by such PRC resident is also required if there is any change in basic information of the offshore company or any material change with respect to the capital of the offshore company. At the same time, the SAFE has issued the Operation Guidance for the Issues Concerning Foreign Exchange Administration over Round-trip Investment regarding the procedures for SAFE registration under the SAFE Circular 37, which became effective on July 4, 2014 as an attachment of Circular 37.

SAFE Notice Circular No. 13 has amended SAFE Circular 37 requiring PRC residents or entities to register with qualified banks rather than SAFE or its local branches in connection with their establishment or control of an offshore entity established for the purpose of seeking offshore investment or making offshore financing.

Under the relevant rules, failure to comply with the registration procedures set forth in the SAFE Circular 37 may result in bans on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliates, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations.

Regulations on Dividend Distribution

The principal laws and regulations regulating the dividend distribution of dividends by foreign-invested enterprises in the PRC include the Company Law. The Foreign Investment Law and its implementation regulations effective on January 1, 2020. Under the current regulatory regime in the PRC, foreign-invested enterprises in the PRC may pay dividends only out of their retained earnings, if any, determined in accordance with PRC accounting standards and regulations. A PRC company is required to set aside as statutory reserve funds at least 10% of its after-tax profit, until the cumulative amount of such reserve funds reaches 50% of its registered capital unless laws regarding foreign investment provide otherwise. A PRC company shall not distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

Regulations on Employee Share Incentive Plans of Overseas Publicly-Listed Company

In February 2012, SAFE promulgated the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participation in Share Incentive Plan of Companies Listed Overseas, or the 2012 SAFE Notice. Under such notice and other relevant rules and regulations, PRC residents, including PRC citizens or non-PRC citizens who reside in China for a continuous period of not less than one year, who participate in any share incentive plan of any overseas publicly-listed company, are required to register with SAFE or its local branches and complete certain other procedures. Participants of a share incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the share incentive plan on behalf of the participants. We and our executive officers and other employees who are PRC residents that have been granted share incentive awards are subject to these regulations. Failure by these individuals to complete their SAFE registrations may subject such individuals and us to fines and other legal sanctions.

The State Administration of Taxation, or the SAT, has issued certain circulars concerning employee share incentive awards. Under these circulars, our employees working in China who exercise share incentive awards will be subject to PRC individual income tax. Our PRC subsidiary has the obligation to make filings related to employee share incentive awards with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share incentive awards. 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 governmental authorities.

Regulations on Tax

Enterprise Income Tax

On March 16, 2007, the SCNPC promulgated the Law of the PRC on Enterprise Income Tax which was last amended on December 29, 2018 and on December 6, 2007, the State Council enacted the Regulations for the Implementation of the Law on Enterprise Income Tax, which was amended on April 23, 2019, or collectively, the EIT Law. Under the EIT Law, both resident enterprises and non-resident enterprises are subject to tax in the PRC. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but are actually or in effect controlled from within the PRC. Non-resident enterprises are defined as enterprises that are organized under the laws of foreign countries and whose actual management is conducted outside the PRC, but have established institutions or premises in the PRC, or have no such established institutions or premises but have income generated from inside the PRC. Under the EIT Law and relevant implementing regulations, a uniform corporate income tax rate of 25% is applied. However, if non-resident enterprises have not formed permanent establishments or premises in the PRC, or if they have formed permanent establishment or premises in the PRC but there is no actual relationship between the relevant income derived in the PRC and the established institutions or premises set up by them, enterprise income tax is set at the rate of 10% with respect to their income sourced from inside the PRC.

Pursuant to the Announcement on Issues Regarding Implementation of Preferential Income Tax Policy for High and New Technology Companies released on June 19, 2017 by State Administration of Taxation or the SAT, company qualified as high or new technology company shall enjoy preferential tax from the year indicated on the certificate for high and new technology company, and file for registration with taxation agency of jurisdiction according to relevant provisions. On expiration of the qualification as high and new technology company, income tax shall be temporarily levied pursuant to a preferential tax rate of 15% before renewal of the qualification; an enterprise may benefit from a tax exemption or preferential tax rate of 12.5% under the EIT law if it qualifies as a "Software Enterprise." Enterprises that enjoy the "Software Enterprise" status will be subject to relevant governmental authorities' assessment each year as to whether they are entitled to the tax exemption or preferential tax rate of 12.5%. Prior to May 2016, a "Software Enterprise" was designated jointly by the NDRC, the MIIT, the MOFCOM, the Ministry of Finance and the State Administration of Taxation. In May 2016, the four PRC governmental authorities jointly issued a notice, pursuant to which an enterprise may be entitled to the exemption or preferential income tax rate of 12.5% by filing with the local tax authority with supporting documentation proving its qualifications to be a "Software Enterprise" during its annual income tax filing process. If such qualifications are not obtained before the end of the year, the difference between the preferential tax rate and the regular tax rate should be paid according to applicable provisions.

Value-added Tax

Value-added Tax The Provisional Regulations of the PRC on Value-added Tax were promulgated by the State Council on December 13, 1993 and came into effect on January 1, 1994 which were subsequently amended on November 10, 2008 and came into effect on January 1, 2009 and most recently amended on February 6, 2016 and November 19, 2017. The Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-added Tax (Revised in 2011) was promulgated by the Ministry of Finance on December 25, 1993 and subsequently amended on December 15, 2008 and October 28, 2011, or collectively, VAT Law. On November 19, 2017, the State Council promulgated The Decisions on Abolishing the Provisional Regulations of the PRC on Business Tax and Amending the Provisional Regulations of the PRC on Value-added Tax, or Order 691. According to the VAT Law and Order 691, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, sales of services, intangible assets, real property and the importation of goods within the territory of the PRC are the taxpayers of VAT. The VAT tax rates generally applicable are simplified as 17%, 11%, 6% and 0%, and the VAT tax rate applicable to the small-scale taxpayers is 3%. The Notice of the Ministry of Finance and the SAT on Adjusting Value-added Tax Rates, or the Notice, was promulgated on April 4, 2018 and came into effect on May 1, 2018. The Notice adjusted the VAT tax rates of 17% and 11% to 16% and 10%, respectively. According to the Announcement on Relevant Policies for Deepening Value-Added Tax Reform, with effect from April 1, 2019, the VAT tax rate of 16% and 10% are changed into 13% and 9%, respectively.

As of December 31, 2021, our PRC subsidiaries and consolidated affiliated entities are generally subject to 3%, 6%, 9% and 13% VAT rates.

Dividend Withholding Tax

The EIT Law provides that since January 1, 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-PRC resident investors who do not have an establishment or place of business in the PRC, or who have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC.

Pursuant to an Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Incomes, 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 such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5%. However, based on the Circular on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties, or the SAT Circular 81, issued on February 20, 2009 by the SAT, if the relevant PRC tax authorities determine, in 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. According to the Circular on Several Questions regarding the “beneficial owner” in Tax Treaties, which was issued on February 3, 2018 by the SAT and will take effect on April 1, 2018, when determining the applicant’s status of the “beneficial owner” regarding tax treatment in connection with dividends, interests or royalties in the tax treaties, several factors, including without limitation, whether the applicant is obligated to pay more than 50% of his or her income in twelve months to residents in third country or region, whether the business operated by the applicant constitutes the actual business activities, and whether the counterparty country or region to the tax treaties does not levy any tax or grant tax exemption on relevant incomes or levy tax at an extremely low rate, will be taken into account, and it will be analyzed according to the actual circumstances of the specific cases. This circular further provides that applicants who intend to prove his or her status of the “beneficial owner” shall submit the relevant documents to the relevant tax bureau according to the Announcement on Issuing the Measures for the Administration of Non-Resident Taxpayers’ Enjoyment of the Treatment under Tax Agreements.

Tax on Indirect Transfer

On February 3, 2015, the SAT issued the Circular on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises, or Circular 7. Pursuant to Circular 7, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises, may be recharacterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. When determining whether there is a “reasonable commercial purpose” of the transaction arrangement, features to be taken into consideration include, inter alia, whether the main value of the equity interest of the relevant offshore enterprise derives directly or indirectly from PRC taxable assets; whether the assets of the relevant offshore enterprise mainly consists of direct or indirect investment in China or if its income is mainly derived from China; and whether the offshore enterprise and its subsidiaries directly or indirectly holding PRC taxable assets have real commercial nature which is evidenced by their actual function and risk exposure. According to Circular 7, where the payor fails to withhold any or sufficient tax, the transferor shall declare and pay such tax to the tax authority by itself within the statutory time limit. Late payment of applicable tax will subject the transferor to default interest. Circular 7 does not apply to transactions of sale of shares by investors through a public stock exchange where such shares were acquired on a public stock exchange. On October 17, 2017, the SAT issued the Circular on Issues of Tax Withholding regarding Non-PRC Resident Enterprise Income Tax, or SAT Circular 37, as amended in 2018, which further elaborates the relevant implemental rules regarding the calculation, reporting and payment obligations of the withholding tax by the non-resident enterprises. Nonetheless, there remain uncertainties as to the interpretation and application of Circular 7. Circular 7 may be determined by the tax authorities to be applicable to our offshore transactions or sale of our shares or those of our offshore subsidiaries where non-resident enterprises, being the transferors, were involved.

Regulations on Employment and Social Welfare

Employment

According to the Labor Law of the PRC, which was promulgated by the SCNPC on July 5, 1994, effective since January 1, 1995 and last amended on December 29, 2018, and the Labor Contract Law of the PRC which was promulgated by the SCNPC on June 29, 2007 and amended on December 28, 2012, employers must execute written labor contracts with full-time employees. All employers must pay their employees with wages equal to at least the local minimum wage standards. In addition, an employer is obligated to sign an indefinite term labor contract with an employee if the employer continues to employ the employee after two consecutive fixed term labor contracts. Violations of the PRC Labor Contract Law and the PRC Labor Law may result in the imposition of fines and other administrative penalties. For serious violations, criminal liability may arise.

Social Insurance and Housing Fund

As required under the Regulation of Insurance for Labor Injury implemented on January 1, 2004 and amended in 2010, the Provisional Measures for Maternity Insurance of Employees of Corporations implemented on January 1, 1995, the Decisions on the Establishment of a Unified Program for Old-Aged Pension Insurance of the State Council issued on July 16, 1997, the Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council promulgated on December 14, 1998, the Unemployment Insurance Measures promulgated on January 22, 1999 and the Social Insurance Law of the PRC implemented on July 1, 2011 and amended on December 29, 2018, employers are required to provide their employees in the PRC with welfare benefits covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance. These payments are made to local administrative authorities. Any employer that fails to make social insurance contributions 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 accordance with the Regulations on the Management of Housing Fund which was promulgated by the State Council in 1999 and last amended in March 2019, employers must register at the designated administrative centers and open bank accounts for depositing employees' housing funds. Employer and employee are also required to pay and deposit housing funds, with an amount no less than 5% of the monthly average salary of the employee in the preceding year in full and on time. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—Increases in labor costs in the PRC and enforcement of stricter labor laws and regulations may adversely affect our business and results of operations."

Employee Stock Incentive Plan

Pursuant to the Notice of Issues Related to the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Listed Company, which was issued by the SAFE on February 15, 2012, employees, directors, supervisors, and other senior management who participate in any stock incentive plan of an publicly-listed overseas company and who are PRC citizens or non-PRC citizens residing in China for a continuous period of no less than one year, subject to a few exceptions, are required to register with SAFE through a qualified domestic agent, which may be a PRC subsidiary of such overseas listed company, and complete certain other procedures.

In addition, the SAT has issued certain circulars concerning employee stock options and restricted shares. Under these circulars, employees working in the PRC who exercise stock options or are granted restricted shares will be subject to PRC individual income tax. The PRC subsidiaries of an overseas listed company are required to file documents related to employee stock options and restricted shares with relevant tax authorities and to withhold individual income taxes of employees who exercise their stock option or purchase restricted shares. If the employees fail to pay or the PRC subsidiaries fail to withhold income tax in accordance with relevant laws and regulations, the PRC subsidiaries may face sanctions imposed by the tax authorities or other PRC governmental authorities.

Regulations Relating to M&A Rules and Overseas Listing

MOFCOM, China Securities Regulatory Commission, or CSRC, SAFE and three other PRC governmental and regulatory agencies promulgated the Rules on Acquisition of Domestic Enterprises by Foreign Investors on August 8, 2006, as later amended on June 22, 2009, or the M&A Rules, governing the mergers and acquisitions of domestic enterprises by foreign investors. The M&A Rules, among other things, require that if a domestic company, domestic enterprise, or a domestic individual, through an overseas company established or controlled by it/him/her, acquires a domestic company which is affiliated with it/him/her, an approval from the MOFCOM is required. The M&A Rules further requires that a SPV, that is controlled directly or indirectly by the PRC companies or individuals and that has been formed for overseas listing purposes through acquisitions of PRC domestic interest held by such PRC companies or individuals, shall obtain the approval of CSRC prior to overseas listing and trading of such SPV's securities on an overseas stock exchange. Moreover, if foreign investors merge a domestic enterprise and obtain the actual control over the enterprise, and if such merger involves any critical industry, affects or may affect the security of national economy, or causes transference of actual control over the domestic enterprise who possesses a resound trademark or PRC time-honored brand, the parties to the merger shall file an application to MOFCOM.

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. As a follow-up, on December 24, 2021, the State Council issued a draft of the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies, or the Draft Provisions, and the CSRC issued a draft of Administration Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies, or the Draft Administration Measures, for public comments.

The Draft Provisions and the Draft Administration Measures propose to establish a new filing-based regime to regulate overseas offerings and listings by domestic companies. According to the Draft Provisions and the Draft Administration Measures, an overseas offering and listing by a domestic company, whether directly or indirectly, shall be filed with the CSRC. However, as of the date of this annual report, the Draft Provisions and the Draft Administration Measures has not been formally adopted, and due to the lack of further clarification, there are still uncertainties regarding the interpretation and implementation of the Draft Provisions and the Draft Administration Measures, including the details or specific requirements of the filling.

Regulations on Anti-Monopoly

The PRC Anti-Monopoly Law, or the AML, which was promulgated by the SCNPC on August 30, 2007, effective since August 1, 2008, established the PRC anti-monopoly regulatory framework. Under the AML, behaviors that may have the effect of eliminating or restricting competition, including the monopolistic of agreements, abuse of a dominant market position, and increase in business concentration, are prohibited, and the infringed party is entitled to request for punitive compensation.

In March 2018, the State Administration for Market Regulation, or SAMR, was formed as a new governmental agency to take over, among other things, the anti-monopoly enforcement functions from the relevant departments under the Ministry of Commerce, or the MOFCOM, the National Development and Reform Commission, or the NDRC, and the SAIC.

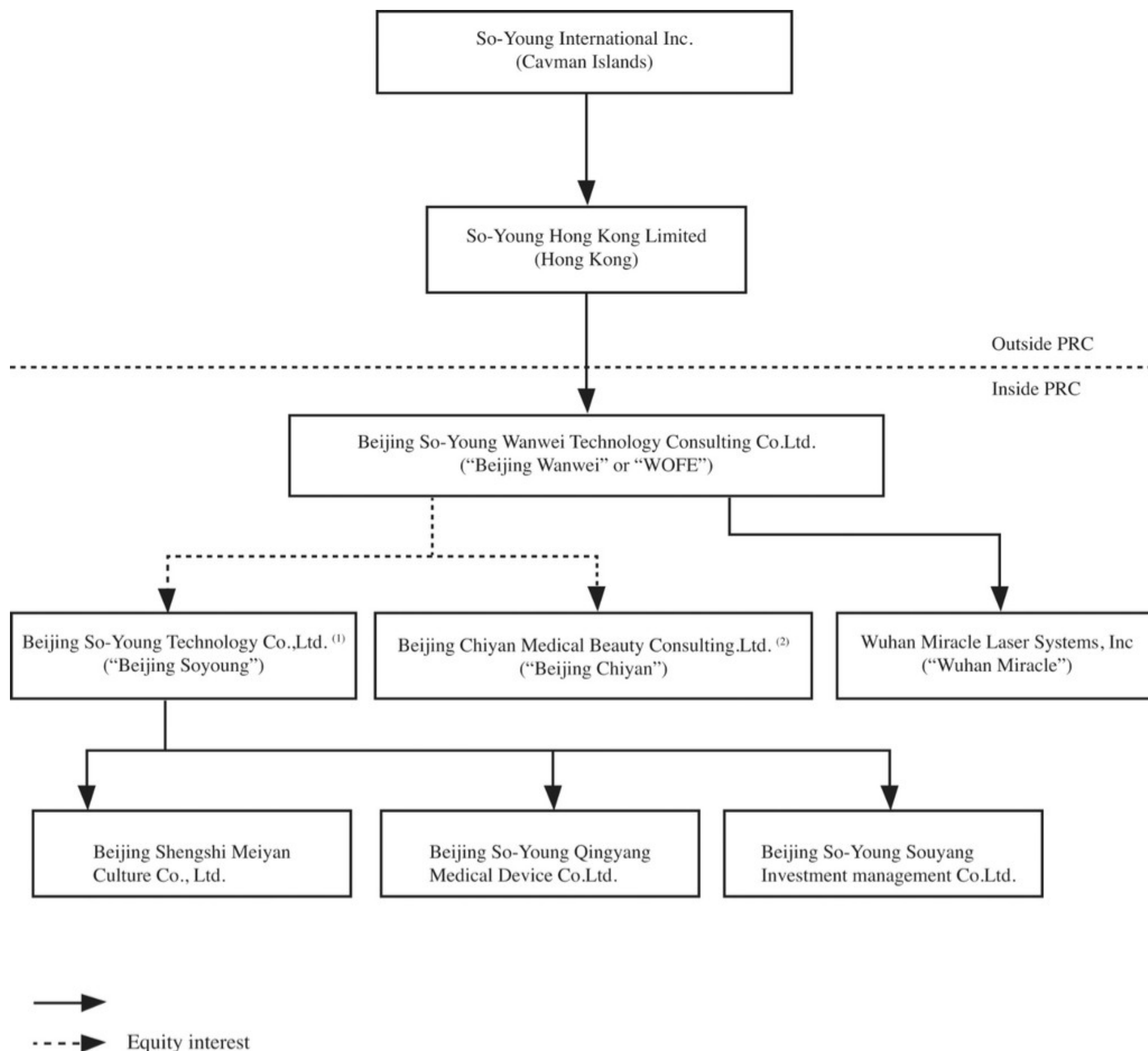
In February 2021, the Anti-monopoly Bureau of SAMR published the Platform Economy Anti-Monopoly Guidelines. The Platform Economy Anti-Monopoly Guidelines set out detailed standards and rules regarding the definition of relevant markets, typical types of cartel activity, and abusive behavior by the operators of internet platform with market dominance, as well as merger control review procedures involving variable interest entities, which provide further guidelines for the enforcement of anti-monopoly laws regarding online platform operators. Moreover, the Platform Economy Anti-Monopoly Guidelines further clarified the calculation method for the thresholds for declaring concentration of online platform operators, and the evaluation mechanism for the effect of the concentration of online platform operators on competition. Although we do not believe we have engaged in any behaviors in violation of the Anti-monopoly Law, such as entering into monopolistic agreements or abusing market position, we cannot assure you that the regulators would agree with us, and we may be required to adjust our business practices or pay penalties, such as confiscation of incomes or fines, if our business practices are deemed to be non-compliant with the Anti-monopoly Law.

In April 2021, the SAMR, together with certain other PRC government authorities convened an administrative guidance meeting, focusing on unfair competition acts in community group buying, self-inspection and rectification by major internet companies of possible violations of anti-monopoly, anti-unfair competition, tax and other related laws and regulations, and requesting such companies to comply with relevant laws and regulations strictly and be subject to public supervision. In addition, many internet companies, including over 30 companies which attended such administrative guidance meeting, are required to conduct a comprehensive self-inspection and make necessary rectification accordingly. The SAMR stated that it will organize and conduct inspections on the companies' rectification results. If a company is found to conduct illegal activities, more severe penalties are expected to be imposed in accordance with the laws.

On August 17, 2021, the SAMR issued the Provisions on Preventing Unfair Online Competition (Draft for Comments), which detailed the implementation of the PRC Unfair Competition Law, including specifying certain online unfair competition behaviors that should be prohibited. As of the date of this annual report, the provisions have not been formally adopted, and due to the lack of further clarification, there are still uncertainties regarding the interpretation and implementation of the provisions.

C. Organizational Structure

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



Note:

(1) Shareholders of Beijing So-Young are Mr. Hui Shao, Mr. Xing Jin, and Mr. Tao Yu, holding 59.7%, 37.8%, and 2.5%, respectively, of the equity interest in Beijing So-Young. Mr. Hui Shao, Mr. Xing Jin and Mr. Tao Yu are our beneficiary owners; Mr. Jin is our co-founder, director and chief executive officer, and Mr. Yu is our co-founder, former chief information officer, and a consultant of our company.

(2) Shareholders of Beijing Chiyan are Mr. Tao Yu and Mr. Xing Jin, holding 70% and 30%, respectively, of the equity interest in Beijing Chiyan. Mr. Tao Yu and Mr. Xing Jin are our beneficiary owners; Mr. Jin is our co-founder, director and chief executive officer, and Mr. Yu is our co-founder, former chief information officer, and a consultant of our company.

Contractual Arrangements with the Consolidated Affiliated Entities and Their Respective Shareholders

The following is a summary of the currently effective contractual arrangements by and among our wholly-owned subsidiary, Beijing Wanwei, our consolidate affiliated entities Beijing So-Young and Beijing Chiyan and their respective shareholders. These contractual arrangements enable us to (i) exercise effective control over the VIEs; (ii) receive substantially all of the economic benefits of the VIEs; and (iii) have an exclusive option to purchase all or part of the equity interests in and assets of the VIEs when and to the extent permitted by PRC law.

Agreements that provide us effective control over the VIEs

Powers of Attorney. Pursuant to the powers of attorney, each shareholder of VIEs irrevocably authorized our WFOE to act on the behalf of such shareholder with respect to all matters concerning the shareholding of the shares in VIEs, including without limitation, attending shareholders' meetings of VIEs, exercising all the shareholders' rights and shareholders' voting rights, and designating and appointing the legal representative, directors, supervisors, general managers and other senior management members of VIEs.

Equity Interest Pledge Agreement. Pursuant to the equity pledge agreements, the shareholders pledge 100% of their equity interest in Beijing So-Young to our WFOE to guarantee the performance by Beijing So-Young and its shareholders of their obligations under the exclusive business cooperation agreement, the exclusive option agreements and the power of attorney. If events of default defined therein occur, upon giving written notice to the shareholders, our WFOE may exercise the right to enforce the pledge to the extent permitted by PRC laws, unless the event of default has been successfully resolved to the satisfaction of our WFOE. The shareholders of Beijing So-Young agree that, without our WFOE's prior written consent, during the term of the equity interest pledge agreement, they will not place or permit the existence of any security interest or other encumbrance on the equity interest in Beijing So-Young or any portion thereof. On September 4, 2019, our WFOE, Beijing Chiyan and the shareholders of Beijing Chiyan entered into an equity interest pledge agreement, which contained terms substantially similar to the equity interest pledge agreement by and among our WFOE, Beijing So-Young and its shareholders described above. On January 15, 2020, we have completed registering the equity pledge with the relevant office of the PRC State Administration of Market Regulation in accordance with the PRC Property Rights Law.

Spousal Consent Letter. The spouse of each shareholder of VIEs has each signed a spousal consent letter. Under the spousal consent letter, the signing spouse unconditionally and irrevocably approved the execution by her spouse of the power of attorney, equity interest pledge agreement and exclusive option agreement, and that her spouse may perform, amend or terminate such agreements without her consent. The signing spouse confirms she will not assert any rights over the equity interests in VIEs held by her spouse. In addition, in the event that the spouse obtains any equity interest in VIEs held by her spouse for any reason, she agrees to be bound by and sign any legal documents substantially similar to the contractual arrangements entered into by her spouse, as may be amended from time to time.

Agreements that allow us to receive economic benefits from the VIEs

Exclusive Business Cooperation Agreement. On November 1, 2018, Beijing So-Young and our WFOE entered into an exclusive business cooperation agreement. Pursuant to the exclusive business cooperation agreement, our WFOE has the exclusive right to provide Beijing So-Young with comprehensive technical support, consulting services and other services. Without prior written consent of our WFOE, Beijing So-Young agrees not to directly or indirectly accept the same or any similar services provided by any third party regarding the matters contemplated by this agreement. Beijing So-Young agrees to pay our WFOE service fees, which will be determined by our WFOE based on various factors, including but not limited to the complexity, cost and value of the services provided by our WFOE. Our WFOE will have exclusive and proprietary ownership, rights and interests in any and all intellectual properties arising out of or developed during the performance of this agreement. The agreement may be terminated in accordance with the provisions of this agreement. Similarly, on September 4, 2019, Beijing Chiyan and our WFOE entered into an exclusive business cooperation agreement. Pursuant to the exclusive business cooperation agreement, our WFOE has the exclusive right to provide Beijing Chiyan with comprehensive technical support, consulting services and other services. Without prior written consent of our WFOE, Beijing Chiyan agrees not to directly or indirectly accept the same or any similar services provided by any third party regarding the matters contemplated by this agreement. Beijing Chiyan agrees to pay our WFOE service fees, which will be determined by our WFOE based on various factors, including but not limited to the complexity, cost and value of the services provided by our WFOE. Our WFOE will have exclusive and proprietary ownership, rights and interests in any and all intellectual properties arising out of or developed during the performance of this agreement. The agreement may be terminated in accordance with the provisions of this agreement.

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

Exclusive Option Agreement. Pursuant to the exclusive option agreement entered into on November 1, 2018, each shareholder of Beijing So-Young has irrevocably granted our WFOE an exclusive option to purchase, or have its designated person or persons to purchase, at its discretion, to the extent permitted under PRC law, all or part of the shareholder's equity interests in Beijing So-Young. The purchase price shall be RMB10 (US$1.5), the amount of registered capital contributed by such shareholder of Beijing So-Young in Beijing So-Young or the minimum price required by PRC law. If our WFOE exercises the option to purchase part of the equity interest held by a shareholder, the purchase price shall be calculated proportionally. Without our WFOE's prior written consent, Beijing So-Young shall not amend its articles of association, increase or decrease the registered capital, sell or otherwise dispose of its material assets or beneficial interest, create or allow any encumbrance on its material assets or other beneficial interests, provide any loans to any third parties except for payables incurred in the ordinary course of business other than through loans, enter into any material contract with a value of more than RMB500,000 (US$76.6 thousand) (except those contracts entered into in the ordinary course of business), merge with or acquire any other persons or make any investments, or distribute dividends to the shareholders. Each shareholder of Beijing So-Young has agreed that, without our WFOE's prior written consent, he or she will not dispose of his or her equity interests in Beijing So-Young or create or allow any encumbrance on their equity interests. Moreover, without our WFOE's prior written consent, no dividend will be distributed to Beijing So-Young's shareholders, and if any of the shareholders receives any profit, interest, dividend or proceeds of share transfer or liquidation, the shareholder must give such profit, interest, dividend and proceeds to our WFOE or its designated person(s). On September 4, 2019, our WFOE, Beijing Chiyan and the shareholders of Beijing Chiyan entered into an exclusive option agreement, which contained terms substantially similar to the exclusive option agreement by and among our WFOE, Beijing So-Young and each shareholder of Beijing So-Young described above. The agreements by and among our WFOE, the VIEs and their respective shareholders will remain effective until all equity interests of Beijing So-Young and Beijing Chiyan held by their respective shareholders have been transferred or assigned to our WFOE or its designated person(s), respectively.

In the opinion of CM Law Firm, our PRC legal counsel:

- the ownership structures of our WFOE and the VIEs are not in any violation of PRC laws or regulations currently in effect; and

- the contractual arrangements among our WFOE, the VIEs and their respective shareholders governed by PRC law are currently valid, binding and enforceable, and will not result in any violation of 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 in the future take a view that is contrary to or otherwise different from the above opinion of our PRC legal counsel. If the PRC government finds that the agreements that establish the structure for operating our online medical aesthetic service business do not comply with PRC government restrictions on foreign investment in our businesses, we could be subject to severe penalties including being prohibited from continuing operations. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—We rely on contractual arrangements with the consolidated affiliated entities and their respective shareholders for our business operations, which may not be as effective as direct ownership in providing operational control."

D. Property, Plants and Equipment

We are headquartered in Beijing, China. As of December 31, 2021, we leased an aggregate of over 14,000 square meters of office space in Beijing, with a lease term five years, and an aggregate of more than 5,600 square meters of office space in 19 other cities in China with lease terms that typically last for one year. We also leased an aggregate of over 1,208 square meters of manufacturing and production facilities in Wuhan in China as of December 31, 2021. We lease our premises under operating lease agreements from independent third parties. We believe that our existing facilities are generally adequate to meet our current needs, but we expect to seek additional space as needed to accommodate future growth.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the consolidated financial statements and the related notes included elsewhere in this annual report on Form 20-F. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may 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" or in other parts of this annual report on Form 20-F.

A. Operating Results

Key Factors Affecting Our Results of Operations

Our business and operating results are primarily affected by the general factors affecting China's medical aesthetic industry, including the increase in per capita disposable income and the growth in medical aesthetic spending in China. In addition, they are also affected by factors driving online media and social community in China, such as the growing number of online users, the improved telecommunications infrastructure and the increasing adoption of mobile payment. Furthermore, our business and operating results are influenced by PRC governmental policies and initiatives affecting the online medical aesthetic service and content distribution industries. Changes in any of these general factors could affect the demand for content and services on our platform and our results of operations.

Despite the general factors mentioned above, we believe our results of operations are more directly affected by the following specific factors.

- The size of our user base, the level of user engagement and the audience reach of our content.
- The quality, integrity and diversity of our content.
- The effectiveness and the formats of our information services for medical aesthetic service providers, including our ability to apply relevant technologies to enhance targeted information distribution and service provider exposure.
- Our ability to increase transaction volume for medical aesthetic service providers.

- The efficiency of our sales and marketing activities.

- The diversity of our monetization channels, including the vertical expansion along the medical aesthetic industry value chain and the horizontal expansion into the massive consumption healthcare service market.

We focus on (i) attracting and engaging users and (ii) increasing the number of paying medical service providers on our platform. We measure our effectiveness in attracting and engaging users primarily through tracking mobile MAUs and number of purchasing users, who made verified transactions with service providers. Average mobile MAUs increased by 144.8% from 2.9 million in 2019 to 7.1 million in 2020, and further increased by 18.7% to 8.5 million in 2021. Total number of purchasing users increased by 6.0% from 567.5 thousand in 2019 to 601.8 thousand in 2020, and further decreased by 7.6% to 556.1 thousand in 2021. The COVID-19 pandemic has adversely affected our business operation and resulted in a decrease in our transactions and a slight decrease in the number of our purchasing users in 2021 compared to 2020.

We measure our effectiveness in increasing the number of paying medical service providers by tracking the number of service providers that pay for information services and/or reservation services, which increased by 26.3% from 4,410 in 2019 to 5,570 in 2020, and further increased by 19.1% to 6,634 in 2021.

Substantially all of our revenues and workforce are concentrated in China. Our results of operations and financial condition were affected by the spread of COVID-19, and so was the China medical aesthetic service industry in general. In the first half of 2020, the Chinese government took a number of actions to contain the COVID-19 pandemic, which included extending the Chinese New Year holiday, asking residents in China to stay at home and to avoid public gathering, and temporarily closing corporate offices and store fronts. We also took measures in response to the outbreak, including, among others, remote working arrangements for our employees and temporarily shutdown of some of our premises and facilities.

While the spread of COVID-19 was substantially controlled in China in 2021 and the number of new cases in China remained relatively low, restrictions were re-imposed from time to time in certain cities to combat sporadic outbreaks. The extent to which the COVID-19 pandemic impacts us and the Chinese economy as a whole in future periods depends on its future developments, including the effectiveness of the mass vaccination programs and other actions taken to contain its spread, which are highly uncertain and unpredictable. We will pay close attention to the development of the COVID-19 pandemic, perform further assessment of its impact and take relevant measures to minimize the impact. See also “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—We face risks related to health epidemics, natural disasters, and other outbreaks, which could significantly disrupt our operations.”

The COVID-19 pandemic and the impact of actions to mitigate the COVID-19 pandemic have adversely impacted and will continue to adversely impact our business, results of operations, and financial condition. Especially in the second half of 2021, the number of our purchasing users decreased by 30.8% and 17.9% in the third quarter and the fourth quarter of 2021 compared to the same periods in 2020. The average revenue per paying medical service provider decreased by 9.8% and 19.1% in the third quarter and the fourth quarter of 2021 compared to the same period of 2020. On the other hand, we made strategic investment in branding and expanded to other branding and marketing channels to acquire users. To mitigate the adverse impact of the pandemic, we have been strategically adapting our business to ensure the growth of our user base. We adopted a series of creative and incentivizing promotion plans and worked more closely with medical aesthetic influencers to generate valuable content. We were working to reinforce the trust with consumers, meeting medical and aesthetic consumer demand from the different levels to make efficient decisions. In terms of our commercialization efforts, we strengthened operating management ability and digital support for medical service providers on our platform to improve their customer acquisition efficiency and customer experience. For small and medium-sized service providers, our membership service program can better serve the service providers who lack content distribution capabilities and experience in operating e-commerce platforms. We provide such service providers with more exposure to our digitally-savvy end users. In addition, we have established an “Authentic Alliance” to enhance information governance on our platform to build a healthier and more regulated ecosystem. We believe we have the right strategies in place to navigate through this challenging business environment and are well positioned for healthy and sustainable growth once normal operating conditions return. Moreover, as part of the measures taken by the government to ease the negative impact from COVID-19, the mandated employee benefit plans were reduced or exempted for the fiscal year of 2020. In March 2022, due to the spread of COVID-19 in China, Chinese government imposed lockdown in certain cities and districts, including Shanghai. Failure to contain the further spread of COVID-19 may have further adverse effect on our business, financial condition and results of operations, the extent of such impact will depend on future developments, including the severity and transmission rate of the new COVID-19 variant and the extent and effectiveness of containment actions taken, which cannot be accurately predicted at this time.

Key Line Items and Specific Factors Affecting Our Results of Operations

Revenues

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

	For the Year Ended December 31,						
	2019		2020		2021		
	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except for percentages)						
Revenues:							
Information services and others	833,422	72.4	962,089	74.3	1,304,455	204,697	77.1
Reservation services	318,215	27.6	332,899	25.7	276,052	43,320	16.3
Sales of equipment and maintenance services	—	—	—	—	111,956	17,568	6.6
Total Revenues	**1,151,637**	**100.0**	**1,294,988**	**100.0**	**1,692,463**	**265,585**	**100.0**

Information services and others revenues. We generate revenues primarily from information services by placing information of medical aesthetic service providers on our platform. We also generate a small portion of our revenues by placing information of other consumption healthcare service providers, beauty salons and certain beauty product sellers on our platform or in our content distributed through social media networks. See “Item 4. Information on the Company—B. Business Overview—Our Services—Information Services.”

Reservation services revenues. We generate revenues from reservation services primarily from medical aesthetic service providers on treatment booked through our platform by our users, as well as subsequent treatment that users purchase from such service providers and are recorded on our platform, as long as the sales leads were generated on and the service provider is still active on our platform. We typically charge an average reservation services fee rate of approximately 10% of the amount paid by consumers. We also generate a small portion of reservation service revenues from other consumption healthcare service providers and beauty salons. See “Item 4. Information on the Company—B. Business Overview—Our Services—Reservation Services.”

Sales of equipment and maintenance services. We generate revenues from selling medical beauty equipment through Wuhan Miracle. See "Item 4. Information on the Company—B. Business Overview—Our Services—Wuhan Miracle."

Cost of revenues

Cost of revenues primarily consists of payroll costs, share-based compensation expenses, event organization costs, servers costs, payment processing fee paid to third party online platform, tax related surcharges, rental expenses and other direct costs related to the operation of business.

Gross profit and gross margin

The following table sets forth our gross profit and gross margin for the years presented:

	For the Year Ended December 31,			
	2019	2020	2021	
	(in thousands, except for percentages)			
Gross profit	RMB953,007	RMB1,082,782	RMB1,364,574	US$214,132
Gross margin	82.8 %	83.6 %	80.6 %	80.6 %

Operating expenses

We classify our operating expenses into four categories: sales and marketing expenses, general and administrative expenses, research and development expenses and impairment of goodwill and intangible assets. The following table sets forth the break-down of our total operating expenses and as percentages of our total revenues for the years presented:

	For the Year Ended December 31,						
	2019		2020		2021		
	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except for percentages)						
Operating expenses							
Sales and marketing expenses	470,033	40.8	726,297	56.1	792,484	124,358	46.8
General and administrative expenses	160,531	13.9	183,987	14.2	252,214	39,578	14.9
Research and development expenses	177,268	15.4	229,192	17.7	286,567	44,969	16.9
Impairment of goodwill and intangible assets	—	—	—	—	65,879	10,338	3.9
Total	**807,832**	**70.1**	**1,139,476**	**88.0**	**1,397,144**	**219,243**	**82.6**

Sales and marketing expenses. Sales and marketing expenses primarily consist of marketing and user acquisition activities expenses, payroll costs and share-based compensation expenses.

The following table sets forth the break-down of our sales and marketing expenses and as percentages of our total revenues for the years presented:

	For the Year Ended December 31,						
	2019		2020		2021		
	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except for percentages)						
Sales and marketing expenses							
Marketing and user acquisition activities expenses	(347,487)	30.2	(555,260)	42.9	(570,347)	(89,500)	33.7
Payroll costs	(97,159)	8.4	(138,089)	10.7	(175,340)	(27,515)	10.4
Others	(25,387)	2.2	(32,948)	2.5	(46,797)	(7,343)	2.8
Total	(470,033)	40.8	(726,297)	56.1	(792,484)	(124,358)	46.8

General and administrative expenses. General and administrative expenses primarily consist of payroll costs, general office expenses, share-based compensation expenses and professional service fees.

Research and development expenses. Research and development expenses primarily consist of payroll costs, share-based compensation expenses and rental expenses incurred associated with research and development.

Impairment of goodwill and intangible assets. Impairment of goodwill and intangible assets was the amount by which the carrying amount of certain asset exceeds their fair value in relation to the acquiring subsidiary.

Taxation

Cayman Islands

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 brought within the jurisdiction of the Cayman Islands. In addition, the Cayman Islands does not impose withholding tax on dividend payments.

Hong Kong

Under the current Hong Kong Inland Revenue Ordinance, from the year of assessment 2018/2019 onwards, the subsidiaries in Hong Kong are subject to profits tax at the rate of 8.25% on assessable profits up to HK$2,000,000; and 16.5% on any part of assessable profits over HK$2,000,000. We had no taxable income generated from operations in Hong Kong in 2017, while we generated income from operations in 2019, 2020 and 2021. Additionally, payments of dividends by our subsidiary incorporated in Hong Kong to the Company is not subject to any Hong Kong withholding tax.

PRC

Generally, our PRC subsidiary, consolidated variable interest entities and their 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.

Beijing So-Young Wanwei Technology Consulting Co., Ltd., our WFOE, was a "High and New Technology Enterprise," or HNTE in 2018. In addition, our WFOE is qualified as a "Software Company", and accordingly was eligible for a preferential income tax rate of 0% in 2019 and 2020, and a preferential income tax rate of 12.5% in 2021.

Wuhan Miracle and Wuhan Haoweilai were qualified as HNTE in 2020 and eligible for a preferential EIT rate of 15%, for the three-year period from 2020 to 2022.

Dividends paid by our wholly foreign-owned subsidiary 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 from November 1, 2015, the above mentioned approval requirement has been abolished, but a Hong Kong entity is still required to file 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 Related to Our Corporate Structure—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 and any tax we are required to pay 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 Related 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 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 particular period are not necessarily indicative of our future trends.

	For the Year Ended December 31,						
	2019		2020		2021		
	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except for percentages)						
Revenues							
Information services and others	833,422	72.4	962,089	74.3	1,304,455	204,697	77.1
Reservation services	318,215	27.6	332,899	25.7	276,052	43,320	16.3
Sales of equipment and maintenance services	—	—	—	—	111,956	17,568	6.6
Total revenues	**1,151,637**	**100.0**	**1,294,988**	**100.0**	**1,692,463**	**265,585**	**100.0**
Cost of revenues [(1)]	(198,630)	(17.2)	(212,206)	(16.4)	(327,889)	(51,453)	(19.4)
Gross profit	**953,007**	**82.8**	**1,082,782**	**83.6**	**1,364,574**	**214,132**	**80.6**
Operating expenses							
Sales and marketing expenses [(1)]	(470,033)	(40.8)	(726,297)	(56.1)	(792,484)	(124,358)	(46.8)
General and administrative expenses [(1)]	(160,531)	(13.9)	(183,987)	(14.2)	(252,214)	(39,578)	(14.9)
Research and development expenses [(1)]	(177,268)	(15.4)	(229,192)	(17.7)	(286,567)	(44,969)	(16.9)
Impairment of goodwill and intangible assets	—	—	—	—	(65,879)	(10,338)	(3.9)
Total operating expenses	**(807,832)**	**(70.1)**	**(1,139,476)**	**(88.0)**	**(1,397,144)**	**(219,243)**	**(82.6)**
Income/(loss) from operations	**145,175**	**12.6**	**(56,694)**	**(4.4)**	**(32,570)**	**(5,111)**	**(1.9)**
Income/(loss) before tax	**226,459**	**19.7**	**93**	**0.0**	**(16,405)**	**(2,575)**	**(1.0)**
Income tax (expenses)/benefits	(49,735)	(4.3)	4,784	0.4	(21,231)	(3,332)	(1.6)
Net income/(loss)	**176,724**	**15.3**	**4,877**	**0.4**	**(37,636)**	**(5,907)**	**(2.8)**

Note:

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

	For the Year Ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US$
	(in thousands)			
Cost of revenues	(12,752)	(18,327)	(18,768)	(2,945)
Sales and marketing expenses	(8,479)	(6,711)	(9,808)	(1,539)
General and administrative expenses	(61,579)	(46,001)	(56,705)	(8,898)
Research and development expenses	(21,401)	(21,131)	(20,869)	(3,275)

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

Revenues

Our revenues increased by 30.7% from RMB1,295.0 million in 2020 to RMB1,692.5 million (US$265.6 million) in 2021, primarily resulted from an increase in the number of paying medical service provider and sales of equipment and maintenance services from our newly acquired subsidiary, Wuhan Miracle.

Our revenues from information services and others increased by 35.6% from RMB962.1 million in 2020 to RMB1,304.5 million (US$204.7 million) in 2021. This increase was primarily attributable to an increase in average revenue per medical service provider as they increasingly allocate a larger proportion of their marketing budgets to our platform.

Our revenues from reservation services decreased by 17.1% from RMB332.9 million in 2020 to RMB276.1 million (US$43.3 million) in 2021. The decrease was primarily due to the resurgence of COVID-19 resulted in the weaker-than-normal consumer sentiment and containment measures which had a negative impact on our operations in several cities across the country. The purchasing user decreased by 7.6% from 601.8 thousand in 2020 to 556.1 thousand in 2021.

Our revenues from sales of equipment and maintenance services were RMB112.0 million (US$17.6 million), from our newly acquired subsidiary, Wuhan Miracle.

Cost of revenues

Our cost of revenues increased by 54.5% from RMB212.2 million in 2020 to RMB327.9 million (US$51.5 million) in 2021. The increase was primarily due to cost related to advertising networks and servers cost related to online platform development. In addition, cost of revenues included share-based compensation expenses of RMB18.8 million (US$2.9 million) in 2021 compared to RMB18.3 million in 2020.

Gross profit

As a result of the foregoing, our gross profit increased by 26.0% from RMB1,082.8 million in 2020 to RMB1,364.6 million (US$214.1 million) in 2021. Our gross margin slightly decreased from 83.6% in 2020 to 80.6% in 2021.

Operating expenses

Sales and marketing expenses. Our sales and marketing expenses increased by 9.1% from RMB726.3 million in 2020 to RMB792.5 million (US$124.4 million) in 2021. The increase was primarily due to an increase in expenses associated with marketing campaigns and user acquisition initiatives and the consolidation of Wuhan Miracle. Sales and marketing expenses for 2021 included share-based compensation expenses of RMB9.8 million (US$1.5 million), compared to RMB6.7 million in 2020.

General and administrative expenses. Our general and administrative expenses increased by 37.1% from RMB184.0 million in 2020 to RMB252.2 million (US$39.6 million) in 2021. The increase was primarily due to the increase in personnel related expenses and professional service fees. The increase in personnel related expenses is primarily because of an increase of RMB18.0 million on payroll costs associated with the expansion of administrative teams. The increase in professional service fees is primarily due to an increase in expense related to public relation management of RMB8.0 million (US$1.3 million) in 2021. General and administrative expenses for 2021 included share-based compensation expenses of RMB56.7 million (US$8.9 million), compared to RMB46.0 million in 2020.

Research and development expenses. Our research and development expenses increased by 25.0% from RMB229.2 million in 2020 to RMB286.6 million (US$45.0 million) in 2021, primarily due to an increase in personnel related expenses. Our research and development expenses grew between 2020 and 2021 than in the earlier periods, primarily due to our commitment to developing our technology capacity to further enhance users' and medical service providers' experience on our platform. Research and development expenses for 2021 included share-based compensation expenses of RMB20.9 million (US$3.3 million), compared to RMB21.1 million in 2020.

Impairment of goodwill and intangible assets. We recognized that the impairment of goodwill was RMB48.5 million (US$7.6 million) and the impairment of intangible assets was RMB17.4 million (US$2.7 million). Impairment of goodwill and intangible assets represents the amount by which the carrying amount of certain asset exceeds their fair value in relation to the acquiring subsidiary, based on an annual goodwill and intangible assets impairment assessment. For a detailed discussion of the impairment of goodwill and intangible assets, please see "Note 2 Summary of Significant Accounting Policies, Note 7 Goodwill and Note 10 Intangible assets" in financial statement.

Income/(loss) from operations

As a result of increasing our user acquisition expenses, we had loss from operations of RMB32.6 million (US$5.1 million) in 2021 compared to a loss of RMB56.7 million in 2020.

Others, net

Others, net were RMB12.0 million (US$1.9 million), compared with RMB8.9 million in 2020, primarily due to a decrease of donation from RMB11.54 million (US$1.8 million) in 2020, which related to COVID-19 to RMB7.6 million (US$1.2 million) in 2021, which related to poverty relief.

Income tax benefits/(expenses)

We recorded income tax expense of RMB21.2 million (US$3.3 million) in 2021 compared to income tax benefit of RMB4.8 million in 2020. The income tax benefit was derived from a change in the preferential income tax rate of one of our subsidiaries, which resulted in a refund of RMB16.4 million for tax paid in previous periods.

Net income/(loss)

As a result of the foregoing, we incurred net loss of RMB37.6 million (US$5.9 million) in 2021 compared to net income of RMB4.9 million in 2020.

Year ended December 31, 2020 compared to year ended December 31, 2019

Revenues

Our revenues increased by 12.4% from RMB1,151.6 million in 2019 to RMB1,295.0 million in 2020, primarily resulted from the expansion of our user base, the increase in user engagement and the number of paying medical service providers. Average mobile MAUs increased by 144.8% from 2.9 million in 2019 to 7.1 million in 2020. Total number of purchasing users increased by 6.0% from 567.5 thousand in 2019 to 601.8 thousand in 2020. The COVID-19 pandemic has adversely affected our business operation and has resulted in a decrease in surgical transactions and only a slight increase in the number of our purchasing users in 2020 compared to 2019.

Our revenues from information services and others increased by 15.4% from RMB833.4 million in 2019 to RMB962.1 million in 2020. This increase was primarily attributable to an increase in average revenue per medical service provider as they increasingly allocate a larger proportion of their marketing budgets to our platform.

Our revenues from reservation services increased by 4.6% from RMB318.2 million in 2019 to RMB332.9 million in 2020. This increase was primarily attributable to the increase in the number of purchasing users from 567.5 thousand in 2019 to 601.8 thousand in 2020, which in turn drew an increasing number of medical service providers to our platform. We also expanded our reservation function in terms of types of medical aesthetic treatment available and number of medical aesthetic service providers in various cities.

Cost of revenues

Our cost of revenues increased by 6.8% from RMB198.6 million in 2019 to RMB212.2 million in 2020. The increase was primarily due to servers cost related to online platform development. In addition, cost of revenues included share-based compensation expenses of RMB18.3 million in 2020 compared to RMB12.8 million in 2019.

Gross profit

As a result of the foregoing, our gross profit increased by 13.6% from RMB953.0 million in 2019 to RMB1,082.8 million in 2020. Our gross margin slightly increased from 82.8% in 2019 to 83.6% in 2020 primarily due to the increased efficiency of our operation.

Operating expenses

Sales and marketing expenses. Our sales and marketing expenses increased by 54.5% from RMB470.0 million in 2019 to RMB726.3 million in 2020. The increase was primarily due to an increase of RMB207.8 million in expenses associated with branding and marketing activities and the increase in sales and marketing personnel headcount. Sales and marketing expenses for 2020 included share-based compensation expenses of RMB6.7 million, compared to RMB8.5 million in 2019.

General and administrative expenses. Our general and administrative expenses increased by 14.6% from RMB160.5 million in 2019 to RMB184.0 million in 2020. The increase was primarily due to the increase in personnel related expenses and professional service fees. The increase in personnel related expenses is primarily because of an increase of RMB19.4 million on payroll costs associated with the expansion of administrative teams. The increase in professional service fees is primarily due to an increase in audit fees and recruitment fees. General and administrative expenses for 2020 included share-based compensation expenses of RMB46.0 million, compared to RMB61.6 million in 2019.

Research and development expenses. Our research and development expenses increased by 29.3% from RMB177.3 million in 2019 to RMB229.2 million in 2020, primarily due to an increase in personnel related expenses. Our research and development expenses grew between 2019 and 2020 than in the earlier periods, primarily due to our commitment to developing our technology capacity to further enhance users' and medical service providers' experience on our platform. Research and development expenses for 2020 included share-based compensation expenses of RMB21.1 million, compared to RMB21.4 million in 2019.

Income/(loss) from operations

As a result of increasing our used acquisition expenses, our income from operations decreased by 139.1% from an income of RMB145.2 million in 2019 to a loss of RMB56.7 million in 2020.

Others, net

Others, net were RMB8.9 million, compared with RMB34.8 million in the same period of 2019, primarily due to a payment from the Company's depositary bank for the ADR program in relation to the newly issued shares upon the completion of the Company's initial public offering in 2019 and a donation of RMB11.54 million in 2020.

Income tax expense/(benefits)

We recorded income tax benefits of RMB4.8 million in 2020 compared to income tax expense of RMB49.7 million in 2019. The income tax benefit was derived from a change in the preferential income tax rate of one of our subsidiaries, which resulted in a refund of RMB16.4 million for tax paid in previous periods.

Net income

As a result of the foregoing, our net income decreased by 97.2% from RMB176.7 million in 2019 to RMB4.9 million in 2020.

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			
	2019	2020	2021	
	RMB	RMB	RMB	US$
Net cash generated from operating activities	383,822	179,180	84,287	13,226
Net cash (used in)/generated from investing activities	(1,335,013)	123,845	339,822	53,326
Net cash provided by /(used in) financing activities	1,268,396	(5,804)	(216,743)	(34,012)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	20,597	(52,721)	(9,242)	(1,450)
Net increase in cash, cash equivalents and restricted cash	337,802	244,500	198,124	31,090
Cash, cash equivalents and restricted cash at the beginning of the period	563,383	901,185	1,145,685	179,783
Cash, cash equivalents and restricted cash at the end of the period	901,185	1,145,685	1,343,809	210,873

To date, we have financed our operating and investing activities primarily through net cash generated from operating activities and historical equity financing activities. As of December 31, 2019, 2020 and 2021, our cash, cash equivalents and restricted cash were RMB901.2 million, RMB1.1 billion million and RMB1.3 billion (US$210.9 million), respectively. Our cash, cash equivalents and restricted cash primarily consist of cash on hand and demand deposits.

We believe that our current cash, cash equivalents and restricted cash and our anticipated cash flows from operations will be sufficient to meet our anticipated working capital requirements and capital expenditures for at least the next 12 months. We may 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, 2021, 50.4% and 49.6% of our cash, cash equivalents and restricted cash were held in China and overseas, respectively, of which 48.3% were denominated in U.S. dollars and 51.7% were denominated in Renminbi. As of December 31, 2021, 22.0% and 78.0% of our term deposits and short-term investments were held in China and overseas, respectively, of which 22.0% were denominated in Renminbi. As of December 31, 2021, 19.9% of our cash, cash equivalents and restricted cash were held by the VIEs and its subsidiaries. Although we consolidate the results of the variable interest entity and its subsidiaries, we only have access to the assets or earnings of the variable interest entity and its subsidiaries through our contractual arrangements with the variable interest entity and its shareholders. See "Item 4. Information on the Company—C. Organizational Structure." For restrictions and limitations on liquidity and capital resources as a result of our corporate structure, see "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Holding Company Structure."

In utilizing the proceeds received from our initial public offering, we may make additional capital contributions to our PRC subsidiary, establish new PRC subsidiaries and make capital contributions to these new PRC subsidiaries, make loans to our PRC subsidiary, or acquire offshore entities with operations in China in offshore transactions. However, most of these uses are subject to PRC regulations. See "Item 3. Key Information—D. Risk Factors—Risks Related 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 of our initial public offering to make loans to or make additional capital contributions to our PRC subsidiary and variable interest entities, which could materially and adversely affect our liquidity and our ability to fund and expand our business."

We expect that a substantial majority of our future revenues will 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 subsidiary is allowed to pay dividends in foreign currencies to us without prior SAFE approval by following certain routine procedural requirements. However, approval from or registration with competent government authorities is required where the 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 2021 was RMB84.3 million (US$13.2 million). The difference between net cash generated from operating activities and net loss of RMB37.6 million (US$5.9 million) in the same period was substantially due to (i) the increase of RMB106.2 million (US$16.7 million) in share-based compensation expenses, (ii) the increase of RMB65.9 million (US$10.3 million) in impairment of goodwill and intangible assets, (iii) the decrease of RMB44.0 million (US$6.9 million) in prepayment and other current asset, and (iv) the decrease of RMB28.3 million (US$4.4 million) in contract liabilities.

Net cash generated from operating activities in 2020 was RMB179.2 million. The difference between net cash generated from operating activities and net income of RMB4.9 million in the same period was substantially due to (i) the increase of RMB92.2 million in share-based compensation expenses, (ii) the increase of RMB67.1 million in accrued expenses and other current liabilities that primarily include accrued information service fees and advanced payment from users in the form of unearned reservation services fees for treatment that have not been completed, and (iii) the increase of RMB41.5 million in contract liabilities.

Net cash generated from operating activities in 2019 was RMB383.8 million. The difference between net cash generated from operating activities and net income of RMB176.7 million in the same period was substantially due to (i) the increase of RMB104.2 million in share-based compensation expenses, (ii) the increase of RMB99.0 million in accrued expenses and other current liabilities that primarily include accrued professional service fees and advanced payment from users in the form of unearned reservation services fees for treatment that have not been completed, (iii) the increase of RMB29.2 million in salary and welfare payables, and (iv) the increase in tax payable of RMB26.6 million. Such difference is partially offset by (i) the decrease of RMB23.2 million in contract liabilities that primarily refer to the prepayment of information service fees from medical aesthetic service providers, and (ii) the decrease of RMB19.7 million in prepayment and other current assets, primarily in the form of prepaid fees paid to user acquisition channels.

Investing activities

Net cash provided by investing activities in 2021 was RMB339.8 million (US$53.3 million), primarily due to the purchase of short-term investments and term deposits of RMB1,919.8 million (US$301.3 million), cash paid for acquisition of subsidiaries of RMB636.9 million (US$99.9 million), offset by proceeds from maturities of short-term investments and term deposits of RMB3,052.9 million (US$479.1 million).

Net cash provided by investing activities in 2020 was RMB123.8 million, primarily due to the purchase of short-term investments and term deposits of RMB2,803.0 million, cash paid for long-term investments, including prepayment for new investment of RMB125 million, partially offset by proceeds from maturities of short-term investments and term deposits of RMB3,131.9 million.

Net cash used in investing activities in 2019 was RMB1,335.0 million, primarily due to purchase of short-term investments and term deposits of RMB2,997.9 million, cash paid for property and equipment and intangible assets of RMB37.5 million, and cash paid for long-term investment of RMB23.7 million, offset by proceeds from maturities of short-term investments and term deposits of RMB1,727.9 million.

Financing activities

Net cash used in financing activities in 2021 was RMB216.7 million (US$34.0 million), primarily due to repurchase of ordinary shares of RMB217.7 million (US$34.2 million).

Net cash used in financing activities in 2020 was RMB5.8 million (US$0.9 million), primarily due to repayment of short-term borrowing of RMB6.5 million (US$1.0 million).

Net cash provided by financing activities in 2019 was RMB1,268.4 million (US$182.2 million), primarily due to net proceeds received from our initial public offering.

Material cash requirements

Our material cash requirements as of December 31, 2021 and any subsequent interim period primarily include our capital expenditures, operating lease obligations and purchase obligations.

Our capital expenditures are primarily incurred for purchases of electronic equipment, furniture and office equipment, and micro-finance license. Our capital expenditures were RMB37.5 million in 2019, RMB37.0 million in 2020 and RMB45.1 million (US$7.1 million) in 2021. We intend to fund our future capital expenditures with our existing cash balance. We will continue to make capital expenditures to meet the expected growth of our business.

Our operating lease obligations consist of the commitments under the lease agreements for our office premises. We lease our office facilities under non-cancelable operating leases with various expiration dates. The majority of our operating lease commitments are related to our headquarters' lease agreement ending in 2024 April. The lease payment and related property management fee for this agreement will be RMB46.9 million in 2022, RMB56.0 million in 2023 and RMB18.7 million in 2024.

Purchase obligations primarily consist of minimum commitments for imported equipment from Wuhan Miracle. As of December 31, 2021, such purchase commitments, which do not qualify for recognition on the Consolidated Balance Sheets, amount to RMB11.0 million (US$1.7 million), of which is due by 2022. These amounts represent the non-cancelable portion of agreements. For those agreements with variable terms, we do not estimate the non-cancelable obligation beyond any minimum quantities and/or pricing as of December 31, 2021.

Other than as discussed above, we did not have any significant capital and other commitments, long-term obligations or guarantees as of December 31, 2021.

Holding Company Structure

So-Young International Inc. is a holding company with no material operations of its own. We conduct our operations primarily through our PRC subsidiary, the consolidated variable interest entities and their subsidiaries in China. As a result, So-Young International Inc.'s ability to pay dividends depends upon dividends paid by our PRC subsidiary. If our existing PRC subsidiary 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 subsidiary in China is permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of our subsidiary and consolidated variable interest entity 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 subsidiary 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 consolidated variable interest entities may allocate a portion of their 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 subsidiary has not paid dividends but our WFOE generated accumulated profits after meeting the requirements for statutory reserve funds in 2021.

C. Research and Development, Patents and Licenses, Etc.

See "Item 4. Information On the Company—B. Business Overview—Technology and Infrastructure" 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 since January 1, 2019 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Critical Accounting Estimates

We prepare our financial statements in conformity with U.S. GAAP and pursuant to the regulations of the SEC, which requires us to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses, and related disclosures. We regularly evaluate these estimates and assumptions based on the most recently available information, our own historical experiences, and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from our expectations as a result of changes in our estimates.

We consider an accounting estimate to be critical if: (1) the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and (2) 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.

For a detailed discussion of our significant accounting policies and related judgments, please see “Note 2—Summary of Significant Accounting Policies”. You should read the following description of critical accounting estimates in conjunction with our consolidated financial statements and other disclosures included in this annual report.

Business combinations

Nature of Estimates Required. We account for business combinations using the acquisition method of accounting, which requires that once control is obtained, the purchase price would be allocated to all tangible assets and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The excess of the fair value of purchase price over the fair values of these assets and liabilities is recorded as goodwill to reporting units based on the expected benefit from the business combination. Such valuations require us to make significant estimates and assumptions.

Assumptions Used. The significant assumptions used in the determination of fair value of assets acquired and liabilities assumed include the following:

Projected revenue and projected operating result. These projections are derived using our internal business plan forecasts that are updated at least annually and reviewed by our Board of Directors.

Sales price of comparable property and equipment, adjustment for differences between acquired property and equipment and comparable property and equipment (the “adjustment rate”). We make assumptions about differences between acquired property and equipment and comparable property and equipment (e.g., serviced life, physical conditions, locations for the certain acquired property and equipment) to obtain the adjustment rate, which is multiplied by the sales price of comparable property and equipment.

Market rental of comparable property and equipment, adjustment for differences between acquired property and equipment and comparable property and equipment (the “adjustment rate”). We make assumptions about the differences between acquired property and equipment and comparable property and equipment (e.g., physical conditions, locations for the certain acquired property and equipment) to obtain the adjustment rate, which is multiplied by the market rental of comparable property and equipment.

Capitalization rates. When measuring the fair value of the certain acquired property and equipment, the rent income is capitalized at a rate which is consistent with the historical average capitalization rate in the city that the building is located at.

Replacement cost. The replacement cost is estimated by determining the current cost of replacing acquired property and equipment with one of equivalent economic utility.

Discount rate. When measuring the fair value of assets acquired and liabilities assumed, future cash flows are discounted at a rate that is consistent with a weighted-average cost of capital that we anticipate a potential market participant would use. Weighted-average cost of capital is an estimate of the overall risk-adjusted pre-tax rate of return expected by equity and debt holders of a business enterprise.

Sensitivity Analysis. We completed the acquisition of Wuhan Miracle in July 2021 and the assets acquired and liabilities assumed were recorded at fair value as of the acquisition date including intangible assets of RMB114 million and property and equipment of RMB105 million. Our estimation of fair value of the intangible assets is highly sensitive to the projected revenue. If the projected revenue increased/decreased by 10% with all other variables held constant, the fair value of the intangible assets as of the acquisition date would has been approximately RMB11.5 million higher /RMB11.0 million lower. Our estimation of fair value of the property and equipment is highly sensitive to the sales price of comparable property and equipment. If the sales price of comparable property and equipment increased/decreased by 10% with all other variables held constant, the fair value of the property and equipment as of the acquisition date would has been approximately RMB9.1 million higher/RMB8.1 million lower.

Impairment of goodwill and definite-lived intangible assets

Nature of Estimates Required-Goodwill. We tested goodwill impairment at the reporting unit level annually or more frequently if events or changes in circumstances would more likely than not reduce the fair value of a reporting unit below its carrying value. A quantitative assessment is performed if we determine it is more likely than not that the carrying value of the net assets is more than the fair value of the reporting unit after the qualitative assessment. If the carrying value of the reporting unit is above fair value, an impairment loss is recognized in an amount equal to the excess.

Nature of Estimates Required-Definite-lived Intangible Assets. We reviewed for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. An impairment charge is recognized for the amount by which the carrying value of the asset group exceeds its estimated fair value

Assumptions Used-Goodwill and Definite-lived Intangible Assets. The significant assumptions used in the determination of fair value of our reporting unit and definite-lived intangible assets include the following:

Projected revenue and projected operating result. These projections are derived using our internal business plan forecasts that are updated at least annually and reviewed by our Board of Directors.

Future undiscounted net cash flows expected to be generated by the assets. We make assumptions about the revenue and the operating result contributed by the definite-lived intangible assets for future undiscounted net cash flows expected to be generated by the assets. These projections are derived using our internal business plan forecasts that are updated at least annually and reviewed by our Board of Directors.

Discount rate. When measuring the fair value of our reporting unit and the definite-lived intangible assets, the future cash flows are discounted at a rate that is consistent with a weighted-average cost of capital that we anticipate a potential market participant would use. Weighted-average cost of capital is an estimate of the overall risk-adjusted pre-tax rate of return expected by equity and debt holders of a business enterprise.

Sensitivity Analysis. After the assessment, we fully impaired the goodwill of RMB48.5 million and intangible assets of RMB17.4 million related to our one reporting unit. As a measure of sensitivity, for an increase or decrease of 100 basis points to discount rate or increase or decrease of 10% to the other assumptions, no material effects are identified or any other outcomes that are reasonably likely to occur.

Useful lives of Intangible Assets

Our intangible assets are amortized using the straight-line method over the estimated useful lives of the assets. Key elements considered in the determination of the useful lives of the intangible assets are the changes to ongoing business operations, changes in the planned use and utilization of assets, or technological advancements. Amortization expenses of RMB78 thousand, RMB4.8 million and RMB15.0 million were recorded in the consolidated statements of comprehensive income/(loss) for the years ended December 2019, 2020 and 2021, respectively. As a measure of sensitivity, for 10% decrease to the useful lives of all intangible assets for the year ended December 31, 2021, we would have recorded an additional amortization expense of approximately RMB1.7 million.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

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
Xing Jin	42	Co-Founder, Chairman and Chief Executive Officer
Min Yu	38	Director and Chief Financial Officer
Haipeng Zhang	51	Director
Charles Zhaoxuan Yang	38	Independent Director
Chao He	63	Independent Director
Harry Jiannan Wang	43	Independent Director
Xuejian Li	40	Director and Chief Technology Officer
Rui Cai	38	Vice President of Commercial Products

Mr. Xing Jin is our co-founder and has served as our director and chief executive officer since our inception in March 2013. Prior to founding our company, Mr. Jin was the vice president and general manager of social operations of IM2.0 Interactive Group from 2011 to 2013. From 2009 to 2011, Mr. Jin served as a product operations director at Tenpay, an online payment service provider under Tencent Group (HKEx: 0700). Prior to that, Mr. Jin co-founded a social networking service community from 2007 to 2009, served as a senior product operations manager at Oak Pacific Interactive from 2004 to 2007, and served as a product development manager for Tom.com from 2001 to 2004. Mr. Jin received his bachelor's degree in management information systems from Tianjin University in 2001.

Mr. Min Yu has served as our director since May 2019 and as our chief financial officer since October 2018. Prior to joining us, Mr. Yu served as the chief financial officer of EasyPnP Inc. from 2017 to 2018, and as the chief financial officer of 500.com Limited (NYSE: WBAI), an online sport lottery service provider in China, from 2014 to 2017. Mr. Yu also served as a vice president at the Hong Kong office of Deutsche Bank AG from 2010 to 2014 and worked at the Shanghai and Hong Kong office of Macquarie Capital Advisor from 2007 to 2010. Mr. Yu received a bachelor's degree in finance and accounting from the University of Melbourne in 2007.

Dr. Haipeng Zhang has served as our director since December 2019. Dr. Zhang served as a senior managing director and Head of Healthcare Group at CITIC Capital Partners from 2015 to 2021. Prior to joining CITIC Capital, he was the chief executive officer of China Resources Healthcare Group Limited, the general manager of the strategy management department at China Resources (Holdings) Co., Limited. Prior to that, Dr. Zhang was a partner at Mckinsey & Company and has also worked with China Merchants Holdings (International) Company Limited as the head of Internal Control and Auditing. Dr. Zhang possesses deep knowledge and rich experience of the healthcare industry and currently serves on the boards of multiple companies in the healthcare industry. He received an MBA degree from Goizueta Business School at Emory University in 2000 and an M.D. degree from Peking Union Medical College in 1998.

Mr. Charles Zhaoxuan Yang has served as our independent director since May 2019. Mr. Yang is the chief financial officer of NetEase, Inc. (NASDAQ: NTES) and a director of KANZHUN LIMITED (NASDAQ: BZ). Prior to joining NetEase, Inc. in 2017, Mr. Yang was an executive director of the China technology, media and telecommunications, and corporate finance team at J.P. Morgan Securities (Asia Pacific) Limited based in Hong Kong and worked there for almost a decade. Mr. Yang holds a master's degree in Business Administration from the University of Hong Kong and a bachelor's degree from Wesleyan University with majors in Economics and Mathematics. Mr. Yang is a Certified Public Accountant licensed in the State of Michigan.

Prof. Chao He has served as our independent director since May 2020. Prof. Chao He is a professor of surgical oncology in the Medical School of Zhejiang University and has over 30 years of clinical practice experience Prof. He currently serves as the director and general manager of Greentown Medical Management Company since 2021. He served as a senior vice president in WeDoctor Group and chief executive officer of WeDoctor Primary Care from 2016 to 2019. Prior to that, he was the vice general manager in healthcare affairs at Taikang Community Investment Co., Ltd. from 2014 to 2016. Prof. He practiced as a physician and also took on managerial roles in Sir Run Shaw Hospital, a hospital affiliated with the Medical School of Zhejiang University, in Hangzhou, Zhejiang from 1999 to 2014. He was the president of Sir Run Shaw Hospital from 2003 to 2013. He practiced in the First Affiliated Hospital of Zhejiang University from 1983 to 1999, where he also served as a vice president from 1993 to 1999. Prof. He received his bachelor's degree in medicine from Zhejiang Medical University in 1982, where he also obtained his master's degree in medicine in 1989. He received an EMBA degree from CEIBS International Business School in 2003.

Prof. Harry Jiannan Wang has served as our independent director since May 2020. Prof. Harry Jiannan Wang is a professor of management information systems in the University of Delaware and has been a member of faculty since 2006. He has approximately 15 years of research and teaching experience in artificial intelligence, business intelligence and analytics, business process management, social computing, and enterprise systems. He has collaborated with many industry partners in research projects. Prof. Wang is the chief scientist at Tezign, a creative and marketing supplier platform and data intelligence solution provider in Shanghai, from 2019. From 2018 to 2019, he served as the founding director of the U.S. Research Institute of OneConnect (NYSE: OCFT). He was a JPMorgan Chase Fellow in the Institute for Financial Services Analytics from 2014 to 2018 and was the vice president of technology in Association for Information Systems from 2015 to 2018. He is passionate about entrepreneurship and founded Conferency.com, an open-source academic conference management system in 2015. Prof. Wang obtained his bachelor's degree in management information systems from Tianjin University in 2001 and received his doctor's degree in management information systems from University of Arizona in 2006.

Mr. Xuejian Li has served as our director since September 2021 and is our chief technology officer. Prior to joining us, Mr. Li served as the technology manager for Baidu (Nasdaq: BIDU) from 2010 to 2015 and was in charge of the development of Baidu's mobile apps, websites and other platforms. Prior to 2010, Mr. Li served as a senior technology manager for Beijing Lianzhong Interactive Network Inc., a developer and operator of online card and board games from 2008 to 2009, and was a research and development engineer at Yahoo China from 2007 to 2008. Mr. Li received a bachelor's degree in computer science from Dalian University of Technology in 2004 and a master's degree in computer science from Beihang University in 2007.

Mr. Rui Cai has served as our vice president of commercial products since March 2020. Prior to joining us, Mr. Cai served as a senior director at Autohome from 2016 to 2020. Prior to 2016, Mr. Cai was the director of commercial platform at Opera China from 2014 to 2016, the CEO of Taoyun Technology from 2013 to 2014, an advertising product director at Shanda Online from 2011 to 2013, a product director at Casee Wireless from 2006 to 2010, and was a product manager at Linktone Ltd. from 2004 to 2006. Mr. Cai received a bachelor's degree in design from Beijing Science Technology and Management University in 2004 and a master's degree in software engineering from Nanjing University in 2017.

B. Compensation of Directors and Executive Officers

For the fiscal year ended December 31, 2021, we paid an aggregate of RMB6.0 million (US$0.9 million) in cash to our executive officers and non-executive directors. We have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors. For share incentive grants to our directors and executive officers, see "Item 6. Directors, Senior Management and Employees—B. Compensation of Directors and Executive Officers—Share Incentive Plans."

Our PRC subsidiary and VIEs are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, unemployment insurance and other statutory benefits and a housing provident fund.

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, which may be extended at the end of the initial term. We may terminate employment for cause, at any time, without additional remuneration, for certain acts of the executive officer, such as conviction or plea of guilty to a felony or any crime involving moral turpitude, dishonest acts to our detriment, gross negligence or willful misconduct, or continued 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 may be mutually agreed. 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 clients or prospective clients, 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.

Share Incentive Plans

Second Amended and Restated 2018 Share Plan

Our board of directors approved a Second Amended and Restated 2018 Share Plan, or the 2018 Plan, in March 2019 to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of our business. The 2018 Plan supersedes all of our previously adopted share incentive plans. Under the 2018 Plan, the maximum aggregate number of ordinary shares which may be issued pursuant to all awards under the 2018 Plan is 7,700,000 ordinary shares plus an annual increase of 2% of our total outstanding share capital as of December 31 of the immediately preceding calendar year on the first day of each fiscal year, beginning in 2020, or such lesser number of Class A ordinary shares as determined by our board of directors, provide that the aggregate number of shares initially reserved and subsequently increased during the term of the 2018 Plan shall not be more than 10% of our total outstanding share capital on December 31 immediately preceding the most recent increase. The maximum aggregate number of shares which may be issued pursuant to all awards under the 2018 Plan is 8,080,445 Class A ordinary shares as of January 1, 2022. As of February 28, 2022, awards to purchase 2,061,149 ordinary shares under the 2018 Plan have been granted and outstanding, excluding awards that were forfeited or cancelled after the relevant grant dates. The number of Class A ordinary shares available for future issuance upon the exercise of future grants under the 2018 Plan was 1,018,549 as of February 28, 2022.

The following paragraphs describe the principal terms of the 2018 Plan.

Types of awards. The 2018 Plan permits the awards of shares, options, restricted shares, restricted share units or any other type of awards approved by the plan administrator.

Plan administration. Our board of directors or one or more committees (as may be established by our board of directors) will administer the 2018 Plan. Our board of directors or the committees, as applicable, will determine the participants to receive awards, the type and number of awards to be granted to each participant, and the terms and conditions of each award.

Award agreement. Awards granted under the 2018 Plan are evidenced by an award agreement that sets forth the terms, conditions and limitations for each award, which may include the term of the award, the provisions applicable in the event that the grantee's employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind the award.

Eligibility. We may grant awards to the employees, directors and consultants of our company and our subsidiaries and such other individuals as approved by the plan administrator.

Vesting schedule. In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

Exercise of options. The plan administrator determines the exercise price for each award, which is stated in the award agreement. The vested portion of option will expire if not exercised prior to the time as the plan administrator determines at the time of its grant. However, the maximum exercisable term is ten years from the date of a grant.

Transfer restrictions. Awards may not be transferred in any manner by the participant other than in accordance with the exceptions provided in the 2018 Plan or the corresponding award agreements, such as transfers by will or the laws of descent and distribution.

Termination and amendment of the 2018 Plan. Unless terminated earlier or extended pursuant to its terms, the 2018 Plan has a term of ten years. Our board of directors has the authority to terminate, amend or modify the 2018 Plan. However, no termination, amendment or modification of the 2018 Plan may adversely affect in any material way any awards previously granted unless agreed by the relevant grantee.

Share Incentive Plan

Our board of directors approved the 2021 Share Incentive Plan, or the 2021 Plan, in April 2021 to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of our business. Under the 2021 Plan, the maximum aggregate number of shares which may be issued pursuant to all awards shall initially be 1,734,760, plus commencing with the fiscal year beginning January 1, 2022, an annual increase on the first day of each fiscal year during the term of this Plan, by an amount equal to 2% of the total number of shares issued and outstanding on an as-converted fully diluted basis on the last day of the immediately preceding fiscal year; or such lesser number of shares as determined by our board of directors. As of February 28, 2022, 462,364 awards have been granted and outstanding under the 2021 Plan, excluding awards that were forfeited or cancelled after the relevant grant dates. The number of Class A ordinary shares available for future issuance upon the exercise of future grants under the 2021 Plan was 2,566,431 as of February 28, 2022.

The following paragraphs describe the principal terms of the 2021 Plan.

Types of awards. The 2021 Plan permits the awards of shares, options, restricted shares, restricted share units or any other type of awards approved by the plan administrator.

Plan administration. Our board of directors or one or more committees (as may be established by our board of directors) will administer the 2021 Plan. Our board of directors or the committees, as applicable, will determine the participants to receive awards, the type and number of awards to be granted to each participant, and the terms and conditions of each award.

Award agreement. Awards granted under the 2021 Plan are evidenced by an award agreement that sets forth the terms, conditions and limitations for each award, which may include the term of the award, the provisions applicable in the event that the grantee's employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind the award.

Eligibility. We may grant awards to the employees, directors and consultants of our company and our subsidiaries and such other individuals as approved by the plan administrator.

Vesting schedule. In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

Exercise of options. The plan administrator determines the exercise price for each award, which is stated in the award agreement. The vested portion of option will expire if not exercised prior to the time as the plan administrator determines at the time of its grant. However, the maximum exercisable term is ten years from the date of a grant.

Transfer restrictions. Awards may not be transferred in any manner by the participant other than in accordance with the exceptions provided in the 2021 Plan or the corresponding award agreements, such as transfers by will or the laws of descent and distribution.

Termination and amendment of the 2021 Plan. Unless terminated earlier or extended pursuant to its terms, the 2021 Plan has a term of two years. Our board of directors has the authority to terminate, amend or modify the 2021 Plan. However, no termination, amendment or modification of the 2021 Plan may adversely affect in any material way any awards previously granted unless agreed by the relevant grantee.

The following table summarizes, as of February 28, 2022, the outstanding options that have been granted under the 2018 Plan and the 2021 Plan to several of our directors and executive officers, excluding awards that were exercised, forfeited or cancelled after the relevant grant dates.

Name	Ordinary Shares Underlying Options	Exercise Price (US$/Share)	Date of Grant	Date of Expiration
Xing Jin	1,384,615	$ 0.10	June 18, 2020	June 17, 2030
			February 1, 2019, September 7, 2021, October 8, 2021	January 31, 2029 September 6, 2031, October 7, 2031
Min Yu	956,048	$ 0.10	May 1, 2022	April 30, 2032
Xuejian Li	*	$ 0.10	July 1, 2021, October 1, 2021	June 30, 2031 September 30, 2031
Rui Cai	*	$ 0.10	April 1, 2020, October 1, 2021	March 31, 2030 September 30, 2031
Total	3,290,541			

Note:

* Less than one percent of our total outstanding shares.

As of February 28, 2022, other employees as a group held outstanding options to purchase 1,202,145 Class A ordinary shares of our company, at a weighted average exercise price of US$0.1 per share.

C. Board Practices

Our board of directors consists of seven 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 transaction, or proposed contract or transaction, with our company is required to declare the nature of his interest at a meeting of our directors. A director may vote with respect to any contract or transaction, or proposed contract or transaction, notwithstanding that he may be interested therein, and if he does so his vote shall be counted and he may be counted in the quorum at any meeting of our directors at which any such contract or transaction or proposed contract or transaction is considered. Our directors may exercise all the powers of our company to issue debentures, debenture stock, bonds or other securities, whether outright or as collateral 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.

As of the date of this annual report, three out of seven of our directors meet the “independence” definition under the Nasdaq Stock Market Rules. As we are a “controlled company” as defined under the Nasdaq Stock Market Rules, we are permitted to elect to rely, and may rely, on certain exemptions from corporate governance rules. For example, we may rely on the exemption from the corporate governance rule that a majority of our board of directors must be independent directors. See “Item 16G. Corporate Governance.”

Committees of the Board of Directors

We have established three regular committees and one special committee under the board of directors. The three regular committees are: an audit committee, a compensation committee and a nominating and corporate governance committee. We have adopted a charter for each of the committees. Each committee’s members and functions are described below.

Audit Committee. Our audit committee consists of Mr. Charles Zhaoxuan Yang, Prof. Chao He and Prof. Harry Jiannan Wang. Mr. Charles Zhaoxuan Yang is the chairman of our audit committee. We have determined that Mr. Charles Zhaoxuan Yang, Prof. Chao He and Prof. Harry Jiannan Wang each satisfies the “independence” requirements of Rule 5605(c)(2) of the Nasdaq Stock Market Rules and meet the independence standards under Rule 10A-3 under the Exchange Act, as amended. We have determined that Mr. Charles Zhaoxuan Yang 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 Prof. Harry Jiannan Wang, Mr. Charles Zhaoxuan Yang and Prof. Chao He. Prof. Harry Jiannan Wang is the chairman of our compensation committee. We have determined that Prof. Harry Jiannan Wang, Mr. Charles Zhaoxuan Yang and Prof. Chao He each satisfies the “independence” requirements of Rule 5605(c)(2) of the Nasdaq Stock Market Rules. The compensation committee assists the board of directors 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 Prof. Chao He, Mr. Charles Zhaoxuan Yang and Prof. Harry Jiannan Wang. Prof. Chao He is the chairman of our nominating and corporate governance committee. We have determined that Prof. Chao He, Mr. Charles Zhaoxuan Yang and Prof. Harry Jiannan Wang each satisfies the "independence" requirements of Rule 5605(a)(2) of the Nasdaq Stock Market Rules. 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.

Special Committee. The special committee consists of Messrs. Charles Zhaoxuan Yang, Chao He and Harry Jiannan Wang. Mr. Charles Zhaoxuan Yang is the chairman of the special committee. The special committee was formed on November 22, 2021, to review the terms of the Proposed Transaction. See "Item 4. Information on the Company-A. History and Development of the Company-Proposed Transactions." The board of directors has delegated the power and authority of the board to the special committee in relation to the Proposed Transaction, including the power to evaluate the terms of the Proposed Transaction, negotiate definitive agreements with respect to the Proposed Transaction, consider other alternatives available to the Company, and to take any and all such action as is necessary, advisable or appropriate in the Committee's discretion in connection with the Proposed Transaction, any alternative proposal or other alternative available to the Company. The Committee shall also have the authority, without Board approval, to retain, engage and employ such outside legal, accounting, financial and other advisors.

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 exercise 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 elected by a resolution of our board of directors, or by an ordinary resolution of our shareholders. The service of our independent directors may be terminated by the director or by us with a 30-day advance written notice or such other shorter period of notice as mutually agreed. A director will also 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 to be or becomes of unsound mind, (iii) resigns his office by notice in writing to our company, or (iv) without special leave of absence from our board, is absent from three consecutive board meetings and our directors resolve that his office be vacated.

Our officers are elected by and serve at the discretion of our board of directors.

Board Diversity Matrix

Board Diversity Matrix (As of February 28, 2022)

Country of Principal Executive Offices	PRC
Foreign Private Issuer	Yes
Disclosure Prohibited Under Home Country Law	No
Total Number of Directors	7

	Female	Male	Non-Binary	Did Not Disclose Gender
Part I: Gender Identity				
Directors	0	7	0	0
Part II: Demographic Background				
Underrepresented Individual in Home Country Jurisdiction			0	
LGBTQ+			0	
Did Not Disclose Demographic Background			0	

D. Employees

We had a total of 2,085 and 1,564 employees as of December 31, 2021 and 2020, respectively. The following table gives a breakdown of our employees as of December 31, 2021, by function:

Function	Number of Employees
Platform operation and customer services	529
Equipment manufacture	71
Sales and marketing	612
General and administrative	268
Research and development	605
Total	2,085

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, as a result, have generally been able to attract and retain qualified personnel and maintain a stable core management team.

As required by regulations in China, we participate in various employee social security plans that are organized by municipal and provincial governments, including pension, unemployment insurance, childbirth insurance, work-related injury insurance, medical insurance and housing insurance. We are required under PRC law to make contributions to employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time. To date, we have not experienced any significant labor disputes. None of our employees are represented by labor unions.

E. Share Ownership

Except as specifically noted, the following table sets forth information with respect to the beneficial ownership of our ordinary shares as of February 28, 2022 by:

- each of our directors and executive officers; and
- each person known to us to own beneficially 5% or more of each class of our voting securities.

The calculations in the table below are based on 84,526,779 ordinary shares outstanding as of February 28, 2022, including 72,526,779 Class A ordinary shares and 12,000,000 Class B ordinary shares outstanding.

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	% of total ordinary shares	% of aggregate voting power†
Directors and Executive Officers:**				
Xing Jin[1]	772,496	12,000,000	15.1 %	83.4 %
Min Yu	*	—	*	*
Haipeng Zhang	—	—	—	—
Charles Zhaoxuan Yang	—	—	—	—
Chao He	—	—	—	—
Harry Jiannan Wang	*	—	*	*
Xuejian Li	*	—	*	*
Rui Cai	*	—	*	*
All Directors and Executive Officers as a Group	2,086,362	12,000,000	16.7 %	83.7 %
Principal Shareholders:				
ATCG Holdings Limited[1]	12,876,842	—	15.2 %	3.0 %
Beauty & Health Holdings Limited[2]	—	12,000,000	14.2 %	83.2 %
Matrix Partners China III Hong Kong Limited[3]	11,850,059	—	14.0 %	2.7 %
Orchid Asia entities[4]	10,646,534	—	12.6 %	2.5 %
Trustbridge Partners V, L.P.[5]	8,237,774	—	9.8 %	1.9 %
Oasis Management Company Ltd[6]	4,350,303	—	5.2 %	1.0 %

Notes:

* Less than 1% of our total outstanding ordinary shares.

** Each of Xing Jin, Min Yu, Xuejian Li, and Rui Cai's business address is Tower E, Ronsin Technology Center, Chaoyang District, Beijing, People's Republic of China. The business address of Hui Shao is Suite 1902, Fu'er Building, 9 Dongsanhuan Central Rd, Chaoyang District, Beijing, 100020, People's Republic of China. The business address of Haipeng Zhang is Flat C, 21/F, Tower 2A, Wing at Sea, Phase IV A, No. 1 Lohas Park Road, TKO, HK. The business address of Charles Zhaoxuan Yang is NetEase Building, No. 599 Wangshang Road, Binjiang District, Hangzhou, Zhejiang Province, People's Republic of China. The business address of Jay Wenjie Xiao is 27/F CES Tower, No. 3099 Keyuan South Road, Nanshan District, Shenzhen 518052, the People's Republic of China.

† For each person and 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 A ordinary shares is entitled to one vote per share and each holder of our Class B ordinary shares is entitled to thirty votes 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 12,876,842 Class A ordinary shares in the form of ADSs held by ATCG Holdings Limited, a company incorporated in the British Virgin Islands, as reported on the Schedule 13G/A filed by Hui Shao and ATCG Holdings Limited on January 18, 2022. ATCG Holdings Limited is controlled by Mr. Hui Shao through a trust and of which Mr. Shao and his family members are the beneficiaries. The principal office address of Hui Shao is Tower A5, Central Park Plaza, Chaoyang District, Beijing 100026, People's Republic of China.

(2) Represents 772,496 Class A ordinary shares directly held by Mr. Xing Jin and 12,000,000 Class B ordinary shares held by Beauty & Health Holdings Limited, a company incorporated in the British Virgin Islands. Beauty & Health Holdings Limited is controlled by Xing Jin through a trust and of which Mr. Jin and his family members are the beneficiaries. The registered address of Beauty & Health Holdings Limited is Start Chambers, Wickham's Cay II, P.O. Box 2221, Road Town, Tortola, British Virgin Islands.

(3) Represents 15,405,068 ADSs and 7 Class A ordinary shares held by Matrix Partners China III Hong Kong Limited, a company incorporated in Hong Kong, as reported on the Schedule 13G filed by Matrix Partners China III Hong Kong Limited and affiliated parties on February 14, 2022. The registered office address of Matrix Partners China III Hong Kong Limited is UNIT 1003, 10/F., TOWER 2, SILVERCORD 30 CANTON ROAD, TSIM SHA TSUI KOWLOON, HONG KONG. Matrix Partners China III Hong Kong Limited is held by Matrix Partners China III, L.P. and Matrix Partners China III-A, L.P.. Both Matrix Partners China III, L.P. and Matrix Partners China III-A, L.P. are managed by Matrix China III GP GP, Ltd.. Timothy A. Barrows, David Ying Zhang, David Su and Yibo Shao are directors of Matrix China III GP GP, Ltd. and are deemed to have shared voting and investment power over the shares held by Matrix Partners China III, L.P. and Matrix Partners China III-A, L.P.. The registered office address of Matrix Partners China III, L.P. and Matrix Partners China III-A, L.P. is Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

(4) Represents approximately 10,646,534 Class A ordinary shares that are equivalent to 13,840,494 ADSs held by Orchid Asia Entities, defined as the reporting persons of the Schedule 13D/A filed by Absolute Fortune Limited and affiliated parties on August 31, 2020. Pursuant to the Schedule 13D/A, Class A ordinary shares and/or ADSs that are equivalent to 2,616,027 ADSs were held by Absolute Fortune Limited, Class A ordinary shares and/or ADSs that are equivalent to 4,029,756 ADSs were held by Golden Horizon Limited, Class A ordinary shares and/or ADSs that are equivalent to 10,457,540 ADSs were held by Orchid Asia VII, L.P., and Class A ordinary shares and/or ADS that are equivalent to 766,927 ADSs were held by Orchid Asia VII Co-Investment, Limited. Each of Absolute Fortune Limited, Golden Horizon Limited and Orchid Asia VII Co-Investment, Limited is a Cayman Islands limited company. The address of principal business office of Absolute Fortune Limited, Golden Horizon Limited and Orchid Asia VII Co-Investment, Limited is c/o Vistra (Cayman) Limited P. O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 Cayman Islands. Orchid Asia VII, L.P. is exempted limited partnership formed under the laws of the Cayman Islands. The address of principal business office of Orchid Asia VII, L.P. is c/o Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

(5) Represents 8,237,774 Class A ordinary shares held by Trustbridge Partners V, L.P., a Cayman Islands limited partnership, including 3,067,873 ADSs, based on the Schedule 13G filed by TB Alternative Assets Ltd on February 11, 2022. Trustbridge

Partners V, L.P. is managed by TB Alternative Assets Ltd. The business address of TB Alternative Assets Ltd is c/o Maples Corporate Services Limited, Ugland House, Grand Cayman, Cayman Islands, KY1-1104.

(6) Represents 4,350,303 Class A ordinary shares held by Oasis Management Company Ltd., a Cayman Islands exempted company, based on the Schedule 13G filed by Oasis Management Company Ltd. and Mr. Seth Fischer on February 14, 2022. We refer to certain investment funds managed by Oasis Management Company Ltd. as "Oasis Funds." Mr. Seth Fischer, is responsible for the supervision and conduct of all investment activities of the Oasis Management Company Ltd., including all investment decisions with respect to the Class A ordinary shares held by the Oasis Funds, may be deemed to have shared power to vote and dispose of those Class A ordinary shares. The address of the business office of Mr. Seth Fischer is Oasis Compliance, Oasis Management (Hong Kong), 21st Floor, Man Yee Building, 68 Des Voeux Road, Central, Hong Kong. The address of the business office of Oasis Management Company Ltd. is Ugland House, PO Box 309 Grand Cayman, KY1-110, Cayman Islands.

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to thirty votes per share based on our dual class share structure. We issued Class A ordinary shares represented by our ADSs in our initial public offering in May 2019. 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.

To our knowledge, other than Mr. Xing Jin, we are not owned or controlled, directly or indirectly, by another corporation, by any foreign government or by any other natural or legal persons, severally or jointly. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

To our knowledge, as of February 28, 2022, 56,763,520 of our Class A ordinary shares were held by one record holder in the United States, which was Deutsche Bank Trust Company Americas, the depositary of the ADS program. The number of beneficial owners of the ADSs in the United States is likely to be much larger than the number of record holders of our common shares in the United States.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

Please refer to "Item 6. Directors, Senior Management and Employees—E. Share Ownership."

B. Related Party Transactions

Contractual Arrangements with the Variable Interest Entities and their respective Shareholders

See "Item 4. Information on the Company—C. Organizational Structure."

Registration Rights

Pursuant to our fourth amended and restated shareholders agreement dated August 23, 2018, we have granted certain registration rights to our shareholders. Set forth below is a description of the registration rights granted under the agreement.

Demand Registration Rights

At any time after the earlier of (i) August 23, 2021, or (ii) the date that is six months after the closing of the initial public offering, holder(s) holding 10% or more of the total registrable securities then outstanding may request in writing that we effect a registration of the registrable securities. Upon such a request, we shall within ten business days give written notice of the proposed registration to all holders and shall thereafter use our best efforts to, as soon as practicable, cause the registrable securities specified in the request, together with any registrable securities of any holder who requests in writing to join such registration within ten business days after the delivery of our written notice, to be registered and/or qualified for sale and distribution in such jurisdiction as the initiating holders may request. We have the right to defer filing of a registration statement for a period of not more than 90 days after the receipt of the request of the initiating holders under certain conditions, but we cannot exercise the deferral right more than once in any 12-month period and we cannot register any other share during the foregoing 90-day period. We are not obligated to effect a demand registration if we have, within the six-month period prior to the date of a demand registration request, already effected a registration. We are not obligated to effect more than three demand registrations other than demand registration to be effected pursuant to registration statement on Form F-3, for which an unlimited number of demand registrations shall be permitted.

Registration on Form F-3 or Form S-3

If we qualify for registration on Form F-3 or Form S-3 (or any comparable or successor form), any holder has the right to request us to file an unlimited number of registration statements on Form F-3 or Form S-3(or any comparable or successor form). Promptly after receiving such requests, we shall give written notice of the proposed registration and as soon as practicable, we shall effect the registration of the qualified securities on Form F-3 or Form S-3 (or any comparable or successor form).

Piggyback Registration Rights

If we propose to file a registration statement for a public offering of our securities (except registration statement field in relation to demand registration, Form F-3 registration, Form S-3 registration or to any employee benefit plan or a corporate reorganization), we shall give each holder written notice of such registration at least 30 days prior to filing of such registration statement and, upon the written request of any holder given within 10 business days after delivery of such notice, we shall include in such registration any registrable securities thereby requested to be registered by such holder. If a holder decides not to include all or any of its registrable securities in such registration, such holder will continue to have the right to include any registrable securities in any subsequent registration statement as may be filed by us, subject to certain limitations. 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 registrable securities shall allocate first to us, second to each of holders requesting for the inclusion of their registrable securities pursuant to the piggyback registration, subject to certain conditions.

Expenses of Registration

We will bear all registration expenses, other than underwriting discounts and selling commissions incurred in connection with any demand (subject to certain exceptions), piggyback or F-3 registration.

Termination of Obligations

The registration rights set forth above shall terminate (i) on the date that is five years from the date of closing of a qualified initial public offering as defined in the fourth amended and restated shareholders agreement, or (ii) with respect to any holder, the date on which such holder may sell all of such holder's registrable securities under Rule 144 of the Securities Act.

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 Plans."

Transactions with Medical Cosmetology

We have taken a 70% non-controlling interest in SoYoung Medical Cosmetology (Beijing) Management Consulting Co., Ltd., or Medical Cosmetology, since May 2016.

Medical Cosmetology repaid RMB1.3 million in 2019.

In March 2019, Medical Cosmetology completed its liquidation.

Transactions with Beijing Mevos

We have acquired a 11.11% interest in Beijing Mevos Management Consulting Company Limited, or Beijing Mevos, since September 2018. We incurred an expense of RMB2.1 million, RMB1.5 million and RMB1.0 million (US$153 thousand) to Beijing Mevos in 2019, 2020 and 2021. As of December 31, 2021, Beijing Mevos had nil amounts due to us and we had RMB0.6 million (US$101 thousand) due to Beijing Mevos. We invested RMB5.2 million in 2018 in Beijing Mevos.

Transactions with Beijing Yicai

We have acquired a 35% interest in Beijing Yicai Health Management Consulting Co., Ltd., or Beijing Yicai, since 2019. We provided information and rental services to Beijing Yicai in the amount of RMB3.1 million, RMB868 thousand, and nil in 2019, 2020 and 2021, respectively. We offered loan to Beijing Yicai in the amount of RMB2.0 million (US$314 thousand). As of December 31, 2021, Beijing Yicai had RMB360 thousand (US$ 56.5 thousand) due to us, which we fully impaired in 2021, and we had nil amounts due to Beijing Yicai. We invested RMB17.5 million in 2019 in Beijing Yicai.

Transactions with Mr. Haipeng Zhang

Haipeng Zhang became our director in the fourth quarter of 2019. We entered into an agreement with Mr. Zhang with a cash consideration of RMB1.3 million to engage him as spokesman for brand promotion from September 2019 to April 2020. We have paid in full for the service and recognized advertising expense of RMB613 thousand, RMB613 thousand and nil for the year ended December 31, 2019 2020, and 2021, respectively.

Transactions with Chengdu Zhisu

We have acquired a 16% interest in Chengdu Zhisu Medical Management Company Limited, or Chengdu Zhisu, since 2018. We provided information and reservation services to Chengdu Zhisu in the amount of RMB3.1 million, RMB4.0 million and RMB2.9 million (US$460 thousand) in 2019, 2020 and 2021, respectively. As of December 31, 2021, Chengdu Zhisu had RMB0.7 million (US$116 thousand) due to us, of which RMB0.5 million has been impaired in 2021 and we had nil due to Chengdu Zhisu. We invested RMB4.0 million in 2018 and further invested RMB4.3 million in 2019 in Chengdu Zhisu.

Transactions with Xingying

We acquired a 10% interest in Shanghai Xingying Medical Technology Co., Ltd., or Xingying in 2016. We provided information and reservation services to Xingying in the amount of RMB1.0 million, RMB1.1 million and RMB1.8 million (US$283 thousand) in 2019, 2020 and 2021, respectively.

Transactions with Beijing Sharing New Medical

We acquired a 49% interest in Beijing Sharing New Medical Technology Co., Ltd. in October 2019. We offered loan to Beijing Sharing New Medical in the amount of RMB16.9 million and RMB13.7 million (US$2.2 million) and Beijing Sharing New Medical repaid RMB9.7 million and RMB7.2 million (US$1.1 million) in 2020 and 2021 respectively, related loan interest for the year 2020 and 2021 was RMB234 thousand and RMB103 thousand (US$16 thousand). We invested RMB13.5 million in 2019 in Beijing Sharing New Medical.

Transactions with Wuhan Future Light Property Service Co., Ltd ("Future Light")

We acquired Wuhan Miracle in July 2021 and Future Light is controlled by direct relatives of Wuhan Miracle's actual controller. Future Light provided property service to Wuhan Miracle in the amount of RMB606 thousand (US$95 thousand).

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 are currently not a party to, and we are not aware of any pending or threatened legal, arbitral or administrative proceedings or claims, which, in the opinion of our management, is likely to have a material and adverse effect on our business, financial condition or results of operations. We may from time to time become a party to various legal, arbitral or administrative proceedings or claims arising in the ordinary course of our business. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—We have been, and may continue to be, subject to liabilities for infringement, misappropriation or other violations of third-party intellectual property rights or other allegations based on the content available on our platform or services we provide."

Dividend Policy

Our board of directors has complete discretion on whether to distribute dividends. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. In either case, 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, 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 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—Regulation—Regulations on Dividend Distributions."

If we pay any dividends on our ordinary shares, we will pay those dividends which are payable in respect of the ordinary shares underlying our ADSs to the depositary, as the registered holder of such ordinary shares, and the depositary then will pay such amounts to our ADS holders in proportion to 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 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. Offering and Listing Details

The ADSs, 13 of which represent 10 of our Class A ordinary shares, have been listed on Nasdaq since May 2, 2019. The ADSs trade under the symbol "SY."

B. Plan of Distribution

Not applicable.

C. Markets

The ADSs, 13 of which represent 10 of our Class A ordinary shares, have been listed on Nasdaq since May 2, 2019. The ADSs trade under the symbol "SY."

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 currently effective 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. The information set forth in Exhibit 2.5 to this Annual Report on Form 20-F is incorporated herein by reference.

Objects of Our Company. Under our amended and restated 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 law of the Cayman Islands.

Ordinary Shares. 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 nonresidents of the Cayman Islands may freely hold and vote their shares.

Class of 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. Each Class A ordinary share shall entitle the holder thereof to one vote on all matters subject to vote at general meetings of our company, and each Class B ordinary share shall entitle the holder thereof to thirty votes on all matters subject to vote at general meetings of our company.

Conversion. Each Class B ordinary share shall be convertible into one Class A ordinary share at the option of the holder thereof at any time upon written notice to the Company, while Class A ordinary shares cannot be converted into Class B ordinary shares under any circumstances. Upon any sale, transfer, assignment or disposition of any Class B ordinary share by a holder thereof to any person who is not the Founder or an Affiliate of the Founder (as such terms are defined in our amended and restated articles of association), such Class B ordinary share shall be automatically and immediately converted into one Class A ordinary share.

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 amended and restated memorandum and articles of association provide that dividends may be declared and paid out of our profits, realized or unrealized, or from any reserve set aside from profits which our board of directors determine is no longer needed. Dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Act. 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. Holders of Class A ordinary shares and Class B ordinary shares shall, at all times, vote together as one class on all matters submitted to a vote by the members at any general meeting of the Company. Each Class A ordinary share shall entitle the holder thereof to one vote on all matters subject to vote at general meetings of our company, and each Class B ordinary share shall entitle the holder thereof to thirty votes on all matters subject to vote at general meetings of our company. At any general meeting a resolution put to the vote at the meeting shall be decided on a show of hands, unless a poll is (before or on the declaration of the result of the show of hands) demanded by the chairman of such meeting or any one shareholder present in person or by proxy.

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 which are cast at the meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes attaching to the issued and outstanding ordinary shares which are cast at the meeting. Both ordinary resolutions and special resolutions may also be passed by a unanimous written resolution signed by all the shareholders of our company, as permitted by the Companies Act and our amended and restated memorandum and articles of association. 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.

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 amended and restated 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 or a majority of our board of directors. Advance notice of at least ten 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 one or more our shareholders, present in person or by proxy or, if a corporation or other non-natural person, by its duly authorized representative, holding shares which carry in aggregate not less than one-third of all votes attaching to all of our shares in issue and entitled to vote at such 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 amended and restated 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 the total number of votes attaching to all 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 amended and restated 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 writing, and in any usual or common form or such other form approved by our board of directors and shall be executed by or on behalf of the transferor, and if in respect of a nil or partly paid up share, or if so required by the directors, shall also be executed on behalf of the transferee.

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 in respect of only one class of ordinary shares;

- 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 Nasdaq Stock Market LLC 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 calendar 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 Nasdaq Stock Market LLC, 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 amongst 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 amongst 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, or by a special resolution of our shareholders. 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 or by an ordinary resolution of our shareholders. 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 issued and 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 of shares, the rights attached to any such class may (subject to any rights or restrictions attached to any class) only be materially adversely varied with the consent in writing of the holders of two-thirds of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. For these purposes, our directors may treat all the classes or any two or more classes as forming one class if they consider that all such classes would be affected in the same way by the proposals under consideration, but in any other case shall treat them as separate classes. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not (subject to any rights or restrictions attached to the shares of that class) be deemed to be materially adversely varied by, inter alia, the creation, allotment or issue of further shares ranking *pari passu* with or subsequent to them or the redemption or purchase of any shares of any class by our company. The rights of the holders of shares shall not be deemed to be materially adversely varied by the creation or issue of shares with preferred or other rights including, without limitation, the creation of shares with enhanced or weighted voting rights.

Issuance of Additional Shares. Our amended and restated memorandum of association authorizes 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 amended and restated memorandum of association also authorizes 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 the memorandum and articles of association and any special resolutions passed by our company, and the registers of mortgages and charges of our company).

Anti-Takeover Provisions. Some provisions of our amended and restated 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 amended and restated 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 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 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).

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," in 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 on Foreign Exchange."

E. Taxation

The following summary of the material Cayman Islands, PRC and U.S. federal income tax consequences of an investment in our 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 consequences relating to an investment in our ADSs or Class A ordinary shares, such as the tax consequences under U.S. state and local tax laws or under the tax laws of jurisdictions other than the Cayman Islands, China and the United States. To the extent that the discussion relates to matters of Cayman Islands tax law, it represents the opinion of Maples and Calder (Hong Kong) LLP, our counsel as to Cayman Islands law, and to the extent it relates to PRC tax law, it represents the opinion of CM Law Firm, our counsel as to PRC law.

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 gains 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 gains to any holder of our ordinary shares or ADSs, nor will capital gains derived from the disposal of our ordinary shares or ADSs be subject to Cayman Islands income or corporation tax.

Our company has been incorporated under the laws of the Cayman Islands as an exempted company with limited liability and, as such, has obtained an undertaking from the Financial Secretary of the Cayman Islands as to tax concessions under the Tax Concessions Act (As Revised). In accordance with the provision of Section 6 of The Tax Concessions Act (As Revised), the Financial Secretary has undertaken with our company:

- that no law which is hereafter enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to our company or its operations; and
- in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:

  (i) on or in respect of the shares, debentures or other obligations of our company; or

  (ii) by way of the withholding, in whole or part, of any relevant payment as defined in the Tax Concessions Acts (As Revised).

These concessions shall be for a period of 20 years from February 13, 2019.

PRC Taxation

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside China with “de facto management body” within China is considered a resident enterprise. 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 April 2009, the State Administration of Taxation issued a circular, known as 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 State Administration of Taxation’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 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 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 that So-Young International Inc. is not a PRC resident enterprise for PRC tax purposes. So-Young International Inc. is not controlled by a PRC enterprise or PRC enterprise group and we do not believe that So-Young International Inc. meets all of the conditions above. So-Young International Inc. is a company incorporated outside China. As a holding company, its key assets are its ownership interests in its subsidiaries, and its key assets are located, and its records (including the resolutions of its board of directors and the resolutions of its shareholders) are maintained, outside China. In addition, we are not aware of any offshore holding companies with a similar corporate structure as ours ever having been deemed a PRC “resident enterprise” by the PRC tax authorities. 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 ours.

If the PRC tax authorities determine that So-Young International Inc. 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 nonresident enterprises, including the holders of our ADSs. In addition, non-resident enterprise shareholders (including our ADS holders) may be subject to a 10% PRC tax 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. It is unclear whether our non-PRC individual shareholders (including our 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. However, it is also unclear whether non-PRC shareholders of So-Young International Inc. would be able to claim the benefits of any tax treaties between their country of tax residence and China in the event that So-Young International Inc. is treated as a PRC resident enterprise. See “Item 3. Key Information—D. Risk Factors—Risks Related 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.”

U.S. 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 ordinary shares by a U.S. Holder (as defined below) that holds our ADSs or ordinary shares as "capital assets" (generally, property held for investment) under the U.S. Internal Revenue Code of 1986, as amended (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. There can be no assurance that the Internal Revenue Service (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 alternative minimum tax considerations, or any state, local and non-U.S. tax considerations, relating to the ownership or disposition of our ADSs or 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);
- individual retirement accounts or other tax-deferred accounts;
- persons liable for alternative minimum tax;
- persons who acquire their ADSs or ordinary shares pursuant to any employee share option or otherwise as compensation;
- investors that will hold their ADSs or 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 10% or more of our ADSs or ordinary shares (by vote or value); or
- partnerships or other entities taxable as partnerships for U.S. federal income tax purposes, or persons holding ADSs or 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 ordinary shares.

General

For purposes of this discussion, a "U.S. Holder" is a beneficial owner of our ADSs or 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 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 ordinary shares and their partners are urged to consult their tax advisors regarding an investment in our ADSs or ordinary shares.

For U.S. federal income tax purposes, a U.S. Holder of ADSs will generally 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 ordinary shares for ADSs will generally 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 produce or are held for the production of passive income. For this purpose, cash and assets readily convertible into cash are categorized as passive assets and the company's goodwill and other unbooked intangibles 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 unclear, we treat the VIEs (and their subsidiaries) as being owned by us for U.S. federal income tax purposes because we control their management decisions and are entitled to substantially all of the economic benefits associated with them, and, as a result, we consolidate their results of operations in our consolidated U.S. GAAP financial statements. If it were determined, however, that we are not the owner of the VIEs (and their subsidiaries) for U.S. federal income tax purposes, we may be treated as a PFIC for the current taxable year and any subsequent taxable year.

Assuming that we are the owner of the VIEs (and their subsidiaries) for U.S. federal income tax purposes, and based upon our income and assets, and the market price of our ADSs, we do not believe that we were a PFIC for the taxable year ended December 31, 2021 and we do not presently expect to be a PFIC for the current taxable year or any future taxable year. While we do not expect to be or become a PFIC for the current taxable year or any future taxable year, no assurance can be given in this regard because the determination of whether we are or will become a PFIC is a factual determination made annually that will depend, in part, upon the composition of our income and assets. Furthermore, fluctuations in the market price of our ADSs may cause us to be classified as a PFIC for the current or future taxable years because the value of our assets for purposes of the asset test, including the value of our goodwill and other unbooked intangibles, may be determined by reference to the market price of our ADSs from time to time (which may be volatile). In particular, recent declines in the market price of our ADSs significantly increased our risk of becoming a PFIC for the current taxable year. The market price of our ADSs may continue to fluctuate considerably and, consequently, we cannot assure you of our PFIC status for any taxable year. The composition of our income and assets may also be affected by how, and how quickly, we use our liquid assets. Under circumstances where our revenue from activities that produce passive income significantly increases relative to our revenue from activities that produce non-passive income, or where we determine not to deploy significant amounts of cash for active purposes, our risk of becoming classified as a PFIC may substantially increase.

If we are a PFIC for any year during which a U.S. Holder holds our ADSs or 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 ordinary shares.

The discussion below under “Dividends” and “Sale or Other Disposition” is written on the basis that we are not and will not be or become classified as a PFIC for U.S. federal income tax purposes. The U.S. federal income tax rules that apply generally if we are treated as a PFIC are discussed below under “Passive Foreign Investment Company Rules.”

Dividends

Any cash distributions paid on our ADSs or 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 ordinary shares, or by the depositary, 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 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 gain tax rate applicable to “qualified dividend income,” provided that certain conditions are satisfied, including that (1) our ADSs or 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 (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 and the preceding taxable year, and (3) certain holding period requirements are met. Our ADSs are listed on the Nasdaq Global Market, which is an established securities market in the United States, and the ADSs are expected to be readily tradable. Since we do not expect that our ordinary shares will be listed on an established securities market, it is unclear whether dividends that we pay on our ordinary shares that are not represented by ADSs will meet the conditions required for the reduced tax rate. There can be no assurance that our ADSs will continue to be considered readily tradable on an established securities market in later years. 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 ordinary shares.

For U.S. foreign tax credit purposes, dividends paid on our ADSs or ordinary shares generally will be treated as income from foreign sources and generally will 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 ordinary shares. Depending on the U.S. Holder's particular facts and circumstances and subject to a number of complex 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.

Sale or Other Disposition

A U.S. Holder will generally recognize gain or loss upon the sale or other disposition of ADSs or 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 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 ordinary shares have been held for more than one year. Non-corporate U.S. Holders (including individuals) generally will be subject to United States federal income tax on long-term capital gain at preferential rates. 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.

As described in "Item 10. Additional Information—E. Taxation—PRC Taxation," if we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law, gains from the disposition of the ADSs or 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 United States 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 ordinary shares. The rules regarding foreign tax credits and deduction of foreign taxes are complex. U.S. Holders should 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 United States Treasury regulations.

Passive Foreign Investment Company Rules

If we are classified as a PFIC for any taxable year during which a U.S. Holder holds our ADSs or 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 in the three preceding taxable years or, if shorter, the U.S. Holder's holding period for the ADSs or ordinary shares), and (ii) any gain realized on the sale or other disposition of ADSs or 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 ordinary shares;
- the amount allocated to the current taxable year 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;
- the amount allocated to each prior taxable year, other than a pre-PFIC year, will be subject to tax at the highest tax rate in effect for individuals or corporations, as appropriate, for that year; and
- the interest charge generally applicable to underpayments of tax will be imposed on the tax attributable to each prior taxable year, other than a pre-PFIC year.

If we are a PFIC for any taxable year during which a U.S. Holder holds our ADSs or ordinary shares and any of our subsidiaries, the VIEs or the subsidiaries of the VIEs 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 VIEs or any of the subsidiaries of the VIEs.

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 traded on the Nasdaq Stock Market 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 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 ordinary shares during any taxable year that we are a PFIC, the holder must generally file an annual IRS Form 8621. Each U.S. Holder should consult its tax advisor regarding the U.S. federal income tax consequences of owning and disposing of our ADSs or ordinary shares if we are or become a PFIC.

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 end of each fiscal year, which is December 31. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also 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 our 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.

In accordance with Nasdaq Stock Market Rule 5250(d), we will post this annual report on Form 20-F on our website at *ir.soyoung.com*. In addition, we will provide hardcopies of our annual report free of charge to shareholders and ADS holders upon request.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Inflation

To date, inflation in China has not materially impacted 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 December 2019, 2020 and 2021 were increases of 4.5%, 0.2% and 1.5%, 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.

Market Risks

Foreign Exchange Risk

Substantially all of our revenues and expenses are denominated in RMB. We currently use structured investment products to hedge exposure to exchange rate risks. Such products reduce, but do not entirely eliminate the effect of foreign currency exchange rate movements on our cash, cash equivalents and restricted cash in foreign currencies. 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. 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 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 RMB 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 or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amounts available to us.

As of December 31, 2021, we had Renminbi-denominated cash, cash equivalents and restricted cash of RMB694.3 million. A 10% depreciation of Renminbi against the U.S. dollar based on the foreign exchange rate on December 31, 2021 would result in a decrease of US$10.9 million in cash, cash equivalents and restricted cash. A 10% appreciation of Renminbi against the U.S. dollar based on the foreign exchange rate on December 31, 2021 would result in an increase of US$10.9 million in cash, cash equivalents and restricted cash.

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 wealth management products. 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.

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 the ADS Holders May Have to Pay

Deutsche Bank Trust Company Americas, as depositary, registers and delivers the ADSs. 13 ADSs represent 10 Class A ordinary shares, deposited with Deutsche Bank AG, Hong Kong Branch, as custodian for the depositary. Each ADS also represents 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 are 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.

As an ADS holder, you 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 your ADSs):

Service	Fees
● 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
● Cancellation of ADSs, including the case of termination of the deposit agreement	Up to US$0.05 per ADS cancelled
● Distribution of cash dividends	Up to US$0.05 per ADS held
● 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
● Distribution of ADSs pursuant to exercise of rights	Up to US$0.05 per ADS held
● Distribution of securities other than ADSs or rights to purchase additional ADSs	Up to US$0.05 per ADS held
● Depositary services	Up to US$0.05 per ADS held on the applicable record date(s) established by the depositary bank

As an ADS holder, you will also be responsible to pay 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 your ADSs) such as:

- Fees for the transfer and registration of shares charged by the registrar and transfer agent for the shares in the Cayman Islands (i.e., upon deposit and withdrawal of 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 shares are deposited or withdrawn from deposit).
- Fees and expenses incurred in connection with the delivery or servicing of shares on deposit.

- Fees and expenses incurred in connection with complying with exchange control regulations and other regulatory requirements applicable to 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.

The fees and charges holders of our ADSs may be required to pay may vary over time and may be changed by us and by the depositary bank

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. In 2021, we received nil from the depository for expenses incurred in connection with the establishment and maintenance of the ADS program.

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—Class of 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 333-230760) in relation to our initial public offering, which was declared effective by the SEC on May 1, 2019. Our initial public offering closed in May 2019. Deutsche Bank Securities Inc. and China International Capital Corporation Hong Kong Securities Limited were the representatives of the underwriters for our initial public offering. Counting in the ADSs sold upon the exercise of the over-allotment option by our underwriters, we offered and sold an aggregate of 14,950,000 ADSs at an initial public offering price of US$13.80 per ADS, and received US$187.5 million in net proceeds after deducting underwriting commissions and discounts and the offering expenses payable by us.

The total expenses incurred for our company's account in connection with our initial public offering was US$4.3 million. 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 May 1, 2019, the date that the F-1 Registration Statement was declared effective by the SEC, to December 31, 2021, we invested US$301.3 million of the net proceeds from our initial public offering in wealth management products and deposited the rest in interest-bearing bank accounts. We still intend to use the proceeds from our initial public offering, as disclosed in our registration statements on Form F-1, to invest in technology and research and development and enhance our content offering, and for brand promotion and user acquisition efforts and horizontal and vertical business expansions, and for general corporate purposes and working capital needs and potential strategic investments and acquisitions.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act.

Based upon that evaluation, our management has concluded that, as of December 31, 2021, our disclosure controls and procedures were effective in ensuring that the 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 rules and forms, and that the 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 chief executive officer, as appropriate, to allow timely decisions regarding required disclosure.

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.

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, 2021 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, the management concluded that our internal control over financial reporting was effective as of December 31, 2021. Our management has excluded Wuhan Miracle from our assessment of internal control over financial reporting as of December 31, 2021 because it was acquired by us in a business combination during 2021. The total assets and total revenues of Wuhan Miracle excluded from our assessment represented 15% and 7%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2021. Because of its inherent limitations, internal control over financial reporting may not prevent or detect all potential 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.

Changes in Internal Control over Financial Reporting

As of December 31, 2021, 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 audits of our consolidated financial statements for the year ended December 31, 2019 has been remediated.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness in our internal control over financial reporting identified as of December 31, 2019 was that we did not have sufficient competent financial reporting and accounting personnel with an appropriate understanding of U.S. GAAP to design and implement formal period-end financial reporting controls and procedures to address complex U.S. GAAP technical accounting issues, and to prepare and review the consolidated financial statements and related disclosures in accordance with U.S. GAAP and financial reporting requirements set forth by the Securities and Exchange Commission, or the SEC.

We have implemented a number of measures to address the material weakness that was identified. We hired additional qualified financial and accounting personnel with working experience with U.S. GAAP and SEC reporting requirements. We have also established clear roles and responsibilities for accounting and financial reporting staff to address complex accounting and financial reporting issues. Furthermore, we have developed and implemented a comprehensive set of period-end financial reporting policies and procedures, especially for non-recurring and complex transactions to ensure consolidated financial statements and related disclosures are in compliance with U.S. GAAP and SEC reporting requirements and have established an ongoing program to provide sufficient and appropriate training for financial reporting and accounting personnel.

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 on Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Attestation Report of the 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, 2021, as stated in its report, which appears on page F-2 of this annual report on Form 20-F.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Mr. Charles Zhaoxuan Yang, the chairman of our audit committee and an independent director (under the standards set forth in Rule 5605(c)(2) of the Nasdaq Stock Market Rules and Rule 10A-3 under the Securities Exchange Act of 1934), is an audit committee financial expert.

ITEM 16B. CODE OF ETHICS

Our board of directors adopted a code of business conduct and ethics that applies to our directors, officers and employees in April 2019. We have posted a copy of our code of business conduct and ethics on our website at *ir.soyoung.com*.

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, our principal external auditors, for the periods indicated.

	For the Year Ended December 31,	
	2020	2021
	(in thousands of RMB)	
Audit fees[(1)]	12,070	12,121
Audit-related fees[(2)]	265	—
Tax fees[(3)]	429	784
Other fees[(4)]	468	850

Notes:

(1) "Audit fees" represent the aggregate fees billed for professional services rendered by our principal auditor for the audit of our annual financial statements and the review of our comparative interim financial statements.

(2) "Audit-related fees" represent the aggregate fees for services rendered by our independent registered public accounting firm for assistance in documenting internal control policies and procedures over financial reporting.

(3) "Tax fees" represent the aggregate fees billed in each of the fiscal years listed for professional services rendered by our principal auditor for tax compliance, tax advice, and tax planning.

(4) "Other fees" represent the aggregate fees incurred in each of the fiscal years listed for services rendered by our principal auditors excluding services reported under "Audit fees," "Audit-related 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 as described above, other than those for *de minimis* services which are approved by the audit committee prior to the completion of the audit.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

None.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

On May 7, 2021, our board of directors authorized a share repurchase program, pursuant to which we were authorized to repurchase our own ordinary shares, in the form of ADSs, with an aggregate value of up to US$70 million during the 12-month period effective from May 7, 2021.

The following table sets forth some information about our repurchases during the periods presented.

Period	Total Number of ADSs Purchased	Average Price Paid per ADS (US$)	Total Number of ADSs Purchased as Part of Publicly Announced Plan	Maximum Dollar Value of ADSs that May Yet be Purchased Under the Plan
May 1 – May 31, 2021	1,838,300	9.64	1,838,300	52,281,516
June 1 – June 30, 2021	1,598,500	10.19	1,598,500	35,996,955
Total	**3,436,800**	9.89	**3,436,800**	35,996,955

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

As a Cayman Islands exempted company listed on Nasdaq Stock Market LLC, we are subject to the Nasdaq corporate governance listing standards. However, Nasdaq Stock Market LLC 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 Nasdaq Stock Market corporate governance listing standards.

For example, Nasdaq Rule 5620 requires each issuer to hold an annual meeting of shareholders no later than one year after the end of the issuer's fiscal year-end. However, Nasdaq Rule 5615(a)(3) permits foreign private issuers like us to follow "home country practice" in certain corporate governance matters. Maples and Calder (Hong Kong) LLP, our Cayman Islands counsel, has provided a letter to the Nasdaq Stock Market certifying that under Cayman Islands law, we are not required to hold annual shareholders meetings every year. We followed home country practice and did not hold an annual meeting of shareholders in 2021. We may, however, hold annual shareholders meetings in the future.

Further, we also rely on exemptions afforded to controlled companies. We are a "controlled company" as defined under the Nasdaq Stock Market Rules because Mr. Xing Jin beneficially 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 currently rely, on certain exemptions from corporate governance rules, including an exemption from the rule that a majority of our board of directors must be independent directors. Currently, the majority of the members of our board of directors are not independent directors. As a result, you will not have the same protection afforded to shareholders of companies that are subject to these corporate governance requirements.

In addition, in lieu of the requirements of Rule 5635(c) of the Nasdaq Rules that shareholder approval is required prior to the issuance of securities when a stock option or purchase plan is to be established or materially amended or other equity compensation arrangement made or materially amended, pursuant to which stock may be acquired by officers, directors, employees, or consultants, we elected to follow our home country practices and did not seek shareholder approval for the adoption of our 2021 Share Incentive Plan.

We may continue to rely on these or other exemptions in the future, and our shareholders may be afforded less protection than shareholders of companies that are subject to these corporate governance requirements as a result. See “Item 3. Key Information —D. Risk Factors—Risks Related to Our ADSs—As an exempted 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 Nasdaq corporate governance listing standards; these practices may afford less protection to shareholders than they would enjoy if we comply fully with the Nasdaq corporate governance listing standards” and “Item 3. Key Information—D. Risk Factors—Risks Related to Our ADSs—We are a “controlled company” within the meaning of the Nasdaq Stock Market Rules and, as a result, can rely on exemptions from certain corporate governance requirements that provide protection to shareholders of other companies.”

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

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 So-Young International Inc. are included at the end of this annual report.

ITEM 19. EXHIBITS

Exhibit Number	Description of Document
1.1	Ninth Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated herein by reference to Exhibit 3.2 to the Form F-1 filed on April 8, 2019 (File No. 333-230760))
2.1	Registrant's Specimen American Depositary Receipt (included in Exhibit 2.3)
2.2	Registrant's Specimen Certificate for Class A Ordinary Shares (incorporated herein by reference to Exhibit 4.2 to the Form F-1/A filed on April 22, 2019 (File No. 333-230760))
2.3	Deposit Agreement dated May 1, 2019 among the Registrant, the depositary and holders of the American Depositary Receipts (incorporated herein by reference to Exhibit 4.3 to the Form S-8 filed on June 14, 2019 (File No. 333-232109))
2.4	Fourth Amended and Restated Shareholders Agreement between the Registrant and other parties thereto dated August 23, 2018 (incorporated herein by reference to Exhibit 4.4 to the Form F-1 filed on April 8, 2019 (File No. 333-230760))
2.5	Description of securities (incorporated herein by reference to Exhibit 2.5 to the Form F-20 filed on April 27, 2020 (File No. 001-38878))
4.1	Second Amended and Restated 2018 Share Plan (incorporated herein by reference to Exhibit 10.1 to the Form F-1 filed on April 8, 2019 (File No. 333-230760))
4.2	2021 Share Incentive Plan (incorporated herein by reference to Exhibit 4.2 to the Form F-20 filed on April 30, 2021 (File No. 001-38878))
4.3	Form of Indemnification Agreement between the Registrant and its directors and executive officers (incorporated herein by reference to Exhibit 10.2 to the Form F-1 filed on April 8, 2019 (File No. 333230760))
4.4	Form of Employment Agreement between the Registrant and its executive officers (incorporated herein by reference to Exhibit 10.3 to the Form F-1 filed on April 8, 2019 (File No. 333-230760))
4.5	Form of Director Service Agreement between the Registrant and its independent directors (incorporated herein by reference to Exhibit 10.4 to the Form F-1 filed on April 8, 2019 (File No. 333-230760))
4.6	English translation of the executed form of the power of attorney among Beijing Wanwei and shareholders of Beijing So-Young, as currently in effect, and a schedule of all executed shareholders' power of attorney adopting the same form (incorporated herein by reference to Exhibit 10.5 to the Form F-1 filed on April 8, 2019 (File No. 333-230760))

Exhibit Number	Description of Document
4.7	English translation of the executed equity interest pledge agreement among Beijing Wanwei, Mr. Xing Jin and Beijing So-Young dated November 1, 2018, as currently in effect (incorporated herein by reference to Exhibit 10.6 to the Form F-1 filed on April 8, 2019 (File No. 333-230760))
4.8	English translation of the executed equity interest pledge agreement among Beijing Wanwei, Mr. Hui Shao and Beijing So-Young dated November 1, 2018, as currently in effect (incorporated herein by reference to Exhibit 10.7 to the Form F-1 filed on April 8, 2019 (File No. 333-230760))
4.9	English translation of the executed equity interest pledge agreement among Beijing Wanwei, Mr. Tao Yu and Beijing So-Young dated November 1, 2018, as currently in effect (incorporated herein by reference to Exhibit 10.8 to the Form F-1 filed on April 8, 2019 (File No. 333-230760))
4.10	English translation of the executed exclusive business cooperation agreement among Beijing Wanwei and Beijing So-Young dated November 1, 2018, as currently in effect (incorporated herein by reference to Exhibit 10.9 to the Form F-1 filed on April 8, 2019 (File No. 333-230760))
4.11	English translation of the executed exclusive option agreement among Beijing Wanwei, Mr. Xing Jin and Beijing So-Young dated November 1, 2018, as currently in effect (incorporated herein by reference to Exhibit 10.10 to the Form F-1 filed on April 8, 2019 (File No. 333-230760))
4.12	English translation of the executed exclusive option agreement among Beijing Wanwei, Mr. Hui Shao and Beijing So-Young dated November 1, 2018, as currently in effect (incorporated herein by reference to Exhibit 10.11 to the Form F-1 filed on April 8, 2019 (File No. 333-230760))
4.13	English translation of the executed exclusive option agreement among Beijing Wanwei, Mr. Tao Yu and Beijing So-Young dated November 1, 2018, as currently in effect (incorporated herein by reference to Exhibit 10.12 to the Form F-1 filed on April 8, 2019 (File No. 333-230760))
4.14	English translation of the executed form of spousal consent letter by the spouses of shareholders of Beijing So-Young, as currently in effect, and a schedule of all spousal consent letters adopting the same form (incorporated herein by reference to Exhibit 10.13 to the Form F-1 filed on April 8, 2019 (File No. 333230760))
4.15	English translation of the executed form of the power of attorney among Beijing Wanwei and shareholders of Beijing Chiyan, as currently in effect, and a schedule of all executed shareholders' power of attorney adopting the same form (incorporated herein by reference to Exhibit 4.14 to the Form F-20 filed on April 27, 2020 (File No. 20817110))
4.16	English translation of the executed equity interest pledge agreement among Beijing Wanwei, Mr. Xing Jin and Beijing Chiyan dated September 4, 2019, as currently in effect (incorporated herein by reference to Exhibit 4.15 to the Form F-20 filed on April 27, 2020 (File No. 20817110))
4.17	English translation of the executed equity interest pledge agreement among Beijing Wanwei, Mr. Tao Yu and Beijing Chiyan dated September 4, 2019, as currently in effect (incorporated herein by reference to Exhibit 4.16 to the Form F-20 filed on April 27, 2020 (File No. 20817110))
4.18	English translation of the executed exclusive business cooperation agreement among Beijing Wanwei and Beijing Chiyan dated September 4, 2019, as currently in effect (incorporated herein by reference to Exhibit 4.17 to the Form F-20 filed on April 27, 2020 (File No. 20817110))
4.19	English translation of the executed exclusive option agreement among Beijing Wanwei, Mr. Xing Jin and Beijing Chiyan dated September 4, 2019, as currently in effect (incorporated herein by reference to Exhibit 4.18 to the Form F-20 filed on April 27, 2020 (File No. 20817110))

Exhibit Number	Description of Document
4.20	English translation of the executed exclusive option agreement among Beijing Wanwei, Mr. Tao Yu and Beijing Chiyan dated September 4, 2019, as currently in effect (incorporated herein by reference to Exhibit 4.19 to the Form F-20 filed on April 27, 2020 (File No. 20817110))
4.21	English translation of the executed form of spousal consent letter by the spouses of shareholders of Beijing Chiyan, as currently in effect, and a schedule of all spousal consent letters adopting the same form (incorporated herein by reference to Exhibit 4.20 to the Form F-20 filed on April 27, 2020 (File No. 20817110))
4.22*	English translation of the Equity Transfer Agreement among Beijing So-Young Technology Co., Ltd., Wuhan Zeqi Technology Co., Ltd., and other parties named therein dated June 27, 2021
8.1*	Principal subsidiaries and consolidated affiliated entities of the Registrant
11.1	Code of Business Conduct and Ethics of the Registrant (incorporated herein by reference to Exhibit 99.1 to the Form F-1 filed on April 8, 2019 (File No. 333-230760))
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 PricewaterhouseCoopers Zhong Tian LLP, an independent registered public accounting firm
15.2*	Consent of CM Law Firm
15.3*	Consent of Maples and Calder (Hong Kong) LLP
101.INS*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema 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 Labels Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (embedded within the Exhibit 101 Inline XBRL document set)

* 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 on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

So-Young International Inc.

By: /s/ Xing Jin
Name: Xing Jin
Title: Chairman of the Board of Directors and Chief Executive Officer

Date: May 2, 2022

SO-YOUNG INTERNATIONAL INC.
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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of So-Young International Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of So-Young International Inc. and its subsidiaries (the "Company") as of December 31, 2021 and 2020, and the related consolidated statements of comprehensive income/(loss), of changes in shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2021, 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, 2021, 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, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 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, 2021, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for allowance for credit losses in 2020.

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 the 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.

As described in Management's Annual Report on Internal Control over Financial Reporting, management has excluded Wuhan Miracle Laser Systems, Inc., and its subsidiaries ("Wuhan Miracle") from its assessment of internal control over financial reporting as of December 31, 2021 because it was acquired by the Company in a purchase business combination during 2021. We have also excluded Wuhan Miracle from our audit of internal control over financial reporting. The total assets and total revenues of Wuhan Miracle excluded from management's assessment and our audit of internal control over financial reporting represent 15% and 7%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2021.

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.

Acquisition of Wuhan Miracle - Valuation of Acquired Intangible Assets and Property and Equipment

As described in Note 6 to the consolidated financial statements, the Group acquired 55% of the ordinary shares of Wuhan Miracle for a total consideration of RMB512 million in July 2021. As of the acquisition date, the assets acquired and liabilities assumed, which were recorded at fair value, included (i) intangible assets related to supplier relationship of RMB17 million, in-process research and development of RMB27 million and developed technology of RMB70 million, and (ii) property and equipment of RMB105 million. Management applied significant judgments in determining the fair value of intangible assets and property and equipment, which involved the use of significant judgments and assumptions with respect to (i) the projected revenue, projected operating result and discount rate, which are related to the valuation of the fair value of the intangible assets, and (ii) sales price and market rental of comparable property and equipment, adjustment for differences between acquired property and equipment and comparable property and equipment, capitalization rates, and replacement cost, which are related to the valuation of the fair value of the property and equipment.

The principal considerations for our determination that performing procedures relating to the valuation of acquired intangible assets and property and equipment from the acquisition of Wuhan Miracle is a critical audit matter are the high degree of auditor judgment and subjectivity in applying procedures relating to the fair value measurement of intangible assets and property and equipment acquired and due to the significant assumptions and judgments by management when developing the estimates. This in turn led to significant audit effort in performing procedures and evaluating management's significant assumptions and judgments related to the estimation of fair value of intangible assets and property and equipment. The audit effort also involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming the overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to acquisition accounting, including controls over management's valuation of these intangible assets and property and equipment and controls over development of the assumptions and judgments related to the estimation of fair value of intangible assets and property and equipment. These procedures also included, among others, reading the purchase agreement, and testing management's process to estimate the fair value of these intangible assets and property and equipment. The testing of management's process included (i) evaluating the appropriateness of the valuation methods used, (ii) testing the completeness, accuracy and relevance of underlying data used in the valuation, and (iii) evaluating the reasonableness of the significant assumptions and judgment used by management, which involved considering the past performance of the acquired business and industry data. Professionals with specialized skill and knowledge were used to assist in the evaluation of the appropriateness of the valuation methods used by management and certain significant assumptions and judgments made by management in estimating the fair value of intangible assets and property and equipment as of the acquisition date.

Assessment for Impairment of Goodwill and Definite-lived Intangible Assets – Shanghai Leya Health Technology Co., Ltd ("Leya") Reporting Unit

As described in Notes 2 (n), 7 and 10 to the consolidated financial statements, the Group's consolidated goodwill balance was RMB541 million and definite-lived intangible assets with net balance was RMB194 million, respectively, as of December 31, 2021. Management conducts impairment tests for goodwill on an annual basis, or more frequently when events or circumstances occur indicating that the recorded goodwill may be impaired. In the fourth quarter of 2021, management recorded goodwill impairment charges of RMB48.5 million related to Leya reporting unit. As described in Notes 2 (r) and 10, management also conducted an impairment test to evaluate the carrying value of the definite-lived intangible assets for possible impairment as the management updated the long-term financial outlook of Leya reporting unit during the fourth quarter of 2021. After the assessment, management recorded an impairment loss of RMB17.4 million of intangible assets within Leya reporting unit. Recoverability is tested by a comparison of the carrying amount of the assets to the future undiscounted net cash flows expected to be generated by the assets. If the assets are considered to be impaired, the impairment recognized is measured using the amount by which the carrying amount of the assets exceeds the fair value of the assets. Management applied significant judgments in determining the fair value of Leya reporting unit and the definite-lived intangible assets, which involved the use of significant assumptions and judgments with respect to the projected revenue, projected operating result, future undiscounted net cash flows expected to be generated by the assets as well as the discount rate.

The principal considerations for our determination that performing procedures relating to assessment for impairment of goodwill and definite-lived intangible assets of Leya reporting unit is a critical audit matter are the high degree of auditor judgment and subjectivity in applying procedures relating to the fair value measurement of Leya reporting unit and the fair value of the definite-lived intangible assets and due to the significant judgments applied by management when developing the estimates. This in turn led to significant audit effort in performing procedures and evaluating management's significant assumptions and judgments related to the fair value measurement of Leya reporting unit and the fair value of the definite-lived intangible assets. The audit effort also involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming the overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's goodwill impairment assessment and definite-lived intangible assets impairment assessment, including controls over management's valuation of fair value of Leya reporting unit and the fair value of the definite-lived intangible assets, and controls over development of the assumptions and judgments related to the fair value measurement of Leya reporting unit and the fair value of the definite-lived intangible assets. These procedures also included, among others, testing management's process to estimate the fair value of Leya reporting unit and the fair value of the definite-lived intangible asset group. The testing of management's process included (i) evaluating the appropriateness of the valuation methods used; (ii) testing the completeness and accuracy of underlying data used in the valuation; and (iii) evaluating the reasonableness of the significant assumptions and judgments used by management, which involved considering the past performance of Leya and industry data. Professionals with specialized skill and knowledge were used to assist in the evaluation of valuation methods used by management and certain significant assumptions used by management, including the discount rate.

/s/PricewaterhouseCoopers Zhong Tian LLP
Beijing, the People's Republic of China
May 2, 2022

We have served as the Company's auditor since 2018.

SO-YOUNG INTERNATIONAL INC.
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except for share and per share data)

	As of		
	December 31, 2020 RMB	December 31, 2021 RMB	December 31, 2021 US$ Note 2(e)
Assets			
Current assets:			
Cash and cash equivalents	1,127,055	1,331,968	209,015
Restricted cash and term deposits	21,865	15,119	2,373
Trade receivables	52,871	54,829	8,604
Inventories, net	—	91,812	14,407
Receivables from online payment platforms	16,182	18,864	2,960
Amounts due from related parties	7,764	14,038	2,203
Term deposits and short-term investments	1,527,088	408,946	64,173
Prepayment and other current assets	43,190	91,842	14,412
Total current assets	**2,796,015**	**2,027,418**	**318,147**
Non-current assets:			
Long-term investments	166,100	252,500	39,623
Intangible assets	60,029	193,955	30,436
Goodwill	48,500	540,693	84,847
Property and equipment, net	29,830	124,576	19,549
Deferred tax assets	55,520	47,520	7,457
Operating lease right-of-use assets	120,140	95,609	15,003
Other non-current assets	15,878	48,097	7,547
Total non-current assets	**495,997**	**1,302,950**	**204,462**
Total assets	**3,292,012**	**3,330,368**	**522,609**
Liabilities			
Current liabilities (including amounts of the consolidated VIE and its subsidiaries without recourse to the primary beneficiaries of RMB487,937 and RMB406,691 as of December 31, 2020 and 2021, respectively):			
Taxes payable	60,070	48,571	7,622
Contract liabilities	135,385	139,155	21,836
Salary and welfare payables	95,758	103,624	16,261
Amounts due to related parties	2,404	681	107
Accrued expenses and other current liabilities	237,785	376,841	59,136
Operating lease liabilities-current	39,468	43,529	6,831
Total current liabilities	**570,870**	**712,401**	**111,793**
Non-current liabilities (including amounts of the consolidated VIE and its subsidiaries without recourse to the primary beneficiaries of RMB67,137 and RMB46,821 as of December 31, 2020 and 2021, respectively):			
Operating lease liabilities-non current	93,044	62,356	9,785
Deferred tax liabilities	8,522	38,577	6,054
Total non-current liabilities	**101,566**	**100,933**	**15,839**
Total liabilities	**672,436**	**813,334**	**127,632**
Commitments and Contingencies (see Note 20)			
Mezzanine Equity			
Redeemable non-controlling interests	23,205	—	—
Total Mezzanine Equity	**23,205**	**—**	**—**

The accompanying notes are an integral part of the consolidated financial statements.

SO-YOUNG INTERNATIONAL INC.
CONSOLIDATED BALANCE SHEETS (Continued)
(Amounts in thousands, except for share and per share data)

	As of		
	December 31, 2020 RMB	December 31, 2021 RMB	December 31, 2021 US$ Note 2(e)
Shareholders' equity:			
Treasury stock	—	(217,712)	(34,164)
Class A Ordinary shares (US$ 0.0005 par value; 750,000,000 shares authorized as of December 31, 2020 and 2021; 70,212,159 shares issued and outstanding as of December 31, 2020; 71,736,059 and 69,092,367 shares issued and outstanding as of December 31, 2021, respectively)	224	230	36
Class B Ordinary shares (US$ 0.0005 par value; 20,000,000 shares authorized as of December 31, 2020 and 2021; 12,000,000 shares issued and outstanding as of December 31, 2020 and 2021)	37	37	6
Additional paid-in capital	2,892,268	2,999,562	470,697
Statutory reserves	10,562	20,331	3,190
Accumulated deficit	(254,228)	(272,368)	(42,740)
Accumulated other comprehensive loss	(52,492)	(83,891)	(13,164)
Total So-Young International Inc. shareholders' equity	**2,596,371**	**2,446,189**	**383,861**
Non-controlling interests	—	70,845	11,116
Total shareholders' equity	**2,596,371**	**2,517,034**	**394,977**
Total liabilities, mezzanine equity and shareholders' equity	**3,292,012**	**3,330,368**	**522,609**

The accompanying notes are an integral part of the consolidated financial statements.

SO-YOUNG INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
(Amounts in thousands, except for share and per share data)

	For the Year Ended December 31,			
	2019 RMB	2020 RMB	2021 RMB	2021 US$ Note 2(e)
Revenues				
Information services and others	833,422	962,089	1,304,455	204,697
Reservation services	318,215	332,899	276,052	43,320
Sales of equipment and maintenance services	—	—	111,956	17,568
Total revenues	**1,151,637**	**1,294,988**	**1,692,463**	**265,585**
Cost of revenues	(198,630)	(212,206)	(327,889)	(51,453)
Gross profit	**953,007**	**1,082,782**	**1,364,574**	**214,132**
Operating expenses:				
Sales and marketing expenses	(470,033)	(726,297)	(792,484)	(124,358)
General and administrative expenses	(160,531)	(183,987)	(252,214)	(39,578)
Research and development expenses	(177,268)	(229,192)	(286,567)	(44,969)
Impairment of goodwill and intangible assets	—	—	(65,879)	(10,338)
Total operating expenses	**(807,832)**	**(1,139,476)**	**(1,397,144)**	**(219,243)**
Income/(loss) from operations	**145,175**	**(56,694)**	**(32,570)**	**(5,111)**
Other income/(expenses):				
Investment income	8,698	13,599	8,931	1,401
Interest income	45,045	39,669	19,328	3,033
Exchange losses	(3,235)	(1,118)	(4,766)	(748)
Impairment of long-term investment	(4,000)	—	(17,850)	(2,801)
Share of losses of equity method investee	—	(4,279)	(1,522)	(239)
Others, net	34,776	8,916	12,044	1,890
Income/(loss) before tax	**226,459**	**93**	**(16,405)**	**(2,575)**
Income tax (expenses)/benefits	(49,735)	4,784	(21,231)	(3,332)
Net income/(loss)	**176,724**	**4,877**	**(37,636)**	**(5,907)**
Net loss attributable to non-controlling interests	—	930	29,265	4,592
Net income/(loss) attributable to So-Young International Inc.	**176,724**	**5,807**	**(8,371)**	**(1,315)**
Accretions of convertible redeemable preferred shares to redemption value	(50,219)	—	—	—
Net income/(loss) attributable to ordinary shareholders of the Company	**126,505**	**5,807**	**(8,371)**	**(1,315)**
Net income/(loss)	**176,724**	**4,877**	**(37,636)**	**(5,907)**
Other comprehensive income/(1oss):				
Foreign currency translation adjustment	55,335	(144,225)	(31,399)	(4,927)
Total other comprehensive income/(loss)	**55,335**	**(144,225)**	**(31,399)**	**(4,927)**
Total comprehensive income/(loss)	**232,059**	**(139,348)**	**(69,035)**	**(10,834)**
Comprehensive loss attributable to non-controlling interests	—	930	29,265	4,592
Comprehensive income/(loss) attributable to So-Young International Inc.	**232,059**	**(138,418)**	**(39,770)**	**(6,242)**
Accretions of convertible redeemable preferred shares to redemption value	(50,219)	—	—	—
Comprehensive income/(loss) attributable to ordinary shareholders of the Company	**181,840**	**(138,418)**	**(39,770)**	**(6,242)**

The accompanying notes are an integral part of the consolidated financial statements.

SO-YOUNG INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS) (Continued)
(Amounts in thousands, except for share and per share data)

	For the Year Ended December 31,			
	2019 RMB	2020 RMB	2021 RMB	2021 US$ Note 2(e)
Net earnings/(loss) per ordinary share				
Net earnings/(loss) per ordinary share attributable to ordinary shareholder - basic	2.13	0.07	(0.10)	(0.02)
Net earnings/(loss) per ordinary share attributable to ordinary shareholder - diluted	2.00	0.07	(0.10)	(0.02)
Weighted average number of ordinary shares used in computing earnings/(loss) per share, basic*	59,357,935	81,534,991	81,680,504	81,680,504
Weighted average number of ordinary shares used in computing earnings/(loss) per share, diluted*	63,309,091	83,781,406	81,680,504	81,680,504
Net earnings/(loss) per ADS				
Net earnings/(loss) per ADS attributable to ordinary shareholders - basic (13 ADS represents 10 Class A ordinary shares)	1.64	0.05	(0.08)	(0.01)
Net earnings/(loss) per ADS attributable to ordinary shareholders - diluted (13 ADS represents 10 Class A ordinary shares)	1.54	0.05	(0.08)	(0.01)
Share-based compensation expenses included in:				
Cost of revenues	(12,752)	(18,327)	(18,768)	(2,945)
Sales and marketing expenses	(8,479)	(6,711)	(9,808)	(1,539)
General and administrative expenses	(61,579)	(46,001)	(56,705)	(8,898)
Research and development expenses	(21,401)	(21,131)	(20,869)	(3,275)

* Both Class A and Class B ordinary shares are included in the calculation of the weighted average number of ordinary shares outstanding, basic and diluted.

The accompanying notes are an integral part of the consolidated financial statements

SO-YOUNG INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Amounts in thousands, except for share and per share data)

	Class A Ordinary shares		Class B Ordinary shares		Additional paid-in capital	Accumulated deficit	Statutory Reserve	Accumulated other comprehensive income	Total Shareholders' (deficit)/equity
	Shares	Amount RMB	Shares	Amount RMB	RMB	RMB	RMB	RMB	RMB
Balance as of December 31, 2018	**12,000,000**	**37**	**11,290,940**	**35**	**—**	**(394,039)**	**—**	**36,398**	**(357,569)**
Net income	—	—	—	—	—	176,724	—	—	176,724
Statutory reserves	—	—	—	—	—	(10,562)	10,562	—	—
Share-based compensation expenses	—	—	—	—	104,211	—	—	—	104,211
Accretions of convertible redeemable preferred shares to redemption value	—	—	—	—	(18,845)	(31,374)	—	—	(50,219)
Re-designation of ordinary shares immediately prior to the completion of the initial public offering ("IPO")	(709,060)	(2)	709,060	2	—	—	—	—	—
Issuance of Class A ordinary shares upon the completion of IPO, net of issuance cost of RMB29,655 (see Note 16)	11,500,000	39	—	—	1,266,538	—	—	—	1,266,577
Conversion of convertible redeemable preferred shares upon IPO (see Note 17)	43,822,455	140	—	—	1,446,028	—	—	—	1,446,168
Issuance of Class A ordinary shares from exercise of share options (see Note 18)	2,008,323	7	—	—	1,404	—	—	—	1,411
Foreign currency translation adjustment	—	—	—	—	—	—	—	55,335	55,335
Balance as of December 31, 2019	**68,621,718**	**221**	**12,000,000**	**37**	**2,799,336**	**(259,251)**	**10,562**	**91,733**	**2,642,638**

The accompanying notes are an integral part of the consolidated financial statements.

SO-YOUNG INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Continued)
(Amounts in thousands, except for share and per share data)

	Class A Ordinary shares		Class B Ordinary shares		Treasury stock		Additional paid-in capital	Accumulated deficit	Statutory Reserve	Accumulated other comprehensive income/(loss)	Total Shareholders' Equity Attributable to Shareholders of the Company	Non-controlling interests	Total equity
	Shares	Amount RMB	Shares	Amount RMB	Shares	Amount RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Balance as of December 31, 2019	**68,621,718**	**221**	**12,000,000**	**37**	**—**	**—**	**2,799,336**	**(259,251)**	**10,562**	**91,733**	**2,642,638**	**—**	**2,642,638**
Net income attributable to So-Young International Inc.	—	—	—	—	—	—	—	5,807	—	—	5,807	—	5,807
Impact of adoption of credit loss guidance	—	—	—	—	—	—	—	(784)	—	—	(784)	—	(784)
Share-based compensation expenses	—	—	—	—	—	—	92,170	—	—	—	92,170	—	92,170
Issuance of Class A ordinary shares from exercise of share options (see Note 18)	1,090,441	3	—	—	—	—	762	—	—	—	765	—	765
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	(144,225)	(144,225)	—	(144,225)
Balance as of December 31, 2020	**69,712,159**	**224**	**12,000,000**	**37**	**—**	**—**	**2,892,268**	**(254,228)**	**10,562**	**(52,492)**	**2,596,371**	**—**	**2,596,371**
Net loss attributable to So-Young International Inc.	—	—	—	—	—	—	—	(8,371)	—	—	(8,371)	—	(8,371)
Acquisition of subsidiary (see Note 6)	—	—	—	—	—	—	—	—	—	—	—	76,905	76,905
Statutory reserves	—	—	—	—	—	—	—	(9,769)	9,769	—	—	—	—
Repurchase of Class A ordinary shares	—	—	—	—	(2,643,692)	(217,712)	—	—	—	—	(217,712)	—	(217,712)
Share-based compensation expenses	—	—	—	—	—	—	106,150	—	—	—	106,150	—	106,150
Issuance of Class A ordinary shares from exercise of share options (see Note 18)	1,773,900	6	—	—	—	—	1,144	—	—	—	1,150	—	1,150
Reclassification of non-controlling interests in mezzanine equity and net loss attributable to non-controlling interest shareholders (see Note 6)	—	—	—	—	—	—	—	—	—	—	—	(6,060)	(6,060)
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	(31,399)	(31,399)	—	(31,399)
Balance as of December 31, 2021	**71,486,059**	**230**	**12,000,000**	**37**	**(2,643,692)**	**(217,712)**	**2,999,562**	**(272,368)**	**20,331**	**(83,891)**	**2,446,189**	**70,845**	**2,517,034**

The accompanying notes are an integral part of the consolidated financial statements.

SO-YOUNG INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands, except for share and per share data)

	For the Year Ended December 31,			
	2019 RMB	2020 RMB	2021 RMB	2021 US$ Note 2(e)
Cash flows from operating activities:				
Net income/(loss)	176,724	4,877	(37,636)	(5,907)
Depreciation of property and equipment and amortization of intangible assets	6,129	14,087	30,081	4,721
Impairment of amount due from related parties	—	—	860	135
Impairment of long-term investment	4,000	—	17,850	2,801
Impairment of property and equipment	689	—	—	—
Impairment of other current assets	1,991	—	—	—
Impairment of goodwill and intangible assets	—	—	65,879	10,338
Loss on disposal of property and equipment	—	—	244	38
Expected credit losses	—	6,305	15,498	2,432
Share-based compensation expenses	104,211	92,170	106,150	16,657
Lease expense to reduce right-of-use assets	33,095	31,990	33,668	5,283
Share of losses of equity method investee	—	4,279	1,522	239
Exchange losses	3,235	1,118	4,766	748
Deferred income tax	(4,314)	(21,364)	1,652	259
Accrued investment income of short-term investments	2,298	(6,374)	8,289	1,301
Loan loss recovery	(1,314)	—	—	—
Changes in operating assets and liabilities:				
Trade receivables	(15,637)	(32,596)	14,580	2,288
Receivables from online payment platforms	(3,459)	(2,753)	(2,682)	(421)
Prepayment and other current assets	(19,678)	24,270	(43,991)	(6,903)
Inventories, net	—	—	7,869	1,235
Other non-current assets	(14,184)	(1,694)	(36,968)	(5,801)
Contract liabilities	(23,242)	41,459	(28,306)	(4,442)
Taxes payable	26,589	(4,875)	(13,010)	(2,042)
Salary and welfare payables	29,190	(5,341)	(4,838)	(759)
Amounts due (from)/to related parties	1,730	5	(307)	(48)
Operating lease liabilities	(23,233)	(33,518)	(35,764)	(5,612)
Accrued expenses and other liabilities	99,002	67,135	(21,119)	(3,314)
Net cash generated from operating activities	**383,822**	**179,180**	**84,287**	**13,226**
Cash flows from investing activities:				
Purchase of property and equipment and intangible assets	(37,544)	(36,962)	(45,056)	(7,070)
Purchase of short-term investments and term deposits	(2,997,928)	(2,802,999)	(1,919,804)	(301,259)
Proceeds from maturities of short-term investments and term deposits	1,727,870	3,131,878	3,052,869	479,062
Cash paid for long-term investments, including prepayment for new investment	(23,725)	(125,000)	(102,945)	(16,154)
Proceeds from disposal of property and equipment	—	10	180	28
Acquisition of subsidiaries, net of cash acquired	—	(40,911)	(636,872)	(99,939)
Loans advanced to related party (see Note 22)	(5,000)	(16,889)	(15,720)	(2,467)
Proceeds from repayment of the loan advances to related party (see Note 22)	1,314	14,718	7,170	1,125
Net cash (used in)/provided by investing activities	**(1,335,013)**	**123,845**	**339,822**	**53,326**

The accompanying notes are an integral part of the consolidated financial statements.

SO-YOUNG INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Amounts in thousands, except for share and per share data)

	For the Year Ended December 31,			
	2019 RMB	2020 RMB	2021 RMB	2021 US$ Note 2(e)
Cash flows from financing activities:				
Cash paid for repurchase of ordinary shares	—	—	(217,712)	(34,164)
Proceeds from initial public offering, net of issuance cost	1,266,577	—	—	—
Repayment of short-term borrowing	—	(6,500)	—	—
Proceeds from exercise of share options	1,819	696	969	152
Net cash provided by/(used in) financing activities	**1,268,396**	**(5,804)**	**(216,743)**	**(34,012)**
Effect of exchange rate changes on cash, cash equivalents and restricted cash	**20,597**	**(52,721)**	**(9,242)**	**(1,450)**
Net increase in cash, cash equivalents and restricted cash	**337,802**	**244,500**	**198,124**	**31,090**
Cash, cash equivalents and restricted cash at the beginning of the year	**563,383**	**901,185**	**1,145,685**	**179,783**
Cash, cash equivalents and restricted cash at the end of the year	**901,185**	**1,145,685**	**1,343,809**	**210,873**
Supplemental disclosures of cash flow information:				
Cash paid for income taxes	(38,112)	(24,070)	(31,170)	(4,891)
Non-cash investing and financing activities:				
Accretions of convertible redeemable preferred shares to redemption value	50,219	—	—	—
Conversion of convertible redeemable preferred shares upon IPO (see Note 17)	1,446,168	—	—	—
Reconciliation to amounts on consolidated balance sheets:				
Cash and cash equivalents	884,676	1,127,055	1,331,968	209,015
Restricted cash	16,509	18,630	11,841	1,858
Total cash, cash equivalents and restricted cash	**901,185**	**1,145,685**	**1,343,809**	**210,873**

The accompanying notes are an integral part of the consolidated financial statements.

SO-YOUNG INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except for share and per share data, unless otherwise noted)

1. Operations and principal activities

(a) Principal activities

So-Young International Inc. (the "Company" or "So-Young"), is a leading online platform on consumption healthcare services focusing on discretionary medical treatments. The Company, through its consolidated subsidiaries and consolidated variable interest entities ("VIEs") and the subsidiaries of the VIE (collectively referred to as the "Group") is primarily engaged in the operation of the platform that enables users to both discover reliable content and share their own experience on medical aesthetics procedures, and leads users to reserve treatment services from medical aesthetic service providers for offline treatment in the People's Republic of China (the "PRC" or "China") and internationally.

As of December 31, 2021, the Company's major subsidiaries, consolidated VIEs and VIEs' subsidiaries are as follows:

	Place and year of incorporation or year of acquisition	Percentage of direct or indirect economic ownership	Principal activities
Subsidiaries			
So-Young Hong Kong Limited ("So-Young HK")	Hong Kong, 2014	100 %	Investment holding
So-Young High Tech Korea Co., Ltd.	Korea, 2014	100 %	Technology advisory services
Beijing So-Young Wanwei Technology Consulting Co., Ltd. ("So-Young Wanwei")	the PRC, 2014	100 %	Management consulting services
So-Young (China) Network Technology Co., Ltd. ("So-Young China")	the PRC, 2018	100 %	Management consulting services
Wuhan Zeqi Technology Co., Ltd. ("Wuhan Zeqi")	the PRC, 2021	100 %	Investment holding
Wuhan Miracle Laser Systems, Inc. ("Wuhan Miracle")	the PRC, 2021	91.77 %	Production, sales and agency of equipment
Wuhan Haoweilai Technology Co., Ltd. ("Wuhan Haoweilai")	the PRC, 2021	91.77 %	Production, sales and agency of equipment
Shanghai Jiading Tonghua Micro Finance Co., Ltd. ("Tonghua Micro Finance")	the PRC, 2021	100 %	Micro finance services
VIEs			
Beijing So-Young Technology Co., Ltd. ("Beijing So-Young")	the PRC, 2013	100 %	Internet information and technology advisory services
Beijing Chiyan Medical Beauty Consulting Co., Ltd. ("Chiyan Beijing")	the PRC, 2019	100 %	Internet information and technology advisory services
VIE's Subsidiaries			
Beijing So-Young Souyang Investment and Management Co., Ltd.	the PRC, 2016	100 %	Management consulting services
Beijing Meifenbao Technology Co., Ltd.	the PRC, 2016	100 %	Technology advisory services
Beijing So-Young Qingyang Medical Instrument Co., Ltd.	the PRC, 2017	100 %	Sales of medical equipment
Beijing Shengshi Meiyan Culture Co., Ltd.	the PRC, 2018	100 %	Internet culture services
Jinbaoxin Shenzhen Insurance Brokers Co., Ltd. ("Jinbaoxin")	the PRC, 2020	100 %	Technology advisory services
Shanghai Leya Health Technology Co., Ltd. ("Leya")	the PRC, 2020	63.37 %	Technology advisory services
Hainan Yixian Daka Technology Co., Ltd.	the PRC, 2021	100 %	Technology advisory services
Hainan So-Young Medical Technology Co., Ltd	the PRC, 2021	100 %	Sales and agency of equipment

SO-YOUNG INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands, except for share and per share data, unless otherwise noted)

1. Operations and principal activities (Continued)

(a) Principal activities (Continued)

Initial Public Offering

In May 2019, the Company completed its IPO on the Nasdaq Global Market and the underwriters subsequently exercised their over-allotment option in May 2019. In the offering, 14,950,000 American depositary shares (“ADSs”), representing 11,500,000 Class A Ordinary shares, were issued and sold to the public at a price of US$13.80 per ADS. The net proceeds to the Company from the IPO, after deducting commission and offering expenses, were approximately US$187.5 million (RMB1,267 million).

Upon the completion of IPO, 66,613,419 Class A ordinary shares with one vote per share and 12,000,000 Class B ordinary shares with thirty votes per share were issued upon re-designation of ordinary shares and the conversion of all redeemable convertible preferred shares. In addition, the authorized share capital of the Company was US$425 divided into 850,000,000 shares, comprising (i) 750,000,000 Class A ordinary shares of a par value of US$0.0005 each, (ii) 20,000,000 Class B ordinary shares of a par value of US$0.0005 each and (iii) 80,000,000 shares of a par value of US$0.0005 each of such class or classes (however designated) as the board of directors may determine in accordance with the amended and restated memorandum and articles of association.

(b) VIE arrangements between the Company’s PRC subsidiaries

As of December 31, 2021, the Company, through the WFOE, entered into the following contractual arrangements with the VIEs and its shareholders that enabled the Company to (1) have power to direct the activities that most significantly affect the economic performance of the VIEs, and (2) bear the risks and enjoy the rewards normally associated with ownership of the VIEs. Accordingly, the Company is the ultimate primary beneficiary of the VIEs. Consequently, the financial results of the VIEs were included in the Group’s consolidated financial statements.

i) Contracts that give the Company effective control of the VIEs

Exclusive Call Option Agreement. Pursuant to the exclusive call option agreement among the WFOE, the VIEs and the VIEs’ shareholders, each of the shareholders of the VIEs irrevocably granted the 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 the VIEs, and the purchase price shall be RMB0.01 or the lowest price permitted by applicable the PRC law. The shareholders of the VIEs undertakes that, without the prior written consent of the WFOE or the Company, they shall not increase or decrease the registered capital, dispose of its assets, incur any debts 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, distribute any dividends to shareholders. The term of exclusive call option agreement is effective until all equity interests held by the VIE’s shareholders in VIE have been transferred or assigned to WFOE and/or any other person designated by WFOE.

Powers of Attorney. Pursuant to the powers of attorney, each shareholder of the VIEs irrevocably authorized the WFOE to act on the behalf of such shareholder with respect to all matters concerning the shareholding of the shares in the VIEs, including without limitation, attending shareholders’ meetings of the VIEs, exercising all the shareholders’ rights and shareholders’ voting rights, and designating and appointing the legal representative, directors, supervisors, general managers and other senior management members of the VIEs.

SO-YOUNG INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands, except for share and per share data, unless otherwise noted)

1. Operations and principal activities (Continued)

(b) VIE arrangements between the Company's PRC subsidiaries (Continued)

i) Contracts that give the Company effective control of the VIEs (Continued)

Equity Interest Pledge Agreement. Pursuant to the equity interest pledge agreements, the shareholders pledge 100% of their equity interest in the VIEs to the WFOE to guarantee the performance by the VIEs and its shareholders of their obligations under the exclusive business cooperation agreement, the exclusive call option agreements and the power of attorney. If events of default defined therein occur, upon giving written notice to the shareholders, the WFOE may exercise the right to enforce the pledge to the extent permitted by the PRC laws, unless the event of default has been successfully resolved to the satisfaction of the WFOE. The shareholders of the VIEs agree that, without the WFOE's prior written consent, during the term of the equity interest pledge agreement, they will not place or permit the existence of any security interest or other encumbrance on the equity interest in the VIEs or any portion thereof.

Spousal Consent Letter. The spouse of each shareholder of the VIEs has each signed a spousal consent letter. Under the spousal consent letter, the signing spouse unconditionally and irrevocably approved the execution by her spouse of the power of attorney, equity interest pledge agreement and exclusive option agreement, and that her spouse may perform, amend or terminate such agreements without her consent. The signing spouse confirms she will not assert any rights over the equity interests in the VIEs held by her spouse. In addition, in the event that the spouse obtains any equity interest in the VIEs held by her spouse for any reason, she agrees to be bound by and sign any legal documents substantially similar to the contractual arrangements entered into by her spouse, as may be amended from time to time.

ii) Contracts that enable the Company to receive substantially all of the economic benefits from the VIE

Exclusive business cooperation agreements. The VIEs have entered into an exclusive technical development, consultation and service agreement with the WFOE, pursuant to which the WFOE provides exclusive services to the VIEs. In exchange, the VIEs pay a service fee to the WFOE, the amount of which shall be determined, to the extent permitted by applicable PRC laws as proposed by the WFOE, resulting in a transfer of substantially all of the profits from the VIEs to the WFOE. The VIEs have incurred RMB382,075, RMB339,623 and RMB584,914 service fee to the WFOE under the VIE arrangements for the years ended December 31, 2019, 2020 and 2021, respectively.

iii) Risks in relation to VIE structure

The Company believes that the contractual arrangements between the WFOE and its VIEs and its respective shareholders are in compliance with PRC laws and regulations and are legally enforceable. However, uncertainties in the PRC legal system could limit the WFOE's ability to enforce the contractual arrangements. If the legal structure and contractual arrangements were found to be in violation of the PRC laws and regulations, the PRC government could:

- revoke the business and operating licenses of the Company's PRC subsidiaries and the VIEs;
- discontinue or restrict the operations of any related-party transactions between the Company's PRC subsidiaries and the VIEs;
- limit the Group's business expansion in China;
- impose fines or other requirements with which the Company's PRC subsidiaries and the VIEs may not be able to comply;
- take other regulatory or enforcement actions against the Group that could be harmful to the Group's business; or
- require the Company or the Company's PRC subsidiaries or the VIEs to restructure the relevant ownership structure or operations.

SO-YOUNG INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands, except for share and per share data, unless otherwise noted)

1. Operations and principal activities (Continued)

(b) VIE arrangements between the Company's PRC subsidiaries (Continued)

iii) Risks in relation to VIE structure (Continued)

The Company's ability to conduct its business may be negatively affected if the PRC government were to carry out any of the aforementioned actions. As a result, the Company may not be able to consolidate its VIEs in its consolidated financial statements as it may lose the ability to exert effective control over the VIEs and its shareholders and it may lose the ability to receive economic benefits from the VIEs, if any. In the opinion of management, the likelihood of loss in respect of the Group's current ownership structure or the contractual arrangements with its VIEs is remote.

The nominee shareholders of VIE are also the beneficiary owners of the Company. The interests of the VIE's nominee shareholders may differ from the interests of the Company as a whole. The Company cannot assert that when conflicts of interest arise, the VIE shareholders will act in the best interests of the Company or that conflicts of interests will be resolved in the Company's favor. Currently, the Company does not have existing arrangements to address potential conflicts of interest the VIE shareholders may encounter in their capacity as beneficial owners and directors of the VIEs, on the one hand, and as beneficial owners and directors of the Company, on the other hand. The Company relies on the VIE shareholders, as directors and executive officers of the Company, to fulfill their fiduciary duties and abide by laws of the PRC and Cayman Islands and act in the best interest of the Company. If the Company cannot resolve any conflicts of interest or disputes between the Company and the VIE shareholders, the Company would have to rely on legal proceedings, which could result in disruption of its business, and there is substantial uncertainty as to the outcome of any such legal proceedings.Furthermore, the enforceability, and therefore the benefits, of the contractual agreements between the Company and the VIE depend on these individuals enforcing the contracts. There is a risk that the benefits of ownership between the Company and the VIE may not be aligned in the future. Given the significance and importance of the VIEs, there would be a significant negative impact to the Company if these contracts were not enforced.

The current shareholders of VIEs have no current interest in seeking to act contrary to the contractual arrangements. However, to further protect the investors' interest from any risk that shareholders of VIEs may act contrary to the contractual arrangements, the Company, through WFOE, entered into an irrevocable power of attorney with all of the shareholders of VIEs. Through the power of attorney, all shareholders of VIEs have entrusted WFOE as its proxy to exercise their rights as the shareholders of VIEs with respect to an aggregate of 100% of the equity interests in VIEs.

The Ministry of Commerce of the People's Republic of China, or MOFCOM, published a discussion draft of the proposed Foreign Investment Law in January 2015, or the 2015 Draft FIL. Among other things, the 2015 Draft FIL adopts the principle of "substance over form" in determining whether an entity is a domestic enterprise or a foreign-invested enterprise, or a FIE, by introducing the concept of "de facto control". Specifically, entities established in China but "controlled" by foreign investors will be treated as FIEs, whereas an entity set up in a foreign jurisdiction would nonetheless be, upon market entry clearance by the MOFCOM, treated as a PRC domestic investor provided that the entity is "controlled" by PRC entities and/or citizens. In this context, "control" is broadly defined in the 2015 Draft FIL to cover the scenario of having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity's operations, financial matters or other key aspects of business operations. The Group is currently operating under the "variable interest entity" structure, or VIE structure, may be deemed as FIEs according to the 2015 Draft FIL and thus subject to the foreign investment restrictions in the PRC.

On December 26, 2018, the Standing Committee of the National People's Congress of the PRC published a discussion draft of the proposed Foreign Enterprise Investment Law, or the 2018 Draft FEIL, the updated version of which was reviewed and discussed by the National People's Congress of the PRC on March 11, 2019. The 2018 Draft FEIL does not explicitly stipulate contractual arrangements as a form of foreign investment, nor does it include the concept of "de facto control". However, the draft law contains a catch-all provision under the definition of "foreign investment" that will include investments made by foreign investors in China through means stipulated by laws or administrative regulations or other methods prescribed by the State Council. Based on the 2018 Draft FEIL, it is likely that prospective laws, administrative regulations or provisions of the State Council may deem contractual arrangements as a way of foreign investment.

SO-YOUNG INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands, except for share and per share data, unless otherwise noted)

1. Operations and principal activities (Continued)

(b) VIE arrangements between the Company's PRC subsidiaries (Continued)

iii) Risks in relation to VIE structure (continued)

There is substantial uncertainty with respect to the final content, interpretation, adoption timeline and effective date of the 2015 Draft FIL and/or the 2018 Draft FEIL. In the event that the Group's variable interest entity contractual arrangements under which the Group operates its business were not treated as a domestic investment and its operations are classified in the "restricted" or "prohibited" industry in the "negative list" under the 2015 Draft FIL or the 2018 Draft FEIL when officially enacted, the Group might be required to obtain market entry clearance. If the restrictions and prohibitions on FIE included in the Draft FIE Law are enacted and enforced in their current form, the Group's ability to use the contractual arrangements with its VIEs and the Group's ability to conduct business through the VIEs could be severely limited For example, the National People's Congress approved the Foreign Investment Law on March 15, 2019 and the State Council approved the Regulation on Implementing the Foreign Investment Law (the "Implementation Regulations") on December 26, 2019, effective from January 1, 2020. The MOFCOM and the State Administration for Market Regulation jointly issued the Measures for Reporting of Foreign Investment Information on December 30, 2019, effective from January 1, 2020 and replaced the Interim Administrative Measures for the Record-filing of the Establishment and Modification of Foreign-invested Enterprises. The Foreign Investment Law and the Implementation Regulations do not touch upon the relevant concepts and regulatory regimes that were historically suggested for the regulation of VIE structures, and thus this regulatory topic remains unclear under the Foreign Investment Law. Since the Foreign Investment Law and the Implementation Regulations are new, there are substantial uncertainties exist with respect to its implementation and interpretation and it is also possible that variable interest entities will be deemed as foreign invested enterprises and be subject to restrictions in the future. Such restrictions may cause interruptions to our operations, products and services and may incur additional compliance cost, which may in turn materially and adversely affect our business, financial condition and results of operations.

SO-YOUNG INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands, except for share and per share data, unless otherwise noted)

1. Operations and principal activities (Continued)

(b) VIE arrangements between the Company's PRC subsidiaries (Continued)

iii) Risks in relation to VIE structure (continued)

The following consolidated financial information of the VIEs and its subsidiaries taken as a whole as of December 31, 2020 and 2021 and for the years ended December 31, 2019, 2020 and 2021 was included in the consolidated financial statements of the Group. Transactions between the VIEs and its subsidiaries are eliminated in the financial information presented below:

	As of December 31,	
	2020	2021
	RMB	RMB
Assets		
Current assets:		
Cash and cash equivalents	374,132	255,655
Restricted cash and term deposit	21,865	15,119
Trade receivables	52,871	33,817
Inventories, net	—	51
Receivables from online payment platforms	16,182	13,476
Short-term investments and term deposit	70,000	—
Amounts due from Group companies	9,442	116,817
Amounts due from related parties	7,764	14,038
Prepayment and other current assets	42,918	75,772
Total current assets	**595,174**	**524,745**
Non-current assets:		
Investment in subsidiaries	—	35,082
Long-term investments	158,509	152,082
Intangible assets	60,009	35,877
Goodwill	48,500	684
Property and equipment, net	29,396	23,060
Deferred tax assets	44,828	32,554
Operating lease right-of-use assets	70,911	57,512
Other non-current assets	9,448	9,486
Total non-current assets	**421,601**	**346,337**
Total assets	**1,016,775**	**871,082**
Liabilities		
Current liabilities:		
Taxes payable	49,899	35,821
Contract liabilities	135,385	99,427
Salary and welfare payables	48,560	47,702
Amounts due to Group companies	306,567	339,951
Amounts due to related parties	2,404	681
Accrued expenses and other current liabilities	226,890	194,791
Operating lease liabilities	24,799	28,269
Total current liabilities	**794,504**	**746,642**
Operating lease liabilities-non current	58,615	39,390
Deferred tax liabilities	8,522	7,431
Amounts due to Group companies-non current	13,443	—
Total non-current liabilities	**80,580**	**46,821**
Total liabilities	**875,084**	**793,463**
Mezzanine equity	**23,205**	**—**

SO-YOUNG INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands, except for share and per share data, unless otherwise noted)

1. Operations and principal activities (Continued)

(b) VIE arrangements between the Company's PRC subsidiaries (Continued)

iii) Risks in relation to VIE structure (continued)

	For the Year Ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Third-party revenues	1,151,637	1,294,888	1,573,161
Inter-company revenues	—	—	358
Total revenues	**1,151,637**	**1,294,888**	**1,573,519**
Third-party costs	(184,712)	(182,736)	(221,286)
Inter-company costs	(439,922)	(365,678)	(607,016)
Total Costs	**(624,634)**	**(548,414)**	**(828,302)**
Total operating expenses	(508,287)	(762,995)	(822,210)
Income /(loss) from non-operations	14,089	4,281	(7,557)
Income/(loss) before income tax expense	**32,805**	**(12,240)**	**(84,550)**
Income tax expense	(33,096)	(11,433)	(23,524)
Net loss	**(291)**	**(23,673)**	**(108,074)**
Net loss attributable to noncontrolling interests	—	930	28,533
Net loss attributable to So-Young International Inc.	**(291)**	**(22,743)**	**(79,541)**

	For the Year Ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Inter-company payments related to service fee	(381,190)	(148,574)	(846,063)
Others operating activities with external parties	542,274	428,307	538,711
Net cash generated from/(used in) operating activities	**161,084**	**279,733**	**(307,352)**
Purchase of short-term investments	(260,000)	(354,235)	(40,000)
Proceeds from maturities of short-term investments	200,000	403,000	110,000
Acquisitions of business combination, net of cash acquired	—	—	(902)
Loans to Group companies	(1,500)	—	(164,000)
Repayments from Group companies	1,500	—	82,006
Other investing activities with external parties	(55,497)	(196,768)	(26,244)
Net cash used in investing activities	**(115,497)**	**(148,003)**	**(39,140)**
Borrowings under loan from Group companies	—	—	289,903
Repayments to borrowings under loan from Group companies	—	—	(68,677)
Proceeds from initial public offering, net of issuance cost	(6,283)	—	—
Other financing activities with external parties	—	(6,500)	—
Net cash (used in)/provided by financing activities	**(6,283)**	**(6,500)**	**221,226**
Net increase/(decrease) in cash, cash equivalents and restricted cash	**39,304**	**125,230**	**(125,266)**

In accordance with various contractual agreements, the Company has the power to direct the activities of the VIEs and can have assets transferred out of the VIEs. Therefore, the Company considers that there are no assets in the respective VIEs that can be used only to settle obligations of the respective VIEs, except for the registered capital of the VIEs amounting to approximately RMB4,547 and RMB4,547 as of December 31, 2020 and 2021, respectively. As the respective VIEs and its subsidiaries are incorporated as limited liability companies under the PRC Company Law, creditors do not have recourse to the general credit of the Company for the liabilities of the respective 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.

The VIEs have paid RMB323.4 million, RMB125.1 million and RMB826.5 million of service fee to the WFOE under the VIE arrangements for the years ended December 31, 2019, 2020 and 2021, respectively. There is no VIE in the Group where the Company or any subsidiary has a variable interest but is not the primary beneficiary.

1. Operations and principal activities (Continued)

(b) VIE arrangements between the Company's PRC subsidiaries (Continued)

Liquidity

The Group had net income of RMB176,724, RMB4,877 and net loss of RMB37,636 for the years ended December 31, 2019, 2020 and 2021, respectively. Net cash generated from operating activities was RMB383,822, RMB179,180 and RMB84,287 for the years ended December 31, 2019, 2020 and 2021, respectively. Accumulated deficit was RMB254,228 and RMB 272,368 as of December 31, 2020 and 2021, respectively. The Group assesses its liquidity by its ability to generate cash from operating activities and attract investors' investments.

Historically, the Group has relied principally on both operational sources of cash and non-operational sources of financing from investors to fund its operations and business development. The Group's ability to continue as a going concern is dependent on management's ability to successfully execute its business plan, which includes increasing revenues while controlling operating expenses, as well as, generating operational cash flows and continuing to gain support from outside sources of financing. In the past, the Group has been continuously receiving financing support from outside investors through the issuance of convertible redeemable preferred shares. Refer to Note 17 for details of the Group's convertible redeemable preferred shares financing activities. In 2019, the Group has completed its IPO in Nasdaq Global Market, and raised US$187.5 million (RMB1,267 million), net of issuance costs.

Based on the cash flows projection from operating activities and existing balance of cash and cash equivalents and restricted cash, management is of the opinion that the Group has sufficient funds for sustainable operation and it will be able to meet its payment obligations from operations for the next twelve months from the issuance of the consolidated financial statements. Based on the above considerations, the Group's consolidated financial statements have been prepared on a going concern basis, which contemplate the realization of assets and liquidation of liabilities during the normal course of operations.

2. Summary of Significant Accounting Policies

(a) Basis of presentation and consolidation

The consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Significant accounting policies followed by the Group in the preparation of the accompanying consolidated financial statements are summarized below.

(b) Principles of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries, the VIEs and subsidiaries of the VIEs for which the Company are the primary beneficiary.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power, 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 the board 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 consolidated VIE is an entity in which the Company, or its subsidiary, through contractual arrangements, has the power to direct the activities that most significantly impact the entity's economic performance, 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 the Company, its subsidiaries, the consolidated VIE and subsidiaries of the VIE have been eliminated upon consolidation.

SO-YOUNG INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands, except for share and per share data, unless otherwise noted)

2. Summary of Significant Accounting Policies (Continued)

(c) Use of estimates

The preparation of the Group's consolidated financial statements in conformity with the U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the balance sheet date and reported revenues and expenses during the reported years in the consolidated financial statements and accompanying notes.

Significant accounting estimates include, but are not limited to, valuation of acquired intangible assets and property and equipment, impairment of goodwill and definite-lived intangible asset and useful lives of intangible assets. Actual results could differ from those estimates and such differences may be material to the consolidated financial statements.

(d) Functional currency and foreign currency translation

The Group uses Renminbi ("RMB") as its reporting currency. The functional currency of the Company and its overseas subsidiaries which incorporated in the Cayman Islands and Hong Kong is United States dollars ("US$" or "USD"). The functional currency of the Company's subsidiary incorporated in Korea is Korea Won. The functional currency of the Group's PRC entities is RMB.

In the consolidated financial statements, the financial information of the Company and other entities located outside of the PRC 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 rate for the period. Translation adjustments are reported as foreign currency translation adjustments and are shown as a component of other comprehensive income/(loss) in the consolidated statements of comprehensive income/(loss).

Foreign currency transactions denominated in currencies other than the 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 are translated into the functional currency using the applicable exchange rates at the balance sheet dates. Net gains and losses resulting from foreign exchange transactions are included in exchange losses in the consolidated statements of comprehensive income/(loss).

(e) Convenience translation

Translations of balances in the consolidated balance sheets, consolidated statements of comprehensive income/(loss) and consolidated statements of cash flows from RMB into USD as of and for the year ended December 31, 2021 are solely for the convenience of the reader and were calculated at the rate of US$1.00 = RMB6.3726, representing the exchange rate set forth in the H.10 statistical release of the Federal Reserve Board on December 30, 2021. No representation is made that the RMB amounts represent or could have been, or could be, converted, realized or settled into USD at that rate on December 31, 2021, or at any other rate.

(f) 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 it considers assumptions that market participants would use when pricing the asset or liability.

2. Summary of Significant Accounting Policies (Continued)

(f) Fair value measurements (Continued)

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. Accounting guidance specifies a hierarchy of valuation techniques, which is based on whether the inputs into the valuation techniques 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.

Accounting guidance also 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.

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.

See Note 21 Fair Value Measurement for additional information.

(g) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and demand deposits which have original maturities of three months or less and are readily convertible to known amount of cash.

(h) Restricted cash

Cash that is restricted as to withdrawal or for use or pledged as security is reported separately on the face of the consolidated balance sheets as restricted cash. Restricted cash represents cash received from medical aesthetic service providers and reserved in a bank supervised account for purchasing the services of the Company.

(i) Term deposits

Term deposits represent time deposits placed with banks with original maturities of more than three months. Interest earned is recorded as interest income in the consolidated statements of comprehensive income/(loss) during the years presented. The Group's term deposits were RMB963,911 and nil as of December 31, 2020 and 2021, respectively.

2. Summary of Significant Accounting Policies (Continued)

(j) Trade receivables and other receivables

The Group's trade receivables and other receivables including loans are measured at amortized cost and reported on the consolidated balance sheets at outstanding principal adjusted for any write-offs and the allowance for credit losses. Starting from January 1, 2020, the Group adopted ASU 2016-13 and estimated the allowance for credit losses to reflect the Group's estimated expected losses. The Group assesses the allowance for credit losses, mainly based on the past collection experience as well as consideration of current and future economic conditions and changes in the Group's customer collection trends. Interest income from these instruments is using the effective interest rate method if applicable.

(k) Current Expected Credit losses

Prior to January 1, 2020, the Group monitors the collection of its receivables and records allowance for specifically identified non-recoverable amounts. If the economic situation and the financial condition of a customer deteriorate resulting in an impairment of the customer's ability to make payments, additional allowances might be required. Receivable balances are written off when they are determined to be uncollectible.

Starting from January 1, 2020, the Group adopted ASU No. 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASC Topic 326"), which amends previously issued guidance regarding the impairment of financial instruments by creating an impairment model that is based on expected losses rather than incurred losses. The Group used a modified retrospective approach with a cumulative effect increases of approximately RMB784 thousands recorded in accumulated deficit.

The Group's accounts receivable, prepayment and other current assets and other non-current assets are within the scope of ASC Topic 326.

To estimate expected credit losses, 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 the 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 past collection experience, current economic conditions, future economic conditions (external data and macroeconomic factors) and changes in the Group's customer collection trends. This is assessed at each quarter based on the Group's specific facts and circumstances. No significant impact of changes in the assumptions since adoption.

The Group recorded a provision for current expected credit loss. Write-offs charged against the allowance are not material for the years ended December 31, 2020 and 2021, respectively. The following table sets out movements of the allowance for doubtful accounts for the years ended December 31, 2020 and 2021:

	For the Year Ended December 31,	
	2020 RMB	2021 RMB
Beginning balance	**784**	**7,089**
Allowance arisen from business combination	—	6,623
Additional allowance for credit losses, net of recoveries	6,305	15,498
Ending balance	**7,089**	**29,210**

2. Summary of Significant Accounting Policies (Continued)

(l) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventories is determined using the weighted average cost method. Adjustments are recorded to write down the cost of inventories to the estimated net realizable value due to slow-moving merchandise and damaged goods, which is dependent upon factors such as inventory aging, historical and forecasted consumer demand, and market conditions that impact pricing. In addition to the cost of materials and direct labor, an appropriate proportion of production overhead is included in the cost of inventories. Once inventory is written-down, a new, lower-cost basis for that inventory is established and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

The Group classifies its inventories to raw materials, semi-finished products and finished products. Raw materials and semi-finished products include purchased materials, components and supplies to be used in production. Finished products include products manufactured by the Group and products purchased for resale.

(m) Investments

Short-term investments mainly include investments in financial instruments with a variable interest rate. In accordance with ASC 825 – “Financial Instruments”, for investments in financial instruments with a variable interest rate indexed to time float, the Group elected the fair value method at the date of initial recognition and carried these investments at fair value. Changes in the fair value are reflected in the consolidated statements of comprehensive income/(loss) as other income/(expenses).

The Company’s long-term investments consist of investments in privately held companies.

In accordance with ASC 323 “Investments-Equity Method and Joint Ventures”, the Group applies the equity method of accounting to equity investments in common stock, over which it has significant influence but does not own majority equity interest or control.

For investments in entities over which the Company does not have significant influence, or investments in shares that are not ordinary shares or in-substance ordinary shares and that do not have readily determinable fair value, the Group accounted for at cost less impairment prior to January 1, 2018. In January 2016, the FASB issued ASU No. 2016-01 Financial Instruments-Overall (Subtopic 825-10): “Recognition and Measurement of Financial Assets and Financial Liabilities”, which requires all equity investments to be measured at fair value with changes in the fair value recognized through non-operating income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). Effective January 1, 2018 with the adoption of ASU 2016-01, the Group has elected to use the measurement alternative to account for these equity investments, and therefore carries these investments at cost adjusted for changes from observable transactions for identical or similar investments of the same investee, less impairment. In addition, the existing impairment model has been replaced with a new one-step qualitative impairment model.

Management regularly evaluates the equity investments for impairment based on performance and financial position of the investees as well as other evidence of market value. Such evaluation includes, but not limited to, reviewing the investees’ cash position, recent financing, projected and historical financial performance, cash flow forecasts and financing needs. An impairment loss is recognized in the consolidated statements of comprehensive income/(loss) equal to the excess of the investment’s cost over its fair value at the balance sheet date of the reporting year for which the assessment is made. The fair value would then become the new cost basis of investment.

RMB4,000, nil and RMB17,850 impairment losses were recognized for the years ended December 31, 2019, 2020 and 2021.

2. Summary of Significant Accounting Policies (Continued)

(n) Business combination and goodwill

The Group accounts for its business combinations using the acquisition method of accounting in accordance with ASC 805, Business Combinations. The cost of an acquisition is measured as the aggregate of the acquisition date fair values of the assets transferred and liabilities incurred by the Group to the sellers and equity instruments issued. Transaction costs directly attributable to the acquisition are expensed as incurred. Identifiable assets and liabilities acquired or assumed are measured separately at their fair values as of the acquisition date, irrespective of the extent of any non-controlling interests. The excess of (i) the total costs of acquisition, fair value of the non-controlling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree is recorded as goodwill. If the cost 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/(loss).

A non-controlling interest is recognized to reflect the portion of a subsidiary's equity which is not attributable, directly or indirectly, to the Company. When the non-controlling interest is contingently redeemable upon the occurrence of a conditional event, which is not solely within the control of the Company, the non-controlling interest is classified as mezzanine equity. Consolidated net income/(loss) on the consolidated statements of comprehensive income/(loss) includes the net loss attributable to non-controlling interests and mezzanine equity holders when applicable. Net loss attributable to mezzanine equity holders is included in net loss attributable to non-controlling interests on the consolidated statements of comprehensive income/(loss), while it is excluded from the consolidated statements of changes in shareholders' equity. For the years ended December 31, 2019, 2020 and 2021, net loss attributable to non-controlling interests amounted to nil, RMB930 and RMB29,265, respectively. The cumulative results of operations attributable to non-controlling interests are also recorded as non-controlling interests in the Company's consolidated balance sheets. Cash flows related to transactions with non-controlling interests are presented under financing activities in the consolidated statements of cash flows when applicable.

Goodwill represents the excess of the total cost of the acquisition, the fair value of any non-controlling interests and the acquisition date fair value of any previously held equity interest in the acquiree over the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed of the acquired entity as a result of the Company's acquisitions of interests in its subsidiaries and the VIEs. Goodwill is not amortized but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that it might be impaired.

(o) Assets acquisition

When the Company acquires other entities, if the assets acquired and liabilities assumed do not constitute a business, the transaction is accounted for as an asset acquisition. Assets are recognized based on the cost, which generally includes the transaction costs of the asset acquisition, and no gain or loss is recognized unless the fair value of noncash assets given as consideration differs from the assets' carrying amounts on the Company's books. The cost of a group of assets acquired in an asset acquisition is allocated to the individual assets acquired or liabilities assumed based on their relative fair value and does not give rise to goodwill.

2. Summary of Significant Accounting Policies (Continued)

(p) Intangible assets

Intangible assets mainly include those acquired through business combinations and purchased intangible assets. Intangible assets acquired through business combinations are recognized as assets separate from goodwill if they satisfy either the “contractual-legal” or “separability” criterion. Intangible assets arising from business combinations are recognized and measured at fair value upon acquisition. Purchased intangible assets are initially recognized and measured at cost upon acquisition. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.The impairment of intangible assets was nil, nil and RMB17,379 for the years ended December 31, 2019, 2020 and 2021, respectively. Separately identifiable intangible assets that have determinable lives continue to be amortized over their estimated useful lives using the straight-line method as follows:

Developed technology	7-10 years
License and in-process research and development intangible assets	10 years
Software, trade names and others	3-10 years
Customer relationship	8 years
Supplier relationship	3 years

(q) Property and equipment, net

Property and equipment are stated at cost less accumulated depreciation and impairment, if any. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range as follows:

Computers, electrical equipment and production machinery	1-5 years
Office equipment, furniture and others	1-10 years
Building	20 years
Leasehold improvements	shorter of remaining lease period or estimated useful life

Expenditures for maintenance and repairs are expensed as incurred. The gain or loss on the disposal of property and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets and is recognized in the consolidated statements of comprehensive income/(loss).

2. Summary of Significant Accounting Policies (Continued)

(r) Impairment of long-lived assets other than goodwill

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 flow 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.

(s) Leases

The Group adopted ASU No. 2016-02, Leases (Topic 842) ("ASC 842") from January 1, 2019, using the modified retrospective approach and applying the transition method which does not require adjustments to comparative periods nor require modified disclosures in the comparative periods. The Group has elected to apply "the package" of practical expedients afforded under ASC 842. Short-term leases have not been recorded on the balance sheet.

The Group determines if an arrangement is a lease or contains a lease at lease inception. For operating leases, the Group recognizes a right of use("ROU") asset and a lease liability based on the present value of the lease payments over the lease term on the consolidated balance sheets at commencement date. As most of the Company's leases do not provide an implicit rate, the Company estimates its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased asset is located. Lease terms are determined after taking into account of rental escalation clauses, renewal options and/or termination options, if any. Lease expense is recorded in the consolidated statements of comprehensive income/(loss) on a straight-line basis over the lease term.

(t) Revenue recognition

The Group adopted ASC Topic 606, "Revenue from Contracts with Customers" (ASC 606) for all years presented. According to ASC 606, revenue is recognized when control of the promised goods or services is transferred to the customers, in an amount that reflects the consideration the Group expects to be entitled to in exchange for those goods or services. We determine revenue recognition through the following steps:

- identification of the contract, or contracts, with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price, including the constraint on variable consideration;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when (or as) we satisfy a performance obligation

SO-YOUNG INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands, except for share and per share data, unless otherwise noted)

2. Summary of Significant Accounting Policies (Continued)

(t) Revenue recognition (Continued)

The Group's revenues are mainly generated from information services, reservation services and sales of equipment and maintenance services. Refer to "Note 23 - Segment Information" for disaggregation of revenue.

i) Information services

The Group generates revenue from offering information services primarily to help medical aesthetic service providers better introduce their services and increase their customer base. The Group helps the service providers introduce their services through information display in main entrance banners and pop ups to increase exposure on the platform. The Group also places content of participating service providers on social platforms in the forms of pictures, videos or links.

The Group generates its information service revenue primarily i) at a fixed fee per each day's content display, ii) based on a contractual rate per unit of output, such as per click, etc., iii) at a fixed fee per each article posted on the Group's social media accounts. These information services may be sold in combination as a bundled arrangement or separately on a stand-alone basis.

Service providers can choose to sign up arrangements through the Group's online information service system or sign-up off-line arrangements. Advance payment is required when signing up the arrangements. In the case of signing up on-line arrangements, the service providers are required to purchase So Young tokens (the "Token") in the service provider account as the information service is priced in Tokens on the on-line platform. Tokens are the virtual currency of the Company's platform. The Token will be locked in the individual service provider account when a service provider places an order on-line and will be deducted from the service provider account when service is performed. On a recurring basis, the Group offers free Tokens to service providers as certain percentage of purchased Tokens. The free Tokens have the same purchase power as the purchased Tokens, which represent an advance payment from customers. Tokens are interchangeable and not tied directly to any specific revenue transaction because the Tokens are fungible. As such, the Group values the Tokens based on an average pricing method to determine the transaction price for the specific information services provided to the service provider. The Tokens are not transferable or refundable and are generally consumed in three months after purchased or given for free. The value of expired Tokens has been immaterial. In the case of signing up off-line arrangements, the service providers are required to make cash advance payment for each individual contract. Contract consideration is determined and fixed in cash at the inception of contract.

Revenue for the information services above is recognized in the period when information service is delivered as evidenced in a manner satisfying the types of engagements selected by the service providers, such as display of content, clicks on content and/or post of articles on the Group's platform. Arrangements involving multiple performance obligations primarily consist of combinations of the above information services. For arrangements that include a combination of these services, the Company develops an estimate of the standalone selling price for these services in order to allocate any potential discount to all performance obligations in the arrangement. The Company believes the use of its estimation approach and allocation of the transaction price on a relative standalone selling price basis to each performance obligation results in revenue recognition in a manner consistent with the underlying economics of the transaction and the allocation principle included in ASC 606.

The Group also provides other services, which are also presented under information service, primarily comprising i) service fee for training courses provided to service providers, ii) service fee for offline event organization, and iii) medical aesthetic services etc. Revenue is recognized when these services are rendered. For the years ended December 31, 2019, 2020 and 2021, the revenue derived from other services was not significant.

SO-YOUNG INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands, except for share and per share data, unless otherwise noted)

2. Summary of Significant Accounting Policies (Continued)

(t) Revenue recognition (Continued)

i) Information services (continued)

Barter transactions

The Company entered agreements with service providers whereby the Company provided information service as the consideration for sharing advertising space purchased by the service providers from other third-party providers. In general, the service provider would share certain percentage of the purchased advertising space with the Company. In exchange, the Company would provide the Tokens with the same value of the shared advertising space to the service provider based on the service provider's purchase price with the third party and the shared percentage of the advertising space. Revenue from the barter transactions is recognized when information service is provided as discussed above and the expense related to the shared advertising space is recognized over the duration of display. The Group uses the fair value of the goods or services received when measuring the non-cash consideration for information service revenue earned. The Group will only measure the non-cash consideration indirectly by reference to the standalone selling price of the goods or services surrendered if the fair value of the goods or services received is not reasonably estimable. The Group recognized revenue from barter transactions amounted to RMB7,478, RMB8,770 and RMB3,411 for the years ended December 31, 2019, 2020 and 2021, respectively. The expenses recognized from barter transaction for the years ended December 31, 2019, 2020 and 2021 were RMB6,780, RMB11,778 and RMB4,516, respectively.

ii) Reservation services

The Group earns reservation service fees A primarily from medical aesthetic service providers when a medical or beauty treatment is performed for the platform users through reservation from the Group's platform. Such fees are generally determined as an agreed percentage of the value of service actually provided by service providers. As per the Group's agreements with service providers, it collects reservation service fees B for all services provided to a user during the lifetime as long as the user was brought to the particular service provider through the Group's platform. This includes the situations where the user visits the service provider directly without online ordering, chooses treatment services at site that is different from the online reservation, adds more services during the time of visit, and visits the service provider for other treatments in the future. The service providers are obligated to report the completed transactions in above situations with the platform users to the Group. In the event that the service providers fail to report such transaction to the Group on time, the Group would charge the service providers a penalty in addition to the commission. Starting from September 2021, the Group does not charge reservation service fees B from the majority of the medical aesthetic service providers.

In order to list available services and related prices on the Group's online marketplace, service providers are required to sign an agreement with the Group and pay a non-refundable upfront fee to the Group. However, the agreement does not have binding effect as the service provider can cancel the agreement without any penalty. Although the upfront fee is not a material amount, it provides the service provider a renewal right to make optional purchase of the Group's reservation service. The agreement is in substance a day-to-day contract with performance obligation of facilitating each successful sales of service provided by service providers to the platform users. That is, each facilitation is a distinct performance obligation.

Commissions for the reservation service are in the form of a fixed fee per transaction or an agreed percentage of the value of service actually provided by the service providers. The consideration for each sales facilitation service is determined when the contract is placed. Following ASC 606-10-32-40, the Company recognizes revenue for each completed transaction based on the value of service actually provided by the service providers as reservation service fee relates specifically to the facilitation for that transaction.

The Group does not control the underlying service provided by the service providers before they are provided to users, as the Group is not responsible for fulfilling the promise to provide the service to users and has no inventory risk before the service is provided. In addition, the Group has no discretion in establishing prices of the service provided by service providers. Commission revenues are recognized on a net basis at the point of a successful transaction, which is when the user accepts the service.

SO-YOUNG INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands, except for share and per share data, unless otherwise noted)

2. Summary of Significant Accounting Policies (Continued)

(t) Revenue recognition (Continued)

ii) Reservation services (continued)

The Group provides various incentives to the users to reserve service on the marketplace. These incentive programs mainly include loyalty program (So-Young points) and coupons, which are both redeemed mainly to reduce the transaction price. The Company has considered the guidance under ASC 606 to account for these incentives and determined to record them as a reduction to the revenue upon redemption.

iii) Sales of equipment and maintenance services

The Group's sales of equipment and maintenance services revenue generates from Wuhan Miracle, which was acquired by the Group in July 2021. Wuhan Miracle sells its equipment, including self-produced products and third-party produced products, to offline medical aesthetic service providers and hospitals (the "customers").

For the third-party produced equipment, the Group obtains control of the products before they are transferred to the customers. The Group is primarily responsible for fulfilling the promise to provide quality products to the customers and undertakes warranty responsibility directly. Therefore, the Group is considered the principle according to ASC 606 and concludes it is appropriate to record revenue as the gross amount of product sales net of value-added taxes.

The Group recognizes revenue on equipment sales to customers when delivery and acceptance occurs, which is defined as receipt by the Company of an executed form that the installation process is complete.

iv) Warranty

The Group offers a standard one-year warranty with its equipment sales. The warranty period is starting from the date when products are sold to the customer. The customers cannot separately purchase the standard warranty and the standard warranty doesn't provide the customer with additional service other than assurance that the product will function as expected. Therefore, these warranties are accounted for in accordance with ASC 460 Guarantees. At the time revenue is recognized, the Group accrues a warranty reserve, which includes the Group's best estimate of warranty costs. The reserves established are regularly monitored based upon historical experience and any actual claims charged against the reserve. The warranty reserve is expected to be incurred within the next 12 months and recorded as "Accrued expenses and other current liabilities" on the Group's consolidated balance sheets. Warranty expenses are recorded as a component of cost of revenues. Refer to "Note 14 - Accrued expenses and other current liabilities" for detail.

The Group also offers extended warranty for an additional fee, which is accounted for as a separate performance obligation under ASC 606. Revenue related to extended warranty is recognized on a straight-line basis over the term as maintenance service because the Group is providing continuous service and the customer simultaneously receives and consumes the benefits provided by the Group's performance as the services are performed.

(u) Cost of revenues

Costs of revenues consist primarily of payroll costs, share-based compensation expenses, event organization costs, cost of inventory, servers and bandwidth costs, depreciation expenses, payment processing fee paid to third party online platform, tax related surcharges, rental expenses and other direct costs related to the operation of business. These costs are charged to the consolidated statements of comprehensive income/(loss) as incurred.

2. Summary of Significant Accounting Policies (Continued)

(v) Sales and marketing expenses

Sales and marketing expenses consist primarily of marketing expenses, user acquisition activities expenses, payroll costs, share-based compensation expenses, and rental expenses related to the Group's sales and marketing departments. For the years ended December 31, 2019, 2020 and 2021, advertising expenses were RMB277,035, RMB555,260 and RMB570,347, respectively.

(w) General and administrative expenses

General and administrative expenses consist of payroll costs, share-based compensation expenses and related expenses for employees involved in general corporate functions, including accounting, finance, tax, legal and human resources; and costs associated with use by these functions of facilities and equipment, such as depreciation expenses, rental, professional service fees and other general corporate related expenses.

(x) Research and development expenses

Research and development expenses mainly consist of payroll costs, share-based compensation expenses, rental expenses incurred associated with research and development departments.

For those platforms of applications, the Group expenses all costs incurred for the preliminary project stage and post implementation-operation stage of development, and costs associated with repair or maintenance of the existing platform. Costs incurred in the application development stage are capitalized and amortized over the estimated useful life. Since the amount of the Group's research and development expenses qualifying for capitalization has been immaterial, as a result, all website and software development costs have been expensed in "Research and development expenses" as incurred.

(y) Share-based compensation

Share-based compensation expenses arise from share-based awards, including share options for the purchase of ordinary shares. The Group applies ASC 718, "Compensation—Stock Compensation", or ASC 718, to account for the options granted to certain directors, executives and employees. For share options for the purchase of ordinary shares granted to employees determined to be equity classified awards, the related share-based compensation expenses are recognized in the consolidated financial statements based on their grant date fair values. The Group estimates the fair value of share options using the binomial valuation model, which requires inputs such as the fair value of the Company's ordinary shares, risk-free interest rate, expected dividend yield, expected life and expected volatility.

Employees' share-based compensation awards are measured at the grant date fair value of the awards and recognized as expenses (a) immediately at the grant date if no vesting conditions are required; or (b) for share options granted with only service conditions, using the straight-line vesting method, net of actual forfeitures, over the vesting period; or (c) for share options granted with service conditions and performance condition, the share-based compensation expenses are recorded when the performance condition is considered probable using the graded vesting method. Where the occurrence of an IPO is a performance condition, cumulative share-based compensation expenses for the options that have satisfied the service condition should be recorded upon the completion of the IPO.

2. Summary of Significant Accounting Policies (Continued)

(z) Employee benefits

PRC Contribution Plan

Full time employees of the Group in the PRC participate in a government mandated defined contribution plan, pursuant to which certain pension benefits, medical care, employee housing fund and other welfare benefits are provided to the employees. Chinese labor regulations require that the PRC subsidiaries and the VIE of the Group make contributions to the government for these benefits based on certain percentages of the employees' salaries, up to a maximum amount specified by the local government. The Group has no legal obligation for the benefits beyond the contributions made. The total amounts of such employee benefit expenses, which were expensed as incurred, were approximately RMB68,389, RMB46,910 and RMB115,951 for the years ended December 31, 2019, 2020 and 2021, respectively.

(aa) Taxation

Income taxes

Current income taxes are provided on the basis of income/(loss) 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 provided using the 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 purposes. The effect on deferred taxes of a change in tax rates is recognized in the consolidated statements of comprehensive income/(loss) 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

In order to assess uncertain tax positions, the Group applies a more-likely-than not threshold and a two-step approach for the tax position measurement and financial statement recognition. Under the two-step approach, the first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. The Group recognizes interest and penalties, if any, under accrued expenses and other current liabilities on its consolidated balance sheets and under other expenses in its consolidated statements of comprehensive income/(loss). The Group did not have any significant unrecognized uncertain tax positions as of December 31, 2020 and 2021 nor did the Group recognize any related interest and penalties.

(ab) 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 common significant influence. Related parties may be individual or corporation entities.

2. Summary of Significant Accounting Policies (Continued)

(ac) Net earnings/(loss) per share

Net earnings/(loss) per ordinary share is computed in accordance with ASC 260, "Earnings per Share". The two-class method is used for computing earnings per ordinary share in the event the Group has net income available for distribution. Under the two-class method, net income is allocated between ordinary shares and other participating securities based on their participating rights. Class A ordinary share and Class B ordinary share have the same rights in dividend. Therefore, basic and diluted loss per share is the same for both classes of ordinary shares. The Company's convertible redeemable preferred shares may be considered as participating securities because they are entitled to receive dividends or distributions on an as if converted basis if the Group has net income available for distribution under certain circumstances. Net losses are not allocated to other participating securities as they are not obligated to share the losses based on their contractual terms.

Basic net earnings/(loss) per ordinary share is computed by dividing net income/(loss) attributable to ordinary shareholders, considering the accretions of convertible redeemable preferred shares, by the weighted average number of ordinary shares outstanding during the year. Diluted net earnings/(loss) per ordinary share is calculated by dividing net income/(loss) attributable to ordinary shareholders, as adjusted for the effect of dilutive ordinary equivalent shares, if any, by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the years. Ordinary equivalent shares consist of ordinary shares issuable upon the conversion of the convertible redeemable preferred shares using as if converted method and ordinary shares issuable upon the exercise of share options using the treasury stock method. Ordinary equivalent shares are not included in the denominator of the diluted net earnings/(loss) per share calculation when inclusion of such share would be anti-dilutive.

(ad) Treasury stock

The Group accounts for treasury shares using the cost method. Under this method, the cost incurred to purchase the shares is recorded in the treasury shares account on the consolidated balance sheets. At retirement of the treasury shares, the ordinary shares account is charged only for the aggregate par value of the shares. The excess of the acquisition cost of treasury shares over the aggregate par value is allocated between additional paid-in capital and retained earnings.

In May 2021, the Group announced that its board of directors approved a share repurchase program of up to US$70 million of its shares over the next 12 months. As of December 31, 2021, the Company has repurchased approximately 3,436,800 ADSs (equivalent to 2,643,692 ordinary shares) for approximately US$34.0 million (RMB217.7 million) under this program.

(ae) Statutory reserves

The Company's subsidiaries, the VIEs and subsidiaries of the VIEs established in the PRC are required to make appropriations to certain non-distributable reserve funds. In accordance with China's Company Laws, the Company's VIEs and its subsidiaries registered as Chinese domestic company make appropriations from their after-tax profit (as determined under the accounting principles generally acceptable in the People's Republic of China ("PRC GAAP")) to non-distributable reserve funds including (i) statutory surplus fund and (ii) discretionary surplus fund. The appropriation to the statutory surplus fund must be 10% of the annual after-tax profits calculated in accordance with PRC GAAP. Appropriation is not required if the statutory surplus fund has reached 50% of the registered capital of the respective company. Appropriation to the discretionary surplus fund is made at the discretion of the respective company.

Pursuant to the laws applicable to China's Foreign Investment Enterprises, the Company's subsidiaries registered as wholly owned foreign investment enterprise in China make appropriations from their annual after-tax profit (as determined under PRC GAAP) to reserve funds including (i) general reserve fund, (ii) enterprise expansion fund and (iii) staff bonus and welfare fund. The appropriation to the general reserve fund must be at least 10% of the 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 respective company. Appropriations to the other two reserve funds are at the respective companies' discretion.

2. Summary of Significant Accounting Policies (Continued)

(ae) Statutory reserves (Continued)

The Group did not make any appropriations to its any reserve fund for the years ended December 31, 2020 as all subsidiaries were in accumulated loss position. The Group have made RMB10,562 and RMB 9,769 appropriations to its statutory reserve fund for the years ended December 31, 2019 and 2021.

(af) Comprehensive income/(loss)

Comprehensive income/(loss) consists of two components, net income/(loss) and other comprehensive income/(loss). Other comprehensive income/(loss) refers to gains and losses that are recorded as an element of shareholders' equity but are excluded from net income. The Group's other comprehensive income/(loss) consists of foreign currency translation adjustment from its subsidiaries not using the RMB as their functional currency.

(ag) Segment reporting

Operating segments are defined as components of an enterprise engaging in business activities for which separate financial information is available that is regularly evaluated by the Group's chief operating decision makers ("CODM"). Based on the criteria established by ASC 280 "Segment Reporting", the Group's CODM has been identified as the Chief Executive Officer. The operating segments are based on this organizational structure and information reviewed by the Group's CODM to evaluate the operating segment results. The Group only had one operating and reportable segment for the years ended December 31, 2019 and 2020. In July 2021, the Group acquired Wuhan Miracle, which is mainly engaged in the research and development, production, sales and agency of laser and other optoelectronic medical beauty equipment, and it became a consolidated subsidiary of the Group. As a result of this acquisition, the Group has separated into the So-Young segment and Wuhan Miracle segment in 2021 as set out in Note 23.

The Group's long-lived assets are substantially all located in the PRC and substantially all the Group's revenues are derived from within the PRC, therefore, no geographical segments are presented.

(ah) Recently issued accounting pronouncements

In May 2021, the FASB issued ASU No. 2021-04, Earnings Per Share (Topic 260), Debt - Modifications and Extinguishments (Subtopic 470-50), Compensation - Stock Compensation (Topic 718), and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40) to clarify and reduce diversity in an issuer's accounting for modifications or exchanges of freestanding equity-classified written call options (for example, warrants) that remain equity classified after modification or exchange. The amendments in this update are effective for all entities for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. An entity should apply the amendments prospectively to modifications or exchanges occurring on or after the effective date of the amendments. The Group is currently evaluating the impact of the new guidance on the consolidated financial statements.

In October 2021, the FASB issued ASU No. 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers (ASU 2021-08), which clarifies that an acquirer of a business should recognize and measure contract assets and contract liabilities in a business combination in accordance with Topic 606, Revenue from Contracts with Customers The new amendments are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The amendments should be applied prospectively to business combinations occurring on or after the effective date of the amendments, with early adoption permitted. The Group is currently evaluating the impact of the new guidance on the consolidated financial statements.

SO-YOUNG INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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3. Concentration and Risks

(a) Foreign currency exchange rate risk

In July 2005, the PRC government changed its decades-old policy of pegging the value of RMB to USD and RMB appreciated more than 20% against the USD over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between RMB and USD remained within a narrow band. Since June 2010, RMB has fluctuated against USD, at times significantly and unpredictably. The depreciation of the RMB against the US$ was approximately 1.6% between December 31, 2018 and 2019. The appreciation of the RMB against the US$ was approximately 6.5% between December 31, 2019 and 2020. The appreciation of the RMB against the US$ was approximately 2.3% between December 31, 2020 and 2021. It is difficult to predict how market force or the PRC or U.S. government policy may impact the exchange rate between the RMB and the USD in the future.

(b)Concentration of customers and suppliers

There were no customers or suppliers from whom revenues or purchases individually represent greater than 10% of the total revenues or the total purchases of the Group for the years ended December 31, 2019, 2020 and 2021.

(c)Concentration of credit risk

The Group’s credit risk primarily arises from cash and cash equivalents, restricted cash and term deposit, trade receivables, loan receivables, receivables from online payment platforms, term deposits and short-term investments. The carrying amounts of these financial instruments represent the maximum amount of loss due to credit risk.

The Group places its cash, cash equivalents and restricted cash and term deposit, term deposits and short-term investments in the reputable financial institutions with high credit quality.

Trade receivables are typically unsecured and are derived from revenue earned directly from customers. No single customer represented 10% or more of the Group’s revenues for the years ended December 31, 2019, 2020 and 2021. The Group has not experienced any significant recoverability issue with respect to its trade receivables.

Loan receivables are the micro loans to medical aesthetic consumers. The Group started to provide the micro loans to medical aesthetic consumers in 2021. There is no single consumer represented 10% or more of the Group’s such revenue for the year ended December 31, 2021. The risk with respect to loan receivables is mitigated by credit evaluations the Group performs on its customers and its ongoing monitoring processes of outstanding balances.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands, except for share and per share data, unless otherwise noted)

4. Prepayment and Other Current Assets

The following is a summary of prepayment and other current assets:

	As of December 31,	
	2020	2021
	RMB	RMB
Prepayments for services	21,413	31,988
Prepaid rental and other deposits	12,715	18,241
Prepayments to inventory suppliers	—	15,389
Loan receivables, net	—	15,074
Receivable from other online retail platform	—	6,627
Receivable related to exercise of share options	134	310
Staff advances	212	432
VAT receivables	1,684	422
Interest receivable	6,755	284
Others	277	3,075
Total	**43,190**	**91,842**

5. Inventories, net

Inventories, net consist of the following:

	As of December 31,	
	2020	2021
	RMB	RMB
Finished products	—	69,332
Raw materials and semi-finished products	—	41,937
Inventories	**—**	**111,269**
Inventory provision	—	(19,457)
Inventories, net	**—**	**91,812**

6. Business combination

(a) ***Acquisition of Leya***

In October 2020, the Group completed the acquisition of Leya, a company which is primarily engaged in operations of one online dental clinic platform, by acquiring 63.37% of Leya's equity interest and obtaining two out of three board seats of the Leya.

The aggregate payment for the acquisition consists of a fixed payment of cash of RMB41.8 million (including loans assumed by the group). The Group is obligated to acquire the remaining equity interest in three tranches in the following three years if certain pre-agreed performance conditions are met.

The acquisition was accounted for as a business combination and RMB2,500 of developed technology and RMB18,000 of customer relationship were recognized as intangible assets at fair value on October 20, 2020. The Group's obligation on satisfaction of pre-agreed performance conditions to purchase 36.63% common shares held by co-founders are considered a contingent redeemable non-controlling interest and classified in mezzanine equity measured at its fair value about RMB24,135. The Group made estimates and judgements in determining the fair value of intangible assets and non-controlling interest in mezzanine equity with the assistance from an independent valuation firm. The significant estimates and assumptions mainly include the projected revenue, projected operating results, probability to meet performance conditions, royalty rates, customer attrition rates, and discount rate. The Company determined discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. The consideration was allocated on the acquisition date as follows:

	RMB	Useful lives (Years)
Identifiable intangible assets acquired:		
Customer relationship	18,000	8
Developed technology	2,500	7
Cash and cash equivalents	887	
Other assets	1,176	
Goodwill	48,500	
Other liabilities	(5,131)	
Mezzanine equity	(24,135)	
Total consideration	**41,797**	

The excess of the purchase price over tangible assets, identifiable intangible assets and liabilities assumed was recorded as goodwill. The goodwill recognized is attributable primarily to expected synergies and the assembled workforce of Leya. The goodwill is not deductible for tax purposes.

The amount of revenue and net loss of Leya from the acquisition date to December 31, 2020 were not material to the consolidated financial statements.

Pro forma results of operations for Leya acquisition have not been presented because it was not material to the consolidated financial statements.

Since October 20, 2021, the Group only has the right, but no longer the obligation to purchase the remaining shares of Leya from co-founders since Leya failed to meet the performance target by the end of the performance measurement period. Therefore, the Group classified the related non-controlling interests from mezzanine equity into non-controlling interests.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands, except for share and per share data, unless otherwise noted)

6. Business combination (Continued)

(b) ***Acquisition of Wuhan Miracle***

Wuhan Miracle is mainly engaged in the research and development, production, sales and agency of laser and other optoelectronic medical beauty equipment. In July 2021, the Group acquired an approximately 54.68% equity interests in Wuhan Miracle for an aggregated cash consideration of RMB512 million, including contingent consideration of RMB88 million measured at fair value, and Wuhan Miracle became a consolidated subsidiary of the Group. In connection with the transaction, the Group also entered into an agreement with the founder of Wuhan Miracle and shareholder A, pursuant to which the Group is obligated to purchase and the founder is obligated to sell additional 4.17% equity interests in Wuhan Miracle for a cash consideration of RMB39 million within three years and the Group is obligated to purchase and the shareholder A is obligated to sell 1.00% equity interest in Wuhan Miracle for a cash consideration of RMB9 million. The Group subsequently acquired additional 31.92% equity interests for an aggregated cash consideration of RMB299 million in the fourth quarter of 2021. As of December 31, 2021, the Group effectively held 91.77% equity interests of Wuhan Miracle. As of December 31, 2021, the remaining payment for acquisition of Wuhan Miracle was RMB136 million, including contingent consideration of RMB88 million.

The acquisition was accounted for as a business combination and RMB17 million of supplier relationship intangible assets, RMB27 million of in-process research and development and RMB70 million of developed technology intangible assets were recognized at fair value, RMB105 million of property and equipment was recognized at fair value and RMB100 million of inventories was recognized at fair value on acquisition date. The Group's unconditional obligation to purchase 4% equity interests from founder of Wuhan Miracle and purchase 1% equity interest from the shareholder A are considered as a mandatorily redeemable non-controlling interest and should be classified as liability.

The Group made estimates and judgements in determining the fair value of intangible assets and property and equipment with the assistance from an independent valuation firm. The significant estimates and assumptions mainly include: (1) projected revenue, projected operating result and discount rate, which are related to the valuation of the fair value of the intangible assets; (2) sales price and market rental of comparable property and equipment, adjustment for differences between acquired property and equipment and comparable property and equipment and capitalization rates, which are related to the valuation of the fair value of the building measured as the property and equipment;(3) sales price of comparable property and equipment, and adjustment for differences between acquired property and equipment and comparable property and equipment, which are related to the valuation of the fair value of the cars measured as the property and equipment and included in the nature of office equipment, furniture and others in Property and equipment, net; and (4) replacement cost which is related to the valuation of the fair value of the other property and equipment owned by Wuhan Miracle. The Group determined discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. The consideration was allocated on the acquisition date as follows:

SO-YOUNG INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands, except for share and per share data, unless otherwise noted)

6. Business combination (Continued)

(b) ***Acquisition of Wuhan Miracle (continued)***

	RMB	Useful lives (Years)
Identifiable intangible assets acquired:		
Developed technology	70,000	10
Supplier relationship	17,000	3
In-process research and development	27,000	10
Cash and cash equivalents	86,467	
Short-term investment and term deposits	50,000	
Account receivables	25,244	
Inventories, net	99,681	
Other current assets	6,401	
Property and equipment, net	104,878	20
Other non-current assets	8,278	
Contract liabilities	(32,006)	
Accrued liabilities and other liabilities	(38,245)	
Deferred tax liabilities	(28,872)	
Goodwill	540,009	
Non-controlling interests	(76,905)	
Total consideration	**858,930**	

The excess of the purchase price over tangible assets, identifiable intangible assets and liabilities assumed was recorded as goodwill. The goodwill recognized is attributable primarily to expected synergies and the assembled workforce of Wuhan Miracle. The goodwill is not deductible for tax purposes.

The amount of revenue and net loss of Wuhan Miracle from the acquisition date to December 31, 2021 were RMB111,956 and RMB9,366, respectively.

Pro forma information of the acquisition

The following unaudited pro forma information summarizes the results of operations for the years ended December 31, 2020 and 2021 of the Group as if the acquisition had occurred on January 1, 2020. The unaudited pro forma information includes: (i) amortization associated with estimates for the acquired intangible assets, depreciation associated with estimates for the acquired property and equipment and the cost associated with the estimates for the acquired inventories and corresponding deferred tax liability; (ii) removal of the transaction costs related to the acquisition; (iii) elimination of transaction between Wuhan Miracle and the Group and (iv) the associated tax impact on these unaudited pro forma adjustments. The following pro forma financial information is presented for informational purpose only and is not necessarily indicative of the results that would have occurred had the acquisition been completed on January 1, 2020, nor is it indicative of future operating results.

	For the Year Ended December 31,	
	2020	2021
	RMB	RMB
Pro forma Revenue	1,474,996	1,821,657
Pro forma net income/(loss)	18,481	(39,955)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands, except for share and per share data, unless otherwise noted)

7. Goodwill

Changes in the carrying amount of goodwill by segment for the years ended March 31, 2020 and 2021 were as follows:

	So-Young RMB	Wuhan Miracle RMB	Total RMB
Balance as of December 31, 2019	—	—	—
Increase in goodwill related to acquisition	48,500	—	48,500
Balance as of December 31, 2020	**48,500**	—	**48,500**
Increase in goodwill related to acquisition	684	540,009	540,693
Impairment of goodwill (i)	(48,500)	—	(48,500)
Balance as of December 31, 2021	**684**	**540,009**	**540,693**

Gross goodwill balances were RMB48,500 and RMB589,192 as of December 31, 2020 and 2021, respectively. Accumulated impairment losses were nil and RMB48,500 as of December 31, 2020 and 2021, respectively.

(i) In the annual goodwill impairment assessment, the Group concluded that the carrying amounts of certain reporting units exceeded their respective fair values and recorded impairment losses of nil, and RMB48,500 for the years ended December 31, 2020 and 2021, respectively. The impairment losses were resulted from an update of long-term financial outlook of Leya.

8. Investments

(a) Short-term Investments

As of December 31, 2020 and 2021, the Company's short-term investments are comprised of investments in wealth management products issued by financial institutions, which contain a variable interest rate. To estimate the fair value of short-term investments, the Company refers to the quoted rate of return provided by financial institutions at the end of each year using discounted cash flow method. The Company classifies the valuation techniques that use these inputs as level 2 of fair value measurement.

For the years ended December 31, 2019, 2020 and 2021, the Group recognized investment income related to short-term investments of RMB8,698, RMB13,599 and RMB8,931, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands, except for share and per share data, unless otherwise noted)

8. Investments (Continued)

(b) Long-term Investments

The Group's equity investments are reported in long-term investments in the consolidated balance sheets.

The Group's long-term investments consisted of the follows:

	Equity investments without readily determinable fair values	Equity method investments	Total
	RMB	RMB	RMB
Balance as of January 1, 2020	**32,505**	**13,475**	**45,980**
Additions	125,000	—	125,000
Share of losses of equity method investee	—	(4,279)	(4,279)
Impairment	(601)	—	(601)
Balance as of December 31, 2020	**156,904**	**9,196**	**166,100**
Additions	93,350	12,596	105,946
Share of losses of equity method investees	—	(1,522)	(1,522)
Impairment	(17,850)	—	(17,850)
Foreign exchange adjustment	(174)	—	(174)
Balance as of December 31, 2021	**232,230**	**20,270**	**252,500**

Equity investments using the measurement alternative

In October 2016, the Group completed its investment in Shanghai Xingying Medical Technology Co., Ltd ("Xingying"), and obtained its 10% equity interest with certain substantial preferential rights. Total consideration for the investment in Xingying was RMB4,000 with a combination of RMB1,000 in cash and RMB3,000 in the form of information services. The investment was accounted for under the measurement alternative defined as cost less impairments, adjusted by observable price changes in accordance with ASU 2016-01 as the shares invested by the Company are not considered as in-substance common stock and the shares do not have readily determinable fair values.

In October 2017, the Group invested in First BCC Plastic Surgery Hospital ("First BCC") by purchasing 1% of its equity interest, with a total cash consideration of RMB1,663. The investment was accounted for under the measurement alternative defined as cost less impairments, adjusted by observable price changes in accordance with ASU 2016-01 as the Company had no significant influence over the investee and the shares do not have readily determinable fair values.

In October 2018, the Group invested in Chengdu Zhisu Medical Management Company Limited ("Chengdu Zhisu") by purchasing 16% of its equity interest with certain substantial preferential rights. The total cash consideration for the investment was RMB4,000 in cash. In September 2019, the Group additionally acquired Chengdu Zhisu's newly issued ordinary shares by paying the cash consideration of RMB4,250. After the subsequent investment in 2019, the Group held approximately 16% of its issued and outstanding shares. The investment was accounted for under the measurement alternative defined as cost less impairments, adjusted by observable price changes in accordance with ASU 2016-01 as the shares invested by the Company are not considered as in-substance common stock and the shares do not have readily determinable fair values.

In November 2018, the Group invested in Beijing Mevos Management Consulting Company Limited ("Beijing Mevos") by purchasing 11.11% of its equity interest with certain substantial preferential rights. The total cash consideration for the investment was RMB5,150 in cash. The investment was accounted for under the measurement alternative defined as cost less impairments, adjusted by observable price changes in accordance with ASU 2016-01 as the shares invested by the Company are not considered as in-substance common stock and the shares do not have readily determinable fair values.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands, except for share and per share data, unless otherwise noted)

8. Investments (Continued)

(b) Long-term Investments (Continued)

Equity investments using the measurement alternative (continued)

In April 2019, the Group completed the investment in Beijing Yicai Health Management Consulting Co., Ltd. ("Yicai") by purchasing 35% of its equity interest with certain substantial preferential rights. The total cash consideration for the investment was RMB17,500. The investment was accounted for under the measurement alternative defined as cost less impairments, adjusted by observable price changes in accordance with ASU 2016-01 as the shares invested by the Company are not considered as in-substance common stock and the shares do not have readily determinable fair values.

In December 2020, the Group completed the investment in Shanghai Linkedcare ("Linkedcare") Information Technology Co., Ltd. by purchasing 15.1% of its equity interest with certain substantial preferential rights. The total cash consideration for the investment was RMB125,000. In July 2021, the Group additionally acquired Linkedcare newly issued preferred shares by paying the cash consideration of RMB40,000. After the subsequent investment in 2021, the Group held approximately 13.33% of its issued and outstanding shares. The investment was accounted for under the measurement alternative defined as cost less impairments, adjusted by observable price changes in accordance with ASU 2016-01 as the shares invested by the Company are not considered as in-substance common stock and the shares do not have readily determinable fair values.

In June 2021, the Group invested in Beauty Care Clinics Investment Co., Ltd ("BCC Investment") by purchasing 1.74% of its equity interest. The total cash consideration for the investment was RMB50,000 in cash. The investment was accounted for under the measurement alternative defined as cost less impairments, adjusted by observable price changes in accordance with ASU 2016-01 as the Company had no significant influence over the investee and the shares do not have readily determinable fair values.

In July 2021, the Group acquired Wuhan Miracle. Wuhan Miracle owned 7.5% of the equity interest of Ningbo Qizhi Nianhua Medical Treatment Technology Co., Ltd ("Ningbo Qizhi") with a total cash consideration of RMB3,000. The investment was accounted for under the measurement alternative defined as cost less impairments, adjusted by observable price changes in accordance with ASU 2016-01 as the Company had no significant influence over the investee and the shares do not have readily determinable fair values.

The Group assesses the existence of indicators for other-than-temporary impairment of the investments by considering factors including, but not limited to, current economic and market conditions, the operating performance of the entities including current earnings trends and other entity-specific information. Based on the Group's assessment, an impairment charge of RMB4,000,nil and RMB17,850 was recognized in the consolidated statements of comprehensive income/(loss) for the years ended December 31, 2019, 2020 and 2021, respectively, against the carrying value of the investment due to significant deterioration in earnings or unexpected changes in business prospects of the investees as compared to the original investment.

Equity method investments

The Company and an investor set up So-Young Medical Cosmetology (Beijing) Management Consulting Co., Ltd. ("Medical Cosmetology") in May 2016. The Company owns 70% equity interest in Medical Cosmetology. The Company determined that Medical Cosmetology was not a variable interest entity under ASC Topic 810, "Consolidation" ("ASC 810) and evaluated for consolidation under the voting interest model. Because of substantive participating rights of the 30% equity investor, including the approval of material operating decisions such as appointment of key management and determination of key management's compensation, the Group does not have unilateral control over this investment. Therefore, the Group does not consolidate Medical Cosmetology but accounts for it using equity method in accordance with ASC 323, Investments—Equity Method and Joint Ventures. Medical Cosmetology terminated the operation in 2018 and liquidated in March 2019.

8. Investments (Continued)

(b) Long-term Investments (Continued)

Equity method investments (continued)

In October 2019, the Group invested in Beijing Sharing New Medical Technology Co., Ltd. (“Sharing New Medical”) by purchasing 49% of its equity interest. The total cash consideration for the investment was RMB13,475. In February 2021, the Group additionally invested RMB7,596 to Sharing New Medical. After the subsequent investment in 2021, the Group still held approximately 49% of its equity interest. The investment was accounted for using equity method as the Group can exercise significant influence on the investee.

In September 2021, the Group invested in Beijing Souyang Management Consulting Co., Ltd (“Beijing Souyang”) by purchasing 77% of its equity interest. The total cash consideration for the investment was RMB5,000. The Company determined that Beijing Souyang was not a variable interest entity under ASC Topic 810, “Consolidation” (“ASC 810) and evaluated for consolidation under the voting interest model. Because of substantive participating rights of the 23% equity investor, including the approval of material operating decisions such as appointment of key management and determination of key management’s compensation, the Group does not have unilateral control over this investment. Therefore, the Group does not consolidate Beijing Souyang but accounts for it using equity method in accordance with ASC 323, Investments—Equity Method and Joint Ventures.

9. Property and Equipment, Net

Property and equipment, net as of December 31, 2020 and 2021 are as follows:

	As of December 31,	
	2020	2021
	RMB	RMB
Building	-	99,166
Leasehold improvements	30,673	32,723
Office equipment, furniture and others	6,604	12,201
Production Machinery	-	3,680
Computers and electrical equipment	8,795	8,370
Total	**46,072**	**156,140**
Accumulated depreciation	(15,553)	(30,875)
Impairment of property and equipment	(689)	(689)
Net book value	**29,830**	**124,576**

Depreciation expenses recognized for the years ended December 31, 2019, 2020 and 2021 were RMB6,051, RMB9,258 and RMB15,086, respectively.

10. Intangible assets

Intangible assets and its related accumulated amortization as of December 31, 2020 and 2021 are as follows:

	As of December 31, 2020			
	Gross carrying value	Accumulated amortization	Impairment Amount	Net Carrying Amount
	RMB	RMB	RMB	RMB
License (i)	43,626	(4,207)	—	39,419
Developed technology (ii)	2,500	(63)	—	2,437
Customer relationship (ii)	18,000	(452)	—	17,548
Software	126	(28)	—	98
Trade names	607	(198)	—	409
Others	193	(75)	—	118
Total	65,052	(5,023)	—	60,029

	As of December 31, 2021			
	Gross carrying value	Accumulated amortization	Impairment Amount	Net Carrying Amount
	RMB	RMB	RMB	RMB
License (i)	93,952	(9,411)	—	84,541
Developed technology (ii)	72,500	(3,575)	(2,071)	66,854
In-process research and development (ii)	27,000	(1,191)	—	25,809
Customer relationship (ii)	18,000	(2,692)	(15,308)	—
Supplier relationship (ii)	17,000	(2,500)	—	14,500
Software	2,760	(1,073)	—	1,687
Trade names	716	(266)	—	450
Others	210	(96)	—	114
Total	232,138	(20,804)	(17,379)	193,955

(i) Licenses include the insurance broker license and micro-finance license. Insurance broker license was derived from the acquisition of Jinbaoxin. In January 2020, the Company completed the acquisition of Jinbaoxin. The transaction was accounted for as an asset acquisition as the acquiree company did not meet the criteria of a business and substantially all the fair value of the assets acquired were concentrated in a single asset.

Micro-finance license was derived from the acquisition of Tonghua Micro Finance. In October 2021, the Company completed the acquisition of Tonghua Micro Finance. The transaction was accounted for as an asset acquisition as the acquiree company did not meet the criteria of a business and substantially all the fair value of the assets acquired were concentrated in a single asset.

(ii) Customer relationship and part of developed technology were derived from the acquisition of Shanghai Leya. Supplier relationship, the other developed technology, and in-process research and development intangible assets were derived from the acquisition of Wuhan Miracle. For the details, please refer to “Note 6 Business combination”.

The impairment of intangible assets was nil, nil and RMB17,379 for the years ended December 31, 2019, 2020 and 2021, respectively. The impairment losses were resulted from an update of long-term financial outlook of Leya, which indicates that the carrying value may not be recoverable.

Amortization expense was RMB78, RMB4,829 and RMB14,995 for the years ended December 31, 2019, 2020 and 2021, respectively.

The Company will record estimated amortization expenses of RMB25,367, RMB25,168, RMB22,525, RMB19,260 and RMB101,635 for the years ending December 31, 2022, 2023, 2024, 2025, 2026 and thereafter, respectively.

11. Taxation

(a) Value-added tax ("VAT")

The Group's subsidiaries, consolidated VIEs and VIEs' subsidiaries incorporated in China are subject to statutory VAT rate of 6% for services rendered and 13% for products sales.

The Group is also subject to urban construction tax at the rate of 7% or 5% or 1%, education surcharges at the rate of 3%, local education surcharges at the rate of 2% and other surcharges on VAT payments to the tax authorities according to PRC tax law, which are recorded in the cost of revenues in the consolidated statements of comprehensive income/(loss).

(b) Income tax

Composition of income tax

The following table presents the composition of income tax expenses/(benefits) for the years ended December 31, 2019, 2020 and 2021:

	For the Year Ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Current income tax expense	54,049	16,580	19,579
Deferred tax benefits	(4,314)	(21,364)	1,652
Income tax expenses/(benefits)	**49,735**	**(4,784)**	**21,231**

Cayman Islands

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gain. Additionally, upon payments of dividends by the Company in the Cayman Islands to their shareholders, no Cayman Islands withholding tax will be imposed.

Hong Kong

Subsidiaries in Hong Kong are subject to 16.5% income tax rate for 2017. Under the current Hong Kong Inland Revenue Ordinance, from the year of assessment 2018/2019 onwards, the subsidiaries in Hong Kong are subject to profits tax at the rate of 8.25% on assessable profits up to HK$2,000, and 16.5% on any part of assessable profits over HK$2,000. The payments of dividends by these companies to their shareholders are not subject to any Hong Kong withholding tax.

China

Under the PRC Enterprise Income Tax Law, or EIT Law, the standard enterprise income tax rate ("EIT rate") is 25%. Entities qualifying as High and New Technology Enterprises ("HNTEs") enjoy a preferential tax rate of 15% subject to a requirement that they re-apply for HNTE status every three years.

So-Young Wanwei was entitled as HNTE in 2018 and eligible for a preferential EIT rate of 15%, for the three-year period from 2018 to 2020 and extended to additional three-year period from 2021 to 2023, so long as it meets the HNTE criteria, however, as So-Young Wanwei qualified as "Software Company", hence to enjoy income tax rate of 0% for the two-year period from 2019 to 2020, and enjoys income tax rate of 12.5% for the three-year period from 2021 to 2023.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands, except for share and per share data, unless otherwise noted)

11. Taxation (Continued)

(b) Income tax (Continued)

China (continued)

Wuhan Miracle and Wuhan Haoweilai were entitled as HNTE in 2020 and eligible for a preferential EIT rate of 15%, for the three-year period from 2020 to 2022.

All other PRC incorporated entities of the Group were subject to a 25% income tax rate for all the years presented.

In general, all of the tax returns of the Company's PRC entities in China remain subject to examination by the tax authorities for up to five years from the date of filing. The Company may also be subject to the examination of the tax filings in other jurisdictions, which are not material to the consolidated financial statements.

The following table presents a reconciliation of the differences between the statutory income tax rate and the Group's income tax expenses/(benefits) for the years ended December 31, 2019, 2020 and 2021:

	For the Year Ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Income tax expenses at PRC statutory income tax rate-25%	56,615	34	(4,101)
Permanent differences [1]	(6,829)	(8,629)	5,412
Tax rate difference from tax holiday and statutory rate in other jurisdictions	(12,351)	(377)	5,701
Change in valuation allowance	12,300	4,188	14,219
Income tax expenses/(benefits)	**49,735**	**(4,784)**	**21,231**

(1) The permanent differences mainly consisted of additional deduction for research and development expenditures and non-deductible expenses.

The per share effect of the tax holidays are as follows:

	For the Year Ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Net gain/(loss) per ordinary share effect-basic	0.13	0.11	(0.07)
Net gain/(loss) per ordinary share effect-diluted	0.12	0.10	(0.07)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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11. Taxation (Continued)

(c) Deferred tax assets and liabilities

The following table presents the tax impact of significant temporary differences that give rise to the deferred tax assets as of December 31, 2020 and 2021:

	As of December 31,	
	2020	2021
	RMB	RMB
Deferred tax assets		
Advertising and promotion expenses in excess of deduction limit	57,080	53,670
Payroll and expense accrued	5,634	4,909
Net operating tax loss carry forwards	23,802	25,200
Share of loss on equity method investment	1,070	1,450
Impairment of long-term investments	1,000	5,463
Allowance for doubtful accounts and inventory	1,772	5,740
Others	870	1,015
Valuation allowance	(35,708)	(49,927)
Total deferred tax assets, net	**55,520**	**47,520**
Deferred tax liabilities		
Assets arisen from business combination and assets acquisition	8,522	38,577
Total deferred tax liabilities	**8,522**	**38,577**

All deferred tax assets and liabilities within a single tax jurisdiction are offset and presented as a single amount in accordance with ASC 740-10-45-6 “Income Taxes - Overall - Other Presentation Matters.” The Group has classified all deferred tax assets and liabilities as non-current items on its consolidated balance sheet as of December 31, 2020 and 2021.

The following table sets forth the movement of the valuation allowances for deferred tax assets for the periods presented:

	For the year ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Balance as of January 1,	(15,743)	(28,043)	(35,708)
Change of valuation allowance	(12,300)	(7,665)	(14,219)
Balance as of December 31,	**(28,043)**	**(35,708)**	**(49,927)**

The increase of valuation allowance in 2019 was mainly related to the deferred tax assets recognized from advertising expenses of Beijing So-Young, as the Group did not believe that sufficient positive evidence exists to conclude that the recoverability of deferred tax assets is more likely than not to be realized.

The increase of valuation allowance in 2020 was mainly related to deferred tax assets recognized from net operating tax loss carry forwards of Chiyan Beijing, as the Group did not believe that sufficient positive evidence exists to conclude that the recoverability of deferred tax assets is more likely than not to be realized.

The increase of valuation allowance in 2021 was mainly related to deferred tax assets recognized from impairment losses of long-term investment, goodwill and intangible asset, as the Group did not believe that sufficient positive evidence exists to conclude that the recoverability of deferred tax assets is more likely than not to be realized.

11. Taxation (Continued)

(c) Deferred tax assets and liabilities (Continued)

The tax losses of the Group expire over different time intervals depending on local jurisdiction. Certain entity's expiration period for tax losses has been extended from five years to ten years due to new tax legislation released in 2018. As of December 31, 2021, certain entities of the Group had net operating tax loss carry forwards, if not utilized, would expire as follows:

	RMB
Loss expiring in 2022	12,488
Loss expiring in 2023	11,628
Loss expiring in 2024	15,470
Loss expiring in 2025	50,345
Loss expiring in 2026 and thereafter	30,338
Total	**120,269**

(d) Withholding income tax

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. Such withholding income tax was exempted under the Previous EIT Law. The Cayman Islands, where the Company incorporated, does not have such tax treaty with China. According to the arrangement between Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by a FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate that may be lowered to 5% (if the foreign investor owns directly at least 25% of the shares of the FIE). The State Administration of Taxation ("SAT") further promulgated Circular 601 on October 27, 2009, which provides that tax treaty benefits will be denied to "conduit" or shell companies without business substance and that a beneficial ownership analysis will be used based on a "substance-over-form" principle to determine whether or not to grant the tax treaty benefits.

To the extent that subsidiaries and the VIE and subsidiaries of the VIE of the Group have undistributed earnings, the Company will accrue appropriate expected withholding tax associated with repatriation of such undistributed earnings. As of December 31, 2020 and 2021 the Company did not record any withholding tax as the PRC entities were still in accumulated deficit position.

12. Taxes Payable

The following is a summary of taxes payable as of December 31, 2020 and 2021:

	As of December 31,	
	2020	2021
	RMB	RMB
VAT payable	11,134	12,831
Withholding individual income taxes for employees	9,970	8,114
Enterprise income taxes payable	38,281	26,690
Others	685	936
Total	**60,070**	**48,571**

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13. Contract Balances

The following table provides information about receivables and contract liabilities with customers:

	As of December 31,	
	2020	2021
	RMB	RMB
Trade receivables	52,871	54,829
Contract liabilities	135,385	139,155

As of December 31, 2020, and 2021, the contract assets were nil and nil, respectively. Trade receivables are recorded when the right to consideration becomes unconditional.

Contract liabilities relate to the payments received for information service and sales of equipment and maintenance services in advance of performance under the contract. As of December 31, 2020 and 2021, contract liabilities were RMB135,385 and RMB139,155, respectively. The Group's information service and sales of equipment are provided in a relatively short period, as such the contract liabilities are generally recognized as revenue within three months. The Group's maintenance services are generally provided over twelve months and the contract liabilities relate to the payments received for maintenance services are generally recognized as revenue within 12 months accordingly.

Revenue recognized that was included in the contract liability balance at the beginning of the years ended December 31, 2019, 2020 and 2021 is RMB116,967, RMB93,725 and RMB135,385, respectively.

As of December 31, 2020 and 2021, the Group does not have unsatisfied performance obligations with the related contract of duration over one year.

14. Accrued Expenses and Other Current Liabilities

The following is a summary of accrued expenses and other current liabilities as of December 31, 2020 and 2021:

	As of December 31,	
	2020	2021
	RMB	RMB
Payment for acquisition of Wuhan Miracle (see Note 6)	—	136,482
Deposits payable to service providers and others	56,602	68,248
Accrued service expenses	86,376	61,255
Advance payment from platform user	39,371	51,104
Payable to service providers	44,891	24,860
Payments for inventories	—	18,840
Product warranty	—	2,529
Accrued litigation liabilities (see Note 20)	992	2,162
Others	9,553	11,361
Total	**237,785**	**376,841**

Standard product warranty activities were as follows:

	Warranty
	RMB
Balance as of July 22, 2021	**3,043**
Provided during the period	861
Utilized during the period	(1,375)
Balance as of December 31, 2021	**2,529**

15. Lease

The Group's leasing activities primarily consist of operating leases for administrative offices. ASC 842 requires lessees to recognize ROU assets and lease liabilities on the balance sheet. The Group has elected an accounting policy to not recognize short-term leases (one year or less) on the balance sheet.

The Group recorded ROU assets and lease liabilities as a lessee. As of December 31, 2020 and 2021, ROU assets were approximately RMB120,140 and RMB95,609, respectively. As of December 31, 2020 and 2021, lease liabilities were approximately RMB132,512 and RMB105,885, respectively. Supplemental cash flow information related to operating leases was as follows:

	For the year ended December 31,	
	2020	2021
	RMB	RMB
Cash payments for operating leases	41,960	44,072
ROU assets obtained in exchange for operating lease liabilities	7,428	9,137

15. Lease (Continued)

Future lease payments under operating leases as of December 31, 2021 were as follows:

	Operating leases
	RMB
Year ending December 31,	
2022	45,236
2023	50,972
2024	17,159
2025	627
2026 and thereafter	—
Total future lease payments	**113,994**
Less: Imputed interest	(8,109)
Total lease liability balance	**105,885**

The weighted-average remaining lease term was 3.37 and 2.42 years as of December 31, 2020 and 2021, respectively.

The weighted-average discount rate used to determine the operating lease liability as of December 31, 2020 and 2021 was 5.96% and 5.90%, respectively.

Operating lease expenses for the years ended December 31, 2020 and 2021 were RMB40,432 and RMB41,976, respectively, which excluded expenses of short-term contracts. Short-term lease expenses for the years ended December 31, 2020 and 2021 were RMB6,586 and RMB7,929, respectively.

There were no early terminated leases for the years ended December 31, 2020 and 2021, respectively.

As of December 31, 2020 and 2021, no additional operating leases have not yet commenced.

16. Ordinary Shares

In May 2019, the Company completed its IPO on the Nasdaq Global Market and the underwriters subsequently exercised their over-allotment option in May 2019. In the offering, 14,950,000 ADSs representing 11,500,000 Class A Ordinary shares, were issued and sold to the public at a price of US$13.80 per ADS. The net proceeds to the Company from the IPO, after deducting commission and offering expenses, were approximately US$187.5 million (RMB1,267 million).

Upon the completion of IPO, 66,613,419 Class A ordinary shares with one vote per share and 12,000,000 Class B ordinary shares with thirty votes per share were issued upon re-designation of ordinary shares and the conversion of all redeemable convertible preferred shares. In addition, the authorized share capital of the Company was US$425 divided into 850,000,000 shares, comprising (i) 750,000,000 Class A ordinary shares of a par value of US$0.0005 each, (ii) 20,000,000 Class B ordinary shares of a par value of US$0.0005 each and (iii) 80,000,000 shares of a par value of US$0.0005 each of such class or classes (however designated) as the board of directors may determine in accordance with the amended and restated memorandum and articles of association.

As of December 31, 2021, 750,000,000 Class A ordinary shares were authorized, 71,736,059 and 69,092,367 shares were issued and outstanding, respectively; 20,000,000 Class B ordinary shares were authorized, 12,000,000 Class B ordinary shares were issued and outstanding, respectively; and 80,000,000 shares as the board of directors may determine in accordance with the amended and restated memorandum and articles of association were authorized.

17. Convertible Redeemable Preferred Shares

The following table summarizes the issuances of convertible redeemable preferred shares (collectively, "Preferred Shares").

Name	Issuance Date	Original Issuance Price per Share US$	Number of Shares
Series A Preferred Shares	August 22, 2014	$0.40	8,000,000
Series B Preferred Shares	January 16, 2015	$1.05	10,476,190
Series C-1 Preferred Shares	January 18, 2016	$2.00	1,030,126
Series C Preferred Shares	March 31, 2016	$3.88	4,902,554
Series D Preferred Shares	December 20, 2017 and January 9, 2018	$5.89-$6.20	9,750,676
Series D+ Preferred Shares	February 9, 2018 and February 28, 2018	$7.52	3,497,954
Series E Preferred Shares	August 23, 2018	$10.55-$11.72	6,164,979

The key terms of the Preferred Shares are as follows:

Conversion right

The Preferred Shares are convertible, at the option of the holders, into the Company's ordinary shares before August 23, 2018 or Class B ordinary shares after the establishment of dual class share structure on August 23, 2018 at an initial conversion ratio of 1:1 at any time after the original issuance date. In the event that the Company issues additional ordinary shares at a price lower than the then-applicable conversion price for the Preferred Shares, the conversion price of the Preferred Shares shall be adjusted. The conversion prices are also subject to adjustments upon certain dilution events. In addition, the Preferred Shares are automatically convertible into such number of Class B ordinary shares of the Company as shall be determined by reference to the then effective and applicable conversion ratio upon the closing of a qualified IPO as defined in the Memorandum and Articles of Association.

Redemption right

Series A Preferred Shares were redeemable at any time and from time to time on or after the earlier date of the occurrence of (i) the Company fails to consummate a Qualified IPO or a Trade Sale as defined in the Memorandum and Articles of Association within four (4) years following the Series A Preferred Share issuance date, or (ii) the occurrence of certain redemption event as defined in the Memorandum and Articles of Association. The redemption price shall be one hundred percent (100%) of the issue price of Series A Preferred Share plus interest calculated at a ten percent (10)% compound interest rate.

Series B Preferred Shares were redeemable at any time and from time to time on or after the earlier date of the occurrence of (i) the Company fails to consummate a Qualified IPO or a Trade Sale as defined in the Memorandum and Articles of Association

within sixty (60) months following the Series B Preferred Share issuance date, or (ii) the occurrence of certain redemption event as defined in the Memorandum and Articles of Association. The redemption price shall be one hundred percent (100%) of the issue price of Series B Preferred Share plus interest calculated at a ten percent (10)% compound interest rate.

Series C-1 Preferred Shares were redeemable at any time and from time to time on or after the earlier date of the occurrence of (i) the Company fails to consummate a Qualified IPO or a Trade Sale as defined in the Memorandum and Articles of Association within sixty (60) months following the Series C-1 Preferred Share issuance date, or (ii) the occurrence of certain redemption event as defined in the Memorandum and Articles of Association. The redemption price shall be one hundred percent (100%) of the issue price of Series C-1 Preferred Share plus interest calculated at a ten percent (10%) compound interest rate.

17. Convertible Redeemable Preferred Shares (Continued)

Redemption right (Continued)

Series C Preferred Shares were redeemable at any time and from time to time on or after the earlier date of the occurrence of (i) the Company fails to consummate a Qualified IPO or a Trade Sale as defined in the Memorandum and Articles of Association within sixty (60) months following the Series C Preferred Share issuance date, or (ii) the occurrence of certain redemption event as defined in the Memorandum and Articles of Association. The redemption price shall be one hundred percent (100%) of the issue price of Series C Preferred Share plus interest calculated at a ten percent (10%) compound interest rate.

Series D Preferred Shares were redeemable at any time and from time to time on or after the earlier date of the occurrence of (i) the Company fails to consummate a Qualified IPO or a Trade Sale as defined in the Memorandum and Articles of Association prior to the December 31, 2021, or (ii) the occurrence of certain redemption event as defined in the Memorandum and Articles of Association. The redemption price shall be one hundred percent (100%) of the issue price of Series D Preferred Share plus interest calculated at a ten percent (10%) compound interest rate.

The redemption date for then existing Preferred Shares was modified to December 31, 2021 to be aligned to the redemption date of the Series D Preferred Shares.

Series D + Preferred Shares were redeemable at any time and from time to time on or after the earlier date of the occurrence of (i) the Company fails to consummate a Qualified IPO or a Trade Sale as defined in the Memorandum and Articles of Association prior to the December 31, 2021, or (ii) the occurrence of certain redemption event as defined in the Memorandum and Articles of Association. The redemption price shall be one hundred percent (100%) of the issue price of Series D+ Preferred Share plus interest calculated at a ten percent (10%) compound interest rate.

Series E Preferred Shares were redeemable at any time and from time to time on or after the earlier date of the occurrence of (i) the Company fails to consummate a Qualified IPO or a Trade Sale as defined in the Memorandum and Articles of Association prior to the December 31, 2021, or (ii) the occurrence of certain redemption event as defined in the Memorandum and Articles of Association. The redemption price shall be one hundred percent (100%) of the issue price of Series E Preferred Share plus interest calculated at a ten percent (10%) compound interest rate.

Voting Right

According to the Memorandum and Articles of Association of the Company, except as otherwise required by law or as set forth herein, the holder of each Class B ordinary share issued and outstanding shall have one (1) vote for each Ordinary Share held by such holder, and the holder of each series of Preferred Shares shall be entitled to the number of votes equal to the number of Class B ordinary shares into which such series of Preferred Shares could be converted at the record date for determination of the members entitled to vote on such matters, or, if no such record date is established, at the date such vote is taken or any written consent of members is solicited, such votes to be counted together with all other shares of the Company having general voting power and not counted separately as a class.

Dividend

The Directors may from time to time declare dividends (including interim dividends) and distributions on shares of the Company outstanding and authorize payment of the same out of the funds of the Company lawfully available therefor. Such dividends shall be payable and accrue when, as and if declared by the Board and shall be on non-accumulative basis. No dividend or distribution shall be payable except out of the profits of the Company, realized or unrealized, or out of the Share Premium Account or as otherwise permitted by the Statute.

17. Convertible Redeemable Preferred Shares (Continued)

Dividend (Continued)

The order of distribution or payment shall be made from senior shares to junior shares. That is from the holders of Series E Preferred Shares to holders of Series A Preferred Shares, except the holders of Series C-1 and Series C Preferred Shares, who do not have dividends rights. No distribution to junior Preferred Shares until full payment of the amount distributable or payable on the senior Preferred Shares, which is greater of (i) 10% of each Preferred Share original issue price per annum; or (ii) the dividends such holder would have received as if converted to Class B ordinary shares.

Liquidation

In the event of any liquidation, dissolution, winding up or deemed liquidation of the Company, amount equal to one hundred and fifty percent (150%) of the each Preferred Share Original Issue Price (in each case as adjusted for any share splits, share dividends, combinations, recapitalizations and similar transactions), plus all dividends declared and unpaid with respect thereto (as adjusted for any share splits, share dividends, combinations, recapitalizations and similar transactions) per each Preferred Share, then held by such holder. If the assets of the Company shall be insufficient to make payment of the foregoing amounts in full on holders of such Preferred Shares, then such assets shall be distributed among the holders of this category Preferred Shares ratably in proportion to the full amounts to which they would otherwise be respectively entitled thereon.

The order of distribution or payment shall be made from senior shares to junior shares. That is from the holders of Series E Preferred Shares to holders of Series A Preferred Shares, except the holders of Series C-1 Preferred Shares, who don’t have preferential liquidation right. No distribution to junior Preferred Shares until full payment of the amount distributable or payable on the senior Preferred Shares. After distribution or payment in full of the amount distributable or payable on the Preferred Shares, the remaining assets of the Company available for distribution to Members shall be distributed ratably among the holders of outstanding Ordinary Shares and the holders of outstanding Preferred Shares in proportion to the number of outstanding Ordinary Shares held by them (with outstanding Preferred Shares treated on an as- converted basis).

Deemed liquidation events include: i) any consolidation, amalgamation or merger of the Company or any other restructure which results in the change in control; ii) a sale, lease, transfer or other disposition of all or substantially all of the assets of the Group; iii) the exclusive licensing of all or substantially all of the Group’s intellectual property to third party.

Accounting of Preferred Shares—Series A, Series B, Series C, Series D, Series D+ and Series E

The Company has classified the Preferred Shares in the mezzanine equity of the consolidated balance sheets as they are contingently redeemable at the options of the holders. In addition, the Company records accretions of the Preferred Shares to the redemption value from the issuance dates to the earliest redemption dates. The accretions using the effective interest method, are recorded against retained earnings, or in the absence of retained earnings, by charging against additional paid-in capital. Once additional paid-in capital has been exhausted, additional charges are recorded by increasing the accumulated deficit. Each issuance of the Preferred Shares is recognized at the respective fair value at the date of issuance net of issuance costs. The issuance costs for Series A, Series B, Series C, Series D, Series D+ and Series E Preferred Shares were RMB190, RMB3,082, RMB nil, RMB12,221, RMB4,197 and RMB7,407, respectively.

The Company has determined that there was no beneficial conversion feature attributable to the Preferred Shares because the initial effective conversion prices of these Preferred Shares were higher than the fair value of the Company's common shares determined by the Company taking into account independent valuations.

17. Convertible Redeemable Preferred Shares (Continued)

Series C-1 Preferred Share financing

In January 2016 (the "Series C-1 Financing Closing Date"), pursuant to a share purchase agreement with Chinese Rose Investment Limited ("Chinese Rose") and a business cooperation agreement entered into by and between an affiliate of Chinese Rose and Beijing So-Young, the Company issued 1,030,126 Series C-1 Preferred Shares in exchange for certain strategic business resources such as providing marketing support to the Company for a period of time according to the business cooperation agreement. All strategic business resources have been provided by Series C-1 Preferred Shares investor at the end of December 31, 2017.

The Group accounted for the issuance of Series C-1 Preferred Shares in exchange for the above-mentioned business resources as stock-based compensation with non-employee in accordance with ASC 505-50. As such business resources are required to be provided over a period of time but the Series C-1 Preferred Shares granted to Chinese Rose were fully vested and nonforfeitable on the Series C-1 financing closing date, the Group recognized the prepaid expense and the corresponding mezzanine classified Preferred Shares based on the fair value of Series C-1 Preferred Shares on the date that the Group and Chinese Rose entered into the share subscription agreement, net of issuance cost. The prepaid expense was subsequently amortized over the business resources providing period at the same manner as if the Group paid cash to a vendor in exchange for these business resources over the contractual period. The issuance costs for Series C-1 Preferred Shares were RMB309.

17. Convertible Redeemable Preferred Shares (Continued)

The Company's Preferred Shares activities for the year ended December 31, 2019 are summarized below:

	Balance as of January 1, 2019	Accretions of Preferred Shares to Redemption value	Conversion of Preferred Shares to ordinary shares upon the completion of the IPO	Balance as of December 31, 2019
Series A Preferred Shares				
Number of shares	8,000,000	—	(8,000,000)	—
Amount (RMB)	30,440	1,094	(31,534)	—
Series B Preferred Shares				
Number of shares	10,476,190	—	(10,476,190)	—
Amount (RMB)	99,075	3,743	(102,818)	—
Series C-1 Preferred Shares				
Number of shares	1,030,126	—	(1,030,126)	—
Amount (RMB)	17,769	628	(18,397)	—
Series C Preferred Shares				
Number of shares	4,902,554	—	(4,902,554)	—
Amount (RMB)	161,101	5,544	(166,645)	—
Series D Preferred Shares				
Number of shares	9,750,676	—	(9,750,676)	—
Amount (RMB)	422,035	15,618	(437,653)	—
Series D+ Preferred Shares				
Number of shares	3,497,954	—	(3,497,954)	—
Amount (RMB)	178,035	6,688	(184,723)	—
Series E Preferred Shares				
Number of shares	6,164,979	—	(6,164,979)	—
Amount (RMB)	487,494	16,904	(504,398)	—
Total number of Preferred Shares	**43,822,479**	**—**	**(43,822,479)**	**—**
Total amount of Preferred Shares (RMB)	**1,395,949**	**50,219**	**(1,446,168)**	**—**

Upon the completion of the IPO, all of issued and outstanding Preferred Shares automatically converted into ordinary shares on a one-for-one basis.

18. Share-based Compensation

(a) Description of share option plan

In April 2014, the Company established a share incentive plan ("2014 Incentive Plan"). The maximum number of shares that may be issued under 2014 Incentive Plan shall be 3,200,000. In January 2015, the maximum number of shares that may be issued under 2014 Incentive Plan were amended to be 5,117,613. The options are generally scheduled to be vested over four years and expire in four years.

18. Share-based Compensation (Continued)

(a) Description of share option plan (Continued)

On April 1, 2018, the board of directors of the Company approved 2018 share incentive plan (the "2018 Plan") to replace the 2014 Incentive Plan, under which, the Company has agreed to authorize up to 7,111,447 ordinary shares for the issuance of employee share options to the eligible directors, employees and consultants of the Company.

Upon the approval of the 2018 Plan, the Group modified the expiration term of the options granted under the 2014 Incentive Plan from 4 years to 10 years. In accordance with ASC 718, "Compensation—Stock Compensation," the modification is a probable-to-probable (Type I) modification. The Group recognized the portion of incremental value for those vested share options as expenses immediately; the portion of the incremental value for unvested share options will be recognized as expenses over the remaining vesting periods. The total incremental value for the modification is not significant.

On January 10, 2019, the board of directors of the Company approved the Amended and Restated 2018 Share Plan (the "Amended 2018 Plan") to replace the 2018 Plan. Those employees who have been granted shares under 2018 Plan were required to re-sign the shares agreement under the Amended 2018 Plan. Upon adoption of the Amended 2018 Plan, terms are modified that the vested options cannot be exercised until the completion of the Company's IPO ("modified condition"). In accordance with ASC 718, "Compensation—Stock Compensation," the modification is a probable-to-improbable (Type II) modification as IPO is a performance condition that the Company anticipates will not be satisfied until occurrence. For Type II modifications, no incremental fair value would be recognized unless and until vesting of the award under the modified conditions becomes probable. If the original service condition is satisfied, the award's original grant-date fair value is recognized as an expense, over the requisite service period, regardless of whether the modified conditions are satisfied. Since the modified awards with both a service condition and a performance condition, the graded vesting method should be used, the cumulative amount of difference between the straight-line method and graded vesting method should be caught up when the vesting of the award under the modified conditions becomes probable, i.e., upon IPO.

On March 27, 2019, the Company has adopted the Second Amended and Restated 2018 Share Plan (the "Second Amended 2018 Plan") which supersedes all of the Company's previously adopted share incentive plans, for the purpose of granting share-based compensation awards to employees and directors to incentivize their performance and align their interests with the Company. Under the Second Amended 2018 Plan, the maximum aggregate number of shares that may be issued pursuant to all awards is 7,700,000 ordinary shares plus an annual increase of 2% of the total outstanding share capital of the Company as of December 31 of the immediately preceding calendar year on the first day of each fiscal year, beginning in 2020, or such lesser number of Class A ordinary shares as determined by the board of directors of the Company, providing that the aggregate number of shares initially reserved and subsequently increased during the term of the Second Amended 2018 Plan shall not be more than 10% of the total outstanding ordinary shares of the Company on December 31 immediately preceding the most recent increase.

In April 2021, the Company adopted the 2021 Share Incentive Plan ("2021 Plan"), to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants, and promote the success of the business. The maximum number of shares that may be issued under the 2021 Plan shall initially be 1,734,760 ordinary shares, plus commencing with the fiscal year beginning January 1, 2022, an annual increase on the first day of each fiscal year during the term of the 2021 Plan, by an amount equal to 2% of the total number of shares issued and outstanding on an as-converted fully diluted basis on the last day of the immediately preceding fiscal year; or such lesser number of shares as determined by the board of directors of the Group. The awards granted under the 2021 Plan have a contractual term of ten years from the stated grant date and are generally scheduled to be vested in two to four years subject to a service condition or both a service condition and a performance condition as below:

(i) 50% of options granted under the 2021 Plan will vest in equal tranche quarterly.

18. Share-based Compensation (Continued)

(a) Description of share option plan (Continued)

(ii) 50% of options granted under the 2021 Plan will vest in semi-annually based on the grantee's performance rating for a corresponding six-month performance review period, which may commence on or earlier than the stated grant date. The performance rating will affect the number of options the employee can obtain. Certain subjective measurement metrics used to determine the performance rating are provided on the stated grant date, which results that it is difficult for the employee to estimate their performance. Therefore, the stated grant date does not meet the definition of the accounting grant date as there is no mutual understanding of the key terms and conditions. For each tranche, the accounting grant date is considered to be the date the grantee's performance review finally concluded, which is the date used to measure the share-based compensation expense. The service inception date specifically for each tranche is the option agreement signing date, and since the award contains service condition and performance vesting condition and employee must continue to provide service until the last condition is achieved, the requisite service period should last to the longer date of service condition achieved date or performance condition achieved date. As the awards contain a performance condition that if not satisfied preceding the accounting grant date results in forfeiture of the award, the awards have a service inception date preceding the grant date pursuant to ASC 718-10-55-108; the Group should accrue compensation cost using graded vesting method, beginning on the service inception date when it is probable that performance condition can be achieved. The Group should estimate the award's fair value on each subsequent reporting date (i.e., remeasure each period at fair value) until the accounting grant date is established. On the accounting grant date, the estimate of an equity-classified award's fair value is fixed; therefore, the cumulative amount of previously recognized compensation cost should be adjusted to the grant date fair value, and the Group would no longer remeasure the award. The Group estimated the probability based on the historical performance results of the employees as there are sufficient data for estimation.

Some of employees who have been granted shares under Second Amended 2018 Plan re-signed the shares agreement under the 2021 Plan. Upon the adoption of the 2021 Plan, 50% of the unvested options are modified to change the vesting schedule to vest quarterly ("Modification A") and the remaining 50% of unvested options are modified to add performance condition as described in the preceding paragraph ("Modification B"). In accordance with ASC 718, "Compensation-Stock Compensation," the Modification A and Modification B are considered probable-to-probable (Type I) modifications as the Company expected that it is probable that the employee can at least obtain the original number of options under the 2021 plan. Any incremental fair value together with remaining unrecognized share-based compensation expense will be recognized over the remaining requisite service period.

In 2019, the Company has granted 1,659,640 share options with an exercise price of US$0.1 per share under the Second Amended 2018 Plan. These options granted are vest over a four-year period, with 25% of the awards vesting on the first anniversary, and the remaining 75% of the awards vesting on a yearly basis thereafter, except for 115,000 share options granted to certain key management for their contribution to the Company on May 2, 2019, which were vested immediately on the grant date and the expenses were recognized in the consolidated financial statements immediately.

In 2020, the Company has granted 2,665,028 share options with an exercise price of US$0.1 per share under the Second Amended 2018 Plan. These options granted are vest over a four-year period, with 25% of the awards vesting on the first anniversary, and the remaining 75% of the awards vesting on a yearly basis thereafter.

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18. Share-based Compensation (Continued)

(a) Description of share option plan (Continued)

In 2021, the Company has granted 1,047,828 share options with an exercise price of US$0.1 per share under the Second Amended 2018 Plan and the 2021 Plan.

(b) Valuation

The Group uses binomial option pricing model to determine fair value of the share-based awards. The fair value of each option granted for the years ended December 31, 2019, 2020 and 2021 is estimated on the date of grant using the binomial option-pricing model with the following assumptions:

	For the year ended December 31,		
	2019	2020	2021
Expected volatility	46.54%-47.29%	47.00%-55.00%	46.48%-52.64%
Expected dividends yield	0%	0%	0%
Expected multiples	2.2	2.2-2.8	2.2-2.8
Risk-free interest rate	1.77%-2.70%	0.62%-1.77%	1.03%-1.61%
Expected term (in years)	10	10	10
Fair value of underlying ordinary share (USD)	12.32-12.43	12.98-16.13	4.15-12.90

The expected volatility at the grant date and each option valuation date was estimated based on the annualized standard deviation of the daily return embedded in historical share prices of comparable peer companies with a time horizon close to the expected expiry of the term of the options. The Company has never declared or paid any cash dividends on its capital stock, and the Group does not anticipate any dividend payments in the foreseeable future. Expected term is the contract life of the options. The Group estimated the risk-free interest rate based on the yield to maturity of U.S. treasury bonds denominated in USD at the option valuation date.

SO-YOUNG INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands, except for share and per share data, unless otherwise noted)

18. Share-based Compensation (Continued)

(c) Share options activities

The following table presents a summary of the Company's options activities for the years ended December 31, 2019, 2020 and 2021:

	Number of options (in thousands)	Weighted average exercise price US$	Weighted average remaining contractual life Years	Aggregate Intrinsic Value US$ (in thousands)
Outstanding as of January 1, 2019	4,291	0.1	8.17	43,312
Granted	1,660	0.1		
Exercised	(2,008)	0.1		31,456
Forfeited	(447)	0.1		
Outstanding as of December 31, 2019	3,496	0.1	8.55	55,188
Granted	2,665	0.1		
Exercised	(1,090)	0.1		15,148
Forfeited	(545)	0.1		
Outstanding as of December 31, 2020	4,526	0.1	8.60	66,255
Granted	1,048	0.1		
Exercised	(1,774)	0.1		16,088
Forfeited	(1,288)	0.1		
Outstanding as of December 31, 2021	2,512	0.1	8.47	10,167
Vested and exercisable as of December 31, 2019	619	0.1	7.23	9,772
Vested and exercisable as of December 31, 2020	557	0.1	7.44	8,156
Vested and exercisable as of December 31, 2021	1,116	0.1	8.84	4,515

The weighted average grant date fair value of options granted for the years ended December 31, 2019, 2020 and 2021 was US$13.07, US$13.38 and US$7.59 per option, respectively. The total grant date fair value of options vested for the years ended December 31, 2019, 2020 and 2021 was RMB55,858, RMB58,700 and RMB141,845, respectively.

It is the Company's policy to issue new shares upon exercise of share options. The number of shares available for future grant under the Company's Second Amended 2018 Plan was 620, 124 as of December 31, 2021. The number of shares available for future grant under the Company's 2021 Plan was 931,914 as of December 31, 2021.

As of December 31, 2019, 2020 and 2021, the total unrecognized compensation expenses related to the options were RMB102,426, RMB216,971 and RMB65,122, respectively. These amounts are expected to be recognized over a weighted average period of 3.14 years, 2.73 years and 2.13 years, respectively.

SO-YOUNG INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands, except for share and per share data, unless otherwise noted)

19. Net Earnings/(Loss) per Share

Basic and diluted earnings /(loss) per share have been calculated in accordance with ASC260 for the years ended December 31, 2019, 2020 and 2021:

	For the Year ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Numerator:			
Net income/(loss)	176,724	4,877	(37,636)
Net loss attributable to non-controlling interests	—	930	29,265
Accretions of Preferred Shares to redemption value	(50,219)	—	—
Net earnings/(loss) attributable to ordinary shareholders	126,505	5,807	(8,371)
Denominator:			
Weighted average number of ordinary shares outstanding, basic	59,357,935	81,534,991	81,680,504
Weighted average number of ordinary shares outstanding, diluted	63,309,091	83,781,406	81,680,504
Net earnings/(loss) per share, basic	2.13	0.07	(0.10)
Net earnings/(loss) per share, diluted	2.00	0.07	(0.10)
Net earnings/(loss) per ADS, basic	1.64	0.05	(0.08)
Net earnings/(loss) per ADS, diluted	1.54	0.05	(0.08)

Basic and diluted earnings /(loss) per ordinary share are computed using the weighted average number of ordinary shares outstanding during the year. Both Class A and Class B ordinary shares are included in the calculation of the weighted average number of ordinary shares outstanding, basic and diluted.

The following ordinary shares equivalents were excluded from the computation of dilutive net earnings /(loss) per share to eliminate any antidilutive effect:

	For the Year ended December 31,		
	2019	2020	2021
Share option	—	—	949,501
Preferred Shares	15,127,760	—	—
Total	**15,127,760**	**—**	**949,501**

20. Commitments and Contingencies

(a) Commitments

Property management fee obligation

The Group leases office space under non-cancelable operating lease agreements, which expire at various dates through July 2024. Future minimum payments under non-cancelable agreements for bandwidth and property management fees consist of the following as of December 31, 2021:

	As of December 31, 2021
	RMB
2022	6,243
2023	5,854
2024	1,896
2025	—
2026 and thereafter	—
Total	**13,993**

Purchase obligation

As of December 31, 2021, future minimum payments under non-cancelable agreements for imported equipment from Wuhan Miracle is RMB11.0 million (US$1.7 million), of which is due by 2022.

(b) Litigation

From time to time, the Group is involved in claims and legal proceedings that arise in the ordinary course of business. Based on currently available information, management does not believe that the ultimate outcome of any unresolved matters, individually and in the aggregate, is reasonably possible to have a material adverse effect on the Group’s financial position, results of operations or cash flows. However, litigation is subject to inherent uncertainties and the Group’s view of these matters may change in the future. The Group records a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Group reviews the need for any such liability on a regular basis. The Group’s accrued expense for litigation liabilities was RMB992 and RMB2,162 as of December 31, 2020 and 2021, respectively, and the Group recognized RMB4,967, RMB4,022 and RMB6,150 litigation expense for the years ended December 31, 2019, 2020 and 2021, respectively. The litigations are mainly in connection with infringement of intellectual property right, including rights of reputation and image rights.

SO-YOUNG INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands, except for share and per share data, unless otherwise noted)

21. Fair value measurement

(a) Assets and liabilities measured at fair value on a recurring basis

The following table summarizes, for assets and liabilities measured at fair value on a recurring basis, the respective fair value and the classification by level of input within the fair value hierarchy as of December 31, 2020 and 2021:

Financial instruments	Fair value hierarchy	As of December 31, 2020	As of December 31, 2021
		RMB	RMB
Short-term investments (Note 8)	Level 2	563,177	408,946
Contingent consideration (Note 6)	Level 3	—	(88,000)

Short-term investments

The short-term investments are comprised of investments in wealth management products issued by financial institutions. The Group estimates the fair value of investments in short-term investments using alternative pricing sources and models utilizing market observable inputs, and accordingly the Group classifies the valuation techniques that use these inputs as Level 2. The short-term investments usually have short original maturities of less than 1 year, the carrying value approximates to fair value.

As of December 31, 2020 and 2021, gross unrealized gains of RMB8,560 and RMB161 were recorded on short-term investments, respectively. No impairment charges were recorded for the years ended December 31, 2019, 2020 and 2021, respectively.

Contingent consideration

The Group's estimated liability for contingent consideration represents potential payments for the acquisition of Wuhan Miracle (see Note 6) if certain defined goal is achieved before December 31, 2022. The contingent consideration is included in the accrued expenses and other current liabilities on the consolidated balance sheets. The Group estimated the fair value of contingent consideration including unobservable inputs of probability of successful achievement, and accordingly the Group classifies the valuation techniques that use these inputs as Level 3. There are no fair value changes for this contingent consideration for the year ended December 31, 2021.

Other financial instruments

Other financial assets and liabilities of the Group primarily consist of cash and cash equivalents, restricted cash, term deposits, trade receivables, loan receivables, amounts due from/to related parties and receivables from online payment platforms. As of December 31, 2020 and 2021, the carrying values of these financial assets are approximated to the fair values due to their short-term nature. They are not measured at fair value in the Consolidated Balance Sheets, but for which the fair value is estimated for disclosure purposes.

(b) Assets and liabilities measured at fair value on a nonrecurring basis

Investments under the measurement alternative method and equity method are reviewed periodically for impairment using fair value measurement. As of December 31, 2019, 2020 and 2021, certain investments were measured using significant unobservable inputs (Level 3) and written down from their respective carrying values to fair values, considering the stage of development, the business plan, the financial condition, the sufficiency of funding and the operating performance of the investee companies, with impairment charges incurred and recorded in earnings for the years then ended. The Group recognized impairment charges of RMB4,000, nil and RMB17,850 for those investments for the years ended December 31, 2019, 2020 and 2021, respectively.

21. Fair value measurement (Continued)

(b) Assets and liabilities measured at fair value on a nonrecurring basis (Continued)

The Group's non-financial assets, such as intangible asset, goodwill, fixed assets and operating lease assets, are measured at fair value only if they are determined to be impaired. The inputs used to measure the estimated fair value of such assets are classified as Level 3 in the fair value hierarchy due to the significance of unobservable inputs used. For the years ended December 31, 2019, 2020 and 2021, the Group recognized nil, nil, and RMB17,379 of impairment loss for the intangible assets and nil, nil and RMB48,500 of impairment loss for the goodwill based on management's assessment.

22. Related Party Transactions

During the years ended December 31, 2019, 2020 and 2021, other than disclosed elsewhere, the Company mainly had the following related party transactions:

Name of entity or individual	Relationships with the Group
Beijing Mevos	Equity investment
Chengdu Zhisu	Equity investment
Beijing Yicai Health Management Consulting Co., Ltd. ("Yicai")	Equity investment
Xingying	Equity investment
Sharing New Medical	Equity investment
Zhang Haipeng	Director
Wuhan Future Light Property Service Co., Ltd. ("Future Light")	Immediate family of subsidiary's shareholder

(a) The Group entered into the following transactions with related parties

(i) Provision of service

	For the Year Ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Yicai	2,717	528	—
Chengdu Zhisu	3,052	4,027	2,934
Xingying	989	1,127	1,802

(ii) Loan advanced to the related parties

	For the Year Ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Chengdu Zhisu	5,000	—	—
Sharing New Medical	—	16,889	13,720
Yicai	—	—	2,000

SO-YOUNG INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands, except for share and per share data, unless otherwise noted)

22. Related Party Transactions (Continued)

(a) The Group entered into the following transactions with related parties (Continued)

(iii) Repayment of the loan advances to the related parties

	For the Year Ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Chengdu Zhisu	—	5,000	—
Medical Cosmetology Group	1,314	—	—
Sharing New Medical	—	9,718	7,170

(iv) Impairment of amount due from related parties

	For the Year Ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Yicai	—	—	360
Chengdu Zhisu	—	—	500

(v) Expense occurred to the related parties

	For the Year Ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Beijing Mevos	2,051	1,472	976
Zhang Haipeng(1)	613	613	—
Future Light	—	—	606

(vi) Provision of rental service

	For the Year Ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Yicai	377	340	—

(b) Amount due from/ to related parties

(i) Amount due from related parties

	As of December 31,	
	2020	2021
	RMB	RMB
Chengdu Zhisu	—	241
Sharing New Medical(2)	7,404	13,797
Yicai	360	—

SO-YOUNG INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands, except for share and per share data, unless otherwise noted)

22. Related Party Transactions (Continued)

(b) Amount due from/ to related parties (Continued)

(ii) Amount due to related parties

	As of December 31,	
	2020	2021
	RMB	RMB
Yicai	2,060	—
Zhisu Limited	168	—
Xingying	126	33
Beijing Mevos	—	642

(1) The Company entered into an agreement with Zhang Haipeng with a cash consideration of RMB 1,300 to engage him as spokesman for brand promotion from September 2019 to April 2020. The Company has paid in advance fully for the service and recognized advertising expense of RMB613 for the year ended December 31, 2019. The remaining amount was recognized as expense in 2020.

(2) The balance as of December 31, 2021 represents a loan provided to Sharing New Medical with a term of one year and an annual interest rate of 4.35%.

23. Segment Information

The Group's organizational structure is based on a number of factors that the CODM uses to evaluate, view and run its business operations which include, but are not limited to, customer base, homogeneity of products and technology. The Group's operating segments are based on this organizational structure and information reviewed by the Group's CODM to evaluate the operating segment results.

In 2021, the Group acquired an approximately 91.77% equity interests in Wuhan Miracle, which is mainly engaged in the research and development, production, sales and agency of laser and other optoelectronic medical beauty equipment, and it became a consolidated subsidiary of the Group. As a result of this acquisition, the Group changed its internal organizational structure and separated its businesses into the So-Young segment and Wuhan Miracle segment. This change in segment reporting aligns with the manner in which the Group's CODM currently receives and uses financial information to allocate resources and evaluate the performance of reporting segments. This change in segment presentation does not affect consolidated balance sheets, consolidated statements of comprehensive income/(loss) or consolidated statements of cash flows.

SO-YOUNG INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands, except for share and per share data, unless otherwise noted)

23. Segment Information (Continued)

The following tables present a summary of the Group's operating segment results for the years ended December 31, 2019, 2020 and 2021, The Group does not allocate any assets to its business segments as the Group's CODM does not use this information to measure the performance of the operating segments:

	For the Year Ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Revenues:			
So-Young	1,151,637	1,294,988	1,580,507
Wuhan Miracle	—	—	111,956
Total	**1,151,637**	**1,294,988**	**1,692,463**
Elimination	—	—	—
Consolidated total revenues	**1,151,637**	**1,294,988**	**1,692,463**
Cost of revenues:			
So-Young	(198,630)	(212,206)	(249,767)
Wuhan Miracle	—	—	(78,142)
Total	**(198,630)**	**(212,206)**	**(327,909)**
Elimination	—	—	20
Consolidated total cost of revenues	**(198,630)**	**(212,206)**	**(327,889)**
Gross profit:			
So-Young	953,007	1,082,782	1,330,740
Wuhan Miracle	—	—	33,814
Total	**953,007**	**1,082,782**	**1,364,554**
Elimination	—	—	20
Consolidated gross profit	**953,007**	**1,082,782**	**1,364,574**

The following table set forth the breakdown of net revenues by type of good or service for the years ended December 31, 2019, 2020 and 2021:

	For the Year Ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
Information services and others	833,422	962,089	1,304,455
Reservation services	318,215	332,899	276,052
Sales of equipment and maintenance services	—	—	111,956
Total revenues	**1,151,637**	**1,294,988**	**1,692,463**

The following table presents the depreciation expenses of property and equipment in cost of revenues by segment for the years ended December 31, 2019, 2020 and 2021:

	For the Year Ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
So-Young	1,624	1,996	2,559
Wuhan Miracle	—	—	550
Total depreciation expenses of property and equipment	**1,624**	**1,996**	**3,109**

23. Segment Information (Continued)

The following table presents the amortization expenses of intangible assets in cost of revenues by segment for the years ended December 31, 2019, 2020 and 2021:

	For the Year Ended December 31,		
	2019	2020	2021
	RMB	RMB	RMB
So-Young	—	4,723	7,907
Wuhan Miracle	—	—	5,647
Total amortization expense of Intangible assets	**—**	**4,723**	**13,554**

24. Impact of the COVID-19

In early 2020, in response to intensifying efforts to contain the spread of COVID-19, the PRC government has implemented a series of strict measures, including travel restrictions, quarantines, and a temporary shutdown of businesses which reduced the capacity and efficiency of the Group's operations and negatively affected the Group's results of operations and financial conditions in the first quarter of 2020. The Group have gradually resumed normal operations in the second half of 2020 as the spread of COVID-19 was substantially controlled in China and the number of new cases in China remained relatively low since then to the end of 2020. During the year ended December 31, 2021, macroeconomy was gradually recovering in China and business activities largely resumed. However, the extent to which the COVID-19 impacts the Group is still uncertain and depends on a number of factors, including the duration and severity of COVID-19, the effectiveness of the mass vaccination program and other actions taken to contain its spread. If the situation materially deteriorates in the PRC, the Group's business, results of operations and financial condition could be materially and adversely affected. The Group will regularly assess and adopt measures to offset any challenges created by the ongoing pandemic.

25. Restricted Net Assets

Relevant PRC laws and regulations permit payments 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 Company's entities in the PRC are required to annually appropriate 10% of their net after-tax income to the statutory general reserve fund prior to payment of any dividends, unless such reserve funds have reached 50% of their respective registered capital. Furthermore, 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 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. Due to restrictions on distribution of share capital and statutory reserves in the PRC, total restrictions placed on distribution of net assets of the Group's PRC subsidiaries, the VIEs and VIE's subsidiaries was RMB209,430 and RMB948,503 as of December 31, 2020 and 2021, respectively. Even though the Company currently does not require any 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.

26. Additional Information—Parent Company Only Condensed Financial Information

The Company performed a test on the restricted net assets of subsidiaries and VIE in accordance with Securities and Exchange Commission Regulation S-X Rule 4-08 (e) (3), "General Notes to Financial Statements" and concluded that the condensed financial information of the Company is required to be presented. The Company did not have significant capital and other commitments or guarantees as of December 31, 2021.

SO-YOUNG INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands, except for share and per share data, unless otherwise noted)

26. Additional Information—Parent Company Only Condensed Financial Information (Continued)

(a) Condensed balance sheets of So-Young International Inc.

	As of December 31,		
	2020 RMB	2021 RMB	2021 US$ Note 2(e)
Assets			
Current assets:			
Cash and cash equivalents	6,300	55,806	8,757
Amounts due from VIE companies	—	39,681	6,227
Amounts due from Group companies	1,820,349	1,457,100	228,651
Term deposits and short-term investments	262,216	318,881	50,039
Prepayment and other current assets	5,008	6,027	946
Total current assets	**2,093,873**	**1,877,495**	**294,620**
Non-current assets:			
Investment in subsidiaries and VIE companies	518,262	617,773	96,942
Long-term investments	7,591	7,418	1,164
Amount due from VIE companies-non current	13,443	—	—
Total non-current assets	**539,296**	**625,191**	**98,106**
Total assets	**2,633,169**	**2,502,686**	**392,726**
Liabilities			
Amounts due to VIE companies	9,348	35,529	5,575
Amounts due to Group companies	25,884	20,068	3,149
Accrued expenses and other current liabilities	1,566	900	141
Total liabilities	**36,798**	**56,497**	**8,865**
Shareholders' deficit:			
Treasury stock	—	(217,712)	(34,164)
Class A Ordinary shares (US$ 0.0005 par value; 750,000,000 shares authorized as of December 31, 2020 and December 31, 2021; 70,212,159 shares issued and outstanding as of December 31, 2020; 71,736,059 and 69,092,367 shares issued and outstanding as of December 31, 2021, respectively)	224	230	36
Class B Ordinary shares (US$ 0.0005 par value; 20,000,000 shares authorized as of December 31, 2020 and 2021; 12,000,000 shares issued and outstanding as of December 31, 2020 and 2021)	37	37	6
Additional paid-in capital	2,892,268	2,999,562	470,697
Statutory reserve	10,562	20,331	3,190
Accumulated deficit	(254,228)	(272,368)	(42,740)
Accumulated other comprehensive loss	(52,492)	(83,891)	(13,164)
Total shareholders' equity	**2,596,371**	**2,446,189**	**383,861**
Total liabilities and shareholders' equity	**2,633,169**	**2,502,686**	**392,726**

SO-YOUNG INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in thousands, except for share and per share data, unless otherwise noted)

26. Additional Information—Parent Company Only Condensed Financial Information (Continued)

(b) Condensed statements of comprehensive income/(loss) of So-Young International Inc.

	For the Year Ended December 31,			
	2019 RMB	2020 RMB	2021 RMB	2021 US$ Note 2(e)
Operating expenses:				
General and administrative expenses	(3,581)	(7,574)	(9,556)	(1,500)
Loss from operations	**(3,581)**	**(7,574)**	**(9,556)**	**(1,500)**
Share of profit/(loss) of subsidiaries and VIE	157,317	763	(1,412)	(222)
Income from non-operations	22,988	12,618	2,597	407
Net income/(loss)	**176,724**	**5,807**	**(8,371)**	**(1,315)**
Accretions of convertible redeemable preferred shares to redemption value	(50,219)	—	—	—
Net income/(loss) attributable to ordinary shareholders of the Company	**126,505**	**5,807**	**(8,371)**	**(1,315)**
Net income/(loss)	**176,724**	**5,807**	**(8,371)**	**(1,315)**
Other comprehensive loss:				
Foreign currency translation adjustment	55,335	(144,225)	(31,399)	(4,927)
Total comprehensive income/(loss)	**232,059**	**(138,418)**	**(39,770)**	**(6,242)**

(c) Condensed statements of cash flows of So-Young International Inc.

	For the Year Ended December 31,			
	2019 RMB	2020 RMB	2021 RMB	2021 US$ Note 2(e)
Cash flows from operating activities:				
Net cash generated from operating activities	**30,796**	**43,212**	**12,117**	**1,901**
Cash flows from investing activities:				
Purchase of short-term investments	(674,916)	(402,913)	(610,841)	(95,854)
Proceeds from maturities of short-term investments	5,996	808,562	549,344	86,204
Loans to Group companies	(1,294,894)	(823,116)	(446,270)	(70,030)
Repayments from Group companies	661,371	365,401	764,712	120,000
Other investing activities with external parties	(8,250)	(8,266)	—	—
Net cash (used in)/generated from investing activities	**(1,310,693)**	**(60,332)**	**256,945**	**40,320**
Cash flows from financing activities:				
Proceeds from initial public offering, net of issuance cost	1,272,860	—	—	—
Other financing activities with external parties	1,819	696	(216,743)	(34,012)
Net cash (used in)/provided by financing activities	**1,274,679**	**696**	**(216,743)**	**(34,012)**
Effect of exchange rate changes on cash and cash equivalents	**48,069**	**(51,506)**	**(2,813)**	**(441)**
Net increase/(decrease) in cash and cash equivalents	**42,851**	**(67,930)**	**49,506**	**7,768**
Cash and cash equivalents at beginning of year	**31,379**	**74,230**	**6,300**	**989**
Cash and cash equivalents at end of year	**74,230**	**6,300**	**55,806**	**8,757**

13 Natural Persons including PENG Guohong and TAN Yan

and

Beijing So-Young Technology Co., Ltd.

With respect to

Wuhan Zeqi Technology Co., Ltd.

Equity Transfer Agreement

2021

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The Equity Transfer Agreement ("**the Agreement**") is concluded and signed on June 27th, 2021, by and among:

(1) **Beijing So-Young Technology Co., Ltd. (北京新氧万维科技咨询有限the Company)**, a company validly established and lawfully existing under **the Chinese Law**, with its registered address at Room 1201, Floor 12, Building 8, Yard 34, Chuangyuan Road, Chaoyang District, Beijing ("**the Investor**");

(2) **PENG Guohong**, ID Card No.: *** ("**Selling Shareholder 1**");

(3) **FENG Zhengkai**, ID Card No.: *** ("**Selling Shareholder 2**");

(4) **TAN Yan**, ID Card No.: *** ("**Selling Shareholder 3**");

(5) **LI Mingbin**, ID Card No.: *** ("**Selling Shareholder 4**");

(6) **HAO Sixin**, ID Card No.: *** ("**Selling Shareholder 5**");

(7) **XUE Yongli**, ID Card No.: *** ("**Selling Shareholder 6**");

(8) **ZHANG Honglin**, ID Card No.: *** ("**Selling Shareholder 7**");

(9) **CHENG Hui**, ID Card No.: *** ("**Selling Shareholder 8**");

(10) **ZHOU Linrong**, ID Card No.: *** ("**Selling Shareholder 9**");

(11) **CUI Lan**, ID Card No.: *** ("**Selling Shareholder 10**");

(12) **YU Yang**, ID Card No.: *** ("**Selling Shareholder 11**");

(13) **XU Zhiqin**, ID Card No.: *** ("**Selling Shareholder 12**");

(14) **ZHAO Bo**, ID Card No.: *** ("**Selling Shareholder 13**", together with **Selling Shareholder 1** to **Selling Shareholder 12** collectively referred to as "**the Selling Shareholders**"); and

(15) **Wuhan Zeqi Technology Co., Ltd. (武汉泽奇科技有限责任the Company)**, a company validly established and lawfully existing under **the Chinese Law**, with its registered address at Building 1, Wuhan Great Wall Innovation Science Park, Tangxun Hubei Road, East Lake High-tech Development Zone, Wuhan ("**the Company**").

The foregoing shall be individually referred to as a "**Party**" and collectively referred to as the "**Parties**".

Recitals

A The information of **the Company** as of the signing date of **the Agreement** is shown in Schedule 1 hereto.

B Subject to and in accordance with the terms and conditions of **the Agreement**, each **Selling Shareholder** intends to sell and transfer its **Target Equities** (as defined below) to **the Investor**, and **the Investor** is willing to purchase such **Target Equities** in accordance with the terms and conditions of **the Agreement**.

C In June 2021, PU Hong, YU Shougang, JIN Zhongjie, GUO Haitao, ZHENG Qiaozhen, QIU Zhiyun, CAI Tiantian, QIU Wenling, ZHANG Zufang, and WU Huan ("**the Exiting Shareholders**") as the transferors and **the Investor** concluded and signed *the Equity Transfer Agreement with respect to Wuhan Zeqi Technology Co., Ltd.* respectively (collectively referred to as "**the Exiting Shareholders' Equity Transfer Agreements**"), stipulating that each **Exiting Shareholder** shall, in aggregate, transfer 9.608% of **the Company**'s equities (corresponding to the registered capital of RMB 3,314,760) to **the Investor**.

D In June 2021, PENG Guohong as the transferor and **the Investor** concluded and signed *the Share Transfer Agreement with respect to Wuhan Miracle Laser Systems, Inc.* ("**PENG Guohong's Share Transfer Agreement**"), stipulating that PENG Guohong shall transfer 2,500,000 shares of **Miracle Laser** held by her to **the Investor** under the conditions agreed therein.

E As shown in Schedule 13, in June 2021, the relevant transferors and **the Investor** respectively concluded and signed a *Share Transfer Agreement with respect to Wuhan Miracle Laser Systems, Inc.* (hereinafter collectively referred to as "**the Minority Shareholders' Share Transfer Agreements**"), stipulating that the transferors will transfer **Miracle Laser**'s shares held by them to **the Investor** respectively under the conditions agreed therein.

IT IS AGREED as follows:

1. Definitions and Interpretation

1.1 In **the Agreement**, the words in bold and other expressions (unless the context otherwise requires) have the following meanings:

"**Confidential Information**" means any confidential or commercially sensitive information (in whatever form) relating to business, customer or financial or other matters of **the Investor**, **the Selling Shareholders**, **the Company or the Target Company**, whether or not so indicated, including, without limitation, any information deemed confidential under a confidentiality agreement.

“**Disclosure Schedule**” means **the Disclosure Schedule** in Schedule 5.

“**Target Equities**” mean the equities held by each **Selling Shareholder** as set out in Schedule 2 hereto; For the avoidance of doubt, **the Target Equities** held by each **Selling Shareholder** shall be the entire equities of **the Company** held by such **Selling Shareholder**.

“**Force Majeure Event**” has the meaning given to it in Clause 8.1.

“**Financial Statements**” has the meaning given to it in Section 7 of Schedule 3.

“**Financial Statements Date**” has the meaning given to it in Section 7 of Schedule 3.

“**Encumbrance**” means (a) any mortgage, charge (whether fixed or floating), pledge, lien, guarantee, transfer, deed of trust, title retention, security interest, or any other form of security arrangement to guarantee any **Debt** of any **Entity** or preferred payment of any **Debt** of any **Entity**, including any right granted in transactions in favour of any **Entity** (in terms of the **Law**, granting of such right is not the same as provision of guarantee, while it has similar economic or financial effect to provision of guarantee, legal and enforceable under the applicable **Law**), such as any power of attorney, letter of authorization, voting agreement, equities, option, right of first offer, negotiation right, purchase right, or transfer restrictions; and (b) any adverse claim of title, possession or use.

“**Representative**” has the meaning given to it in Clause 5.5.

“**Law**” means any constitutional provision, statute, or any other law, regulation, ordinance, listing rule, decree, or any official policy or interpretation of any **Governmental Authority**.

“**SAIC**” means the State Administration for Market Regulation or its local counterparts.

“**Company**” has the meaning given to it in the Recitals.

“**Current Articles of Association**” means the articles of association of **the Company** currently in force.

“**Date for Industrial and Commercial Registration of Changes**” means the date on which **the Company** completes the registration of change with respect to **the Equity Transfer** at the company registration authority and obtains the originals of the reissued *Business License* of **the Company**.

“**Business Days**” means a day (other than a Saturday or Sunday or a public holiday in **the PRC**) on which banks are open for general business in **the PRC**.

“**Transitional Period**” means the period from **the Financial Statements Date** to **the Closing Date**.

“**Affiliate**” means, in relation to an **Entity**, any other **Entity** that directly or indirectly **Controls**, is **Controlled** by, or is under common **Control** with such **Entity**, through the ownership of shares or equities or otherwise; “**Control**” means that such **Entity** directly or indirectly (with or without conditions) controls the management or board of directors of the other **Entity** or possesses more than fifty percent (50%) voting rights of the decision-making body of the other **Entity**; and in relation to any director, individual shareholder and other natural persons, “**Affiliate**” means any immediate **Relatives** (including children, spouse, brothers, sisters or parents) and any company directly or indirectly **Controlled** by such director, individual shareholder and other natural persons and their immediate family members. For the purposes of **the Agreement**, **the Investor**’s **Affiliates** do not include’ **the Company**.

“**Total Price**” has the meaning given to it in Clause 2.1.

“**Individual Price**” has the meaning given to it in Clause 2.1.

“**Equity Transfer**” has the meaning given to it in Clause 2.2.

“**Contracts**” mean all contracts, agreements, licenses, employment contracts, leases, financial documents, purchase orders, undertakings and other contract arrangements currently in force and not terminated or completed by **the Company**, other than the transaction documents.

“**Environmental Permit**” means any permit, approval, authorization, permission, notice, waiver, order or release issued, granted or required under all applicable **Laws** relating to public health and pollution and environmental protection in connection with the conduct of **the Company**’s business prior to **the Closing Date**.

“**Closing**” has the meaning given to it in Clause 3.1.

“**Closing Date**” means the date on which **the Closing** occurs.

“**Transaction Documents**” mean **the Agreement**, **the Restated Articles of Association**, other ancillary documents under **the Agreement** and any document executed or issued to complete the Equity Transfer under **the Agreement**.

“**Restated Articles of Association**” means the amended and restated articles of association of **the Company** to be passed at **the Closing**.

“**Relatives**” means an individual’s spouse, child, sibling or parent.

“**Equipment**” means all plants and machinery, tools and equipment, vehicles and office furniture, computer equipment and accessories, and other tangible **Assets**.

“**Entity**” means an individual, sole proprietorship, partnership, limited partnership, limited liability company, firm, joint venture, estate, trust, unincorporated organization, association, legal person, institution, entity, **Governmental Authority** or any other business or entity of whatever type or nature.

“**Indemnified Parties**” has the meaning given to it in Clause 7.1.

“**Selling Shareholders**” means the existing shareholders of **the Company** as set out in Schedule 2.

“**Selling Shareholders’ Conditions**” has the meaning given to it in Clause 6.2.

“**Tax**” means: (i) any form of tax established or imposed on the parties concerned at any time in any region in connection with the Equity Transfer under **the Agreement**, without prejudice to the generality of the foregoing, including without limitations any profit tax, property tax, income tax, withholding tax, customs duty, value added tax, business tax, housing property tax, deed tax, excise tax, sales tax, capital gains tax, stamp duty, surtax (surcharge) levied or collected and other liabilities generally payable to the tax or financial authorities in any region with respect to the Equity Transfer; (ii) the amount of any relief, allowance, exemption, set-off or deduction equivalent to the calculation of (or in respect of) profits, income or gains, or in accordance with the right to obtain tax refund under any **Law** relating to taxation; and (iii) all fees, interest, fines, penalties and expenses incurred or related to the tax, or any related liability.

“**Action**” has the meaning given to it in Section 13 of Schedule 3.

“**Loss**” has the meaning given to it in Clause 7.1.

“**Knowledge**” means, in the case of **a Selling Shareholder**, that he/she should know after a reasonable inquiry into any **Key Employee** of **the Company**.

“**Investor**” has the meaning given to it in the Recitals.

“**Investor’s Expense**” has the meaning given to it in Clause 10.1.

“**Investor’s Condition**” has the meaning given to it in Clause 6.1.

"**Liquidated Damages**" means, in relation to a **Selling Shareholder**, 30% of his/her **Individual Price**; in the case of the Investor, 30% of the **Individual Price** paid to each **Selling Shareholder**, unless otherwise expressly required in the context.

"**Default Selling Shareholder**" has the meaning given to it in Clause 9.2.2.

"**Relevant Advice**" has the meaning given to it in Clause 5.5.

"**Debts**" mean all liabilities and other debts, regardless of their nature, actual or contingent, and regardless of whether their nature must be disclosed in the accounts of **the Company**.

"**Books and Records**" has the meaning given to it in Section 14 of Schedule 3.

"**Governmental Authority**" means any **Entity**, agency or instrumentality of any nation or government or of any province or state, city, district, county or locality or any other administrative subdivision thereof, or of or relating to the government exercising any executive, legislative, judicial, regulatory or administrative functions, including (without limitations) any government agency, instrumentality, department, bureau, board, commission, committee or executive body or any of its subordinate administrative departments, any court, tribunal or arbitrator, stock or securities exchange, and any self-regulatory organization.

"**Price Payment**" has the meaning given to it in Clause 2.6.

"**Intellectual Properties**" include patents, inventions, know-how, trade secrets and other Confidential Information, registered designs, copyrights, data, database rights, design rights, rights to provide equal protection for copyrights, database rights and design rights, layout design rights, trademarks, service marks, logos, domain names, business names, trade names, immaterial property rights, and registration or application for registration of any of the foregoing, any equivalent intellectual property rights anywhere in the world, and any rights to sue for unfair competition or counterfeiting.

"**Arbitration Rules**" has the meaning given to it in Clause 19.2.

"**CIETAC**" has the meaning given to it in Clause 19.2.

"**Material Adverse Effect**" means any change, event or effect which would or is reasonably expected to cause material harm to the business, operations, assets, qualifications, licenses, market reputation or goodwill, customer relations, employees, Intellectual Properties, conditions (financial or otherwise) or business performance of **the Company** and/or **the Target Company** as a whole, or which would or is

reasonably expected to prevent a Party from performing its principal obligations under **the Agreement** or affect the validity, legality and enforceability of the principal obligations under **the Agreement**, including without limitations any circumstance: (1) which has caused or may cause **the Target Company** a **Loss** in excess of 10% of its book net asset value as of **the Financial Statements Date**; (2) which has caused or may

cause damage to the goodwill or reputation of **the Company** or **the Target Company** or a **Loss** expected to exceed 10% of the main business income of **the Target Company** in the previous year; or (3) which has caused or may cause **the Target Company's Core Qualifications** to be lost or unable to be renewed (except due to a change in the policies of the competent authorities or expiration of the patents, or the option of **the Target Company** not to renew them based on its own circumstances).

"**Core Qualifications**" mean all qualifications, licenses and Intellectual Properties as set forth in Schedule 9.

"**Core Staff**" mean all personnel as set forth in Schedule 10.

"**Material Contract**" has the meaning given to it in Section 6 of Schedule 3.

"**PRC**" means the People's Republic of China, and for purpose of **the Agreement** only, excluding Hong Kong, Macau Special Administrative Region and Taiwan.

"**PRC GAAP**" means the Accounting Standards for Business Enterprises and related regulations promulgated by the Ministry of Finance of the People's Republic of China ("**MOF**").

"**Key Employees**" mean the executive directors, general manager, financial officer or any person having the same functions as the foregoing of **the Company**.

"**Main Business**" means, with respect to **the Target Company**, research and development, production, sales and agency of laser and other optoelectronic medical and beauty equipment.

"**Equities Transfer Proportion**" means, in relation to a **Selling Shareholder**, the proportion of **the Target Equities** sold by such **Selling Shareholder** in **the Equity Transfer** in the registered capital of the Company.

"**Government Official**" means: (i) any officer, senior staff, employee or representative of any **Government Entity**, or any **Entity** on behalf of any **Government Entity** and acting in an official capacity; (ii) any party or party officer or any candidate for political office; (iii) any politically-exposed person (PEP) as defined by the Financial Action Task Force (FATF) or the Groupe d'action Financiere (GAFI); or (iv) any officer,

senior staff, employee, or representative of any corporation, business, enterprise, or other **Entity** wholly or partially owned or controlled by any **Government Entity**.

"**Governmental Entity**" means: (i) any national, federal, state, county, city, local, or foreign government or any **Entity** that performs any executive, legislative, judicial, regulatory, tax, or administrative functions of the government or in connection with the government; (ii) any international public organization; (iii) any agency, division, bureau, department or other political subdivision of any government, **Entity** or organization described in (i) or (ii) above in this definition; (iv) any corporation, business, enterprise, or other **Entity** wholly or partially owned or controlled by any government, **Entity** or organization or any other **Entity** described in (i), (ii) or (iii) above in this definition; or (v) any political party.

"**Assets**" mean assets, rights and privileges of any nature, and all goodwill relating thereto, including without limitations all rights relating to contracts, all Intellectual Properties and **Equipment**, but excluding rights relating to real estate.

"**Subsidiary**" means, with respect to any **Entity**, (A) whose securities or other equities representing more than fifty percent (50%) of all of its voting rights are owned, directly or indirectly, by such **Entity**; (B) such **Entity** shall have the right to elect, through contractual or other arrangements, more than fifty percent (50%) of its directors or persons holding similar positions; (C) **controlled** by such **Entity** through contractual or other arrangements; or (D) any other **Entity** whose financial position and business may be consolidated into such **Entity** when preparing financial statements in accordance with **the PRC GAAP**.

"**Miracle Laser**" means Wuhan Miracle Laser Systems, Inc.

"**Target Companies**" mean Wuhan Miracle Laser Systems, Inc. and all its Subsidiaries.

1.2 In **the Agreement** (unless the context otherwise requires), any reference to:

1.2.1 a word importing one gender shall include every gender; a word importing the singular shall include the plural (and vice versa); a person shall include any individual, corporation, unincorporated body, partnership, company or any other enterprise, association, organization, **Entity** or **Governmental Entity** (whether or not having separate legal personality);

1.2.2 a **Law** or a provision of **Law** shall include:

1.2.2.1 such **Law** or such provision of **Law** as amended and/or reenacted from time to time, unless any modification, amendment,

consolidation, reenactment or substitution made after the date of signing **the Agreement** will increase the liabilities of any **Party**; and

1.2.2.2 any subordinate legislation made under such provision of **Law** (including any amendment or reenactment in accordance with Clause 1.2.2.1 above (subject to the exceptions contained therein));

1.2.3 writing shall include any methods of producing or reproducing words in a legible form;

1.2.4 a clause or a schedule shall be a clause of or a schedule to **the Agreement**, and a section shall be a section of a schedule to **the Agreement**;

1.2.5 a **Party** to **the Agreement** shall include its permitted assigns and personal representatives;

1.2.6 a **Party** to **the Agreement** composing of more than one **Entity**, shall include every person constituting such **Party**;

1.2.7 the table of contents, headings and any explanatory notes are inserted for convenience only and do not affect the explanation or interpretation of **the Agreement**;

1.2.8 **the Agreement** shall include all schedules and annexes to **the Agreement**, which shall be deemed as an integral part of **the Agreement**.

1.3 Unless otherwise expressly stated, if **the Agreement** requires the signature of any resolution or document by any person, it is sufficient to provide the signature of that person and a true PDF copy by fax or E-mail, but the original signed resolution or document must be sent by express mail before the close of business on the following **Business Day**. In this case, the valid resolution or document shall be the resolution or document sent by fax rather than the confirmation letter.

2. Purchase of the Target Equities

2.1 **The Parties** acknowledge and agree that the total purchase price of **the Target Equities** held in aggregate by **the Selling Shareholders** is RMB 352,528,800 ("**the Total Price**"), while each **Individual Price** = **the Selling Shareholder**'s **Equities Transfer Proportion** * **the Company**'s 25,000,000 shares of **Miracle Laser** * the price per share of **the Target**

Company RMB 15.6. For the equities of **the Company** transferred by each **Selling Shareholder** and the corresponding **Individual Price**, please refer to Schedule 2.

2.2 Subject to and in accordance with the terms and conditions of **the Agreement**, **the Investor** shall purchase from each **Selling Shareholder**, and each **Selling Shareholder** shall sell to **the Investor** the amount of **the Target Equities** free from any **Encumbrance** corresponding to his/her name listed in Schedule 2 ("**the Equity Transfer**").

2.3 Within five (5) **Business Days** after the signing date of **the Agreement**, the completion of tax declaration with respect to **the Equity Transfer** at the competent tax authority and acquisition of the corresponding tax payment certificate, and satisfaction of all conditions precedent for the Closing under Clause 6 of **the Agreement**, **the Investor** shall pay each **Selling Shareholder** 50% of his/her **Individual Price** (with respect to such **Selling Shareholder**, his/her "**Price Payment I**") for the purchase of his/her **Target Equities** pursuant to Clause 3.2.1. For the avoidance of doubt, the aforesaid **Price Payment I** have included all individual income taxes required to be paid by **the Selling Shareholders** in connection with **the Equity Transfer**, and **the Investor** will withhold and remit them in accordance with relevant laws and regulations. The Parties agree that they will fully cooperate to complete the individual income tax declaration with respect to **the Equity Transfer**, including but not limited to providing and signing all documents and materials required for the tax declaration.

2.4 Within five (5) **Business Days** after **the Date for Industrial and Commercial Registration of Changes** and satisfaction of the conditions set forth in this clause ("**the Conditions for Price Payment II**"), **the Investor** shall pay each **Selling Shareholder** 12.5% of his/her **Individual Price** (with respect to such **Selling Shareholder**, his/her "**Price Payment II**") for the purchase of his/her **Target Equities**, which shall be remitted in a lump sum by telegraphic transfer to the bank account designated in advance in writing by **the Selling Shareholder**:

2.4.1 The person designated by **the Investor** has received all documents, materials and items to be handed over as set out in Schedule 6 to **the Agreement** without objection by **the Investor**; and

2.4.2 **The Company** has completed the industrial and commercial filings of the board of directors, the board of supervisors and the officers of **the Company** as described in Schedule 8 to **the Agreement**.

2.5 Within five (5) **Business Days** after **the Date for Industrial and Commercial Registration of Changes** and satisfaction of the conditions set forth in this clause ("**the Conditions for Price Payment III**"), **the Investor** shall pay each **Selling Shareholder** 12.5% of his/her **Individual Price** (with respect to such **Selling Shareholder**, his/her

"**Price Payment III**") for the purchase of his/her **Target Equities**, which shall be remitted in a lump sum by telegraphic transfer to the bank account designated in advance in writing by **the Selling Shareholder**:

2.5.1 **The Target Company has** completed the internal review procedures related to the reorganization of their board of directors, board of supervisors and officers in accordance with Schedule 8 to **the Agreement**, and **the Investor** has received (1) the original resignation letters signed by the directors, legal representatives and officers of **the Target Company** designated by **the Investor**, confirming that they have no claims of compensations or damages against **the Target Company** based on resignation, position adjustment, termination of employment agreement, or unpaid remuneration; and (2) all original resolutions on the replacement of directors, legal representatives and officers of **the Target Company** as designated by **the Investor**.

2.6 Within five (5) **Business Days** after the expiration of 180 days from **the Closing Date** and satisfaction of the following investment conditions ("**the Conditions for Price Payment IV**"), **the Investor** shall pay each **Selling Shareholder** 25% of his/her **Individual Price** (with respect to such **Selling Shareholder**, his/her "**Price Payment IV**", together with **Price Payment I, Price Payment II** and **Price Payment III** collectively referred to as "**the Price Payment**") for the purchase of his/her **Target Equities**, which shall be remitted in a lump sum by telegraphic transfer to the bank account designated in advance in writing by **the Selling Shareholder**:

2.6.1 **The Investor** is satisfied with the operation of **the Target Company** in various aspects such as finance, business and law; and

2.6.2 Since **the Closing Date**, **the Target Company has** obtained (by application or acquisition) two (2) new registration certificates for medical devices (Class III).

For avoidance of doubt, if **the Selling Shareholders** are unable to satisfy **the Conditions for Price Payment IV** upon the expiry of one hundred and eighty (180) days from **the Closing Date**, they shall lose the right to require **the Investor** to pay **Price Payment IV**, and **Price Payment IV** does not need to be paid even if **the Target Company has** reached the relevant conditions after the aforesaid period, nor does it constitute any breach of contract by **the Investor**.

3. Closing

3.1 **The Equity Transfer** shall take place in Wuhan within ten (10) **Business Days** after each condition set forth in Clauses 6.1 to 6.2 is fully satisfied or waived in writing by the Party entitled to waive such condition, or at such other time and in such other place as **the Investor**, **the Selling Shareholders** and **the Company** may agree in writing ("**the Closing**").

3.2 At **the Closing**:

3.2.1 **The Investor** shall remit **Price Payment I** of each **Selling Shareholder** in a lump sum by telegraphic transfer to the bank account designated in advance by **the Selling Shareholder** in writing.

3.2.2 After each **Selling Shareholder** receives the price paid to him/her under Clause 3.2.1, the bank's payment receipt shall be deemed to be a written confirmation that **the Selling Shareholder** has recognized his/her receipt of **the Price Payment**.

3.2.3 **The Company** shall deliver to **the Investor**, and **the Selling Shareholder** shall deliver to the person designated by **the Investor**:

3.2.3.1 The original resolutions of the shareholders' meeting and the board of directors (or the executive director) of **the Company**: (i) approving **the Equity Transfer** contemplated in **the Transaction Documents**; (ii) adopting **the Restated Articles of Association** effective as of **the Closing**; and (iii) replacing the directors, legal representative and officers of **the Company** as designated by **the Investor**; and

3.2.3.2 Documents and materials to be handed over by **the Company** as shown in Schedule 11-1; make a list of the above items, which should include the handover location.

3.2.3.3 Documents and materials to be handed over by **the Target Company** as shown in Schedule 11-2; make a list of the above items, which should include the handover location.

3.3 All payments under **the Agreement** shall be made in RMB.

4. Warranties

4.1 PENG Guohong hereby warrants to **the Investor** as set forth in Schedule 3, and the Selling Shareholders other than PENG Guohong hereby warrant to **the Investor** as set forth in Sections 2 and 3 of Schedule 3.

4.2 **The Investor** hereby warrants to each **Selling Shareholder** as set forth in Schedule 4.

4.3 Any matter disclosed in **the Disclosure Schedule** shall constitute an exception to the warranties made by **the Selling Shareholders** (without prejudice to **the Investor**'s special claims on the matters referred to in Clause 7.2).

4.4 Except where a warranty expressly states that it is to be satisfied on a particular date or within a period, all warranties made by **the Selling Shareholder** and **the Investor** under **the Agreement** are made on **the Signing Date** and **the Closing Date**.

4.5 Without prejudice to other rights of **the Parties** under **the Agreement**, if any event or change occurs to a **Party** during **the Transitional Period** which has caused or will cause any of its warranties made under **the Agreement** to be untrue, inaccurate or misleading in any material respect, that **Party** shall, upon being aware of such event or change, notify the other **Parties** in writing immediately and in full of the foregoing or disclose it to the other **Parties** prior to **the Closing Date**. For the avoidance of doubt, no event or change in a notice given under this Clause 4.5 shall constitute an exclusion to any **Warranty** made by any **Party** under **the Agreement**.

4.6 For the avoidance of doubt, each **Selling Shareholder** shall only perform its covenants and warranty obligations for the matters related to itself under **the Agreement**, rather than being jointly and severally liable to each other.

5. Covenants

5.1 Unless otherwise expressly provided in **the Agreement** or other **Transaction Documents**, during **the Transitional Period**:

5.1.1 **The Selling Shareholders** shall cause **the Company** and **the Target Company** to operate their existing business on a going concern basis in the ordinary course of business in accordance with the normal practices that they have adopted prior to the signing date of **the Agreement**, without materially changing or discontinuing the nature, scope or manner of the business, and complies in all respects with the compliant business principles adopted prior to the signing of **the Agreement** and in all material respects with all applicable **Laws**;

5.1.2 **The Company** and **the Target Company** shall continue to operate their existing business in accordance with their normal practices prior to **the Closing Date**, and undertake that **the Target Company** shall maintain: (1) its cash level (for the avoidance of doubt, **the Target Company's** cash level means the sum of the following amounts: 1. monetary funds that can be used without restriction, and 2. trading financial assets) not less than RMB 120 million; (2) its net working capital (for the avoidance of doubt, excluding the cash level referred to in this Clause 5.1.2) not less than RMB 59 million; and (3) its net assets not less than RMB 235 million; and

5.1.3 To ensure the consistency of the accounting treatment of **the Company** and **the Target Company**, **the Company** and **the Target Company** shall not change their auditors or accounting standards, policies, procedures, classifications, definitions, methods, practices and accounting estimates used consistently prior to the signing of **the Agreement**.

5.2 Unless otherwise expressly agreed, stipulated or permitted by **the Agreement** or other **Transaction Documents**, from **the Signing Date** of **the Agreement** to **the Closing Date**, without the prior written consent of **the Investor**, **the Company** shall not, **the Selling Shareholders** shall procure that **the Company** will not, and **the Company** shall procure that **the Target Company** will not carry out the following activities:

5.2.1 Amending and changing the organizational documents (including articles of association) of **the Company** and **the Target Company**;

5.2.2 Ceasing any business of **the Company** and **the Target Company**, changing the business scope of **the Company** and **the Target Company** or **the Main Business**, or expanding or operating any business other than **the Main Business**;

5.2.3 Changing the share capital structure of **the Company** (including capital increase, capital reduction and equity transfer) and conducting capital increase or capital reduction of **the Target Company**;

5.2.4 Approving dividend policies or stock incentive plans relating to **the Company** and **the Target Company**'s employees;

5.2.5 Any merger, division, acquisition, liquidation, consolidation, reorganization or the like by **the Company** and **the Target Company**;

5.2.6 Selling or disposing of the assets owned by **the Company** and **the Target Company** in an amount exceeding RMB one hundred thousand (RMB 100,000) or any shares of **the Target Company**, other than any sale or disposal of assets in its ordinary course of business;

5.2.7 Causing or permitting **the Company** and **the Target Company** (1) to form any affiliated corporation, to invest in any securities of any person or to otherwise acquire any equity interest in any other person; or (2) to establish any joint venture or partnership, other than any such activity in its ordinary course of business;

5.2.8 A single related-party transaction with expenditure or income exceeding RMB three hundred thousand (RMB 300,000);

5.2.9 The public offering or listing of any securities of **the Company** and **the Target Company**, determining the timing, price and stock exchange to be listed;

5.2.10 Issuing, redeeming or repurchasing any securities (including but not limited to equity and debt securities or other interests) by **the Company** and **the Target Company**, or causing or permitting **the Company** and **the Target Company** to enter into any recapitalization or similar transactions, or merging, spinning off, converting, reclassifying or reassigning any of the share capital of **the Company** and **the Target Company**;

5.2.11 Acquiring any business or Entity or making any capital investment other than in its ordinary course of business;

5.2.12 Borrowing money from any person or incurring any debt, liability or financial commitment, or providing any guarantee, indemnity or other securities, or taking any action which may give rise to any contingent liability by **the Company** and **the Target Company**, other than in its ordinary course of business; or creating any Encumbrance on any asset or granting any option to purchase any asset associated with or incidental to creation of any Encumbrance by **the Company** and **the Target Company**;

5.2.13 Changing the size or members of the board of directors of **the Target Company** or establishing a board of directors;

5.2.14 Other than the RMB 36 million dividend approved by **the Target Company** at its general meeting of shareholders on May 18, 2021, distributing dividends (or otherwise making distributions) to the shareholders of **the Company** and **the Target Company** or changing the dividend policies of **the Company** and **the Target Company**;

5.2.15 Approving any annual budget (including detailed income statement, balance sheet and cash flow statement, etc.), annual capital budget (including detailed cost analysis, financial budget, return on investment analysis), capital commitment plan (including capital expenditure plan, forecast and commitment) and detailed annual business plan of

the Company and **the Target Company**, or making any change related thereto;

5.2.16 Changing independent auditors or accounting policies of **the Company** and **the**

Target Company (including the end of the fiscal year);

5.2.17 Approving appointment, replacement or compensation plan and any material adjustment thereto of **the Company** and **the Target Company**, other than for the purpose of performing the provisions of Clause 3.2.3.1 of **the Agreement**; and

5.2.18 Entering into an agreement or promise to do any of the foregoing.

5.3 **Obtaining Information**

During **the Transitional Period**, subject to the confidentiality clause of **the Agreement** and prior written notice given to and consent of **the Company** (which consent shall not unreasonably be withheld by **the Company**), **the Investor** or its representatives may inspect **the Books and Records** of **the Company** and **the Target Company** during normal business hours (including but not limited to all statutory ledgers, minutes, leases, **Contracts** and lists).

5.4 **Further Covenants**

5.4.1 **The Investor** shall use its commercially reasonable efforts to satisfy all of **the Selling Shareholders' Conditions** as soon as possible; and **the Selling Shareholders** shall use their commercially reasonable efforts to satisfy all of **the Investor's Conditions** as soon as possible and use their best efforts to facilitate the completion of the Equity Transfer contemplated by **the Agreement** in accordance with the terms of **the Agreement**. Without prejudice to the generality of the foregoing, each **Party** shall: (i) complete all filings and disclosures required for the proposed transaction under **the Agreement** and give all such notices as may be required; and (ii) use its commercially reasonable efforts to obtain any consent required (under any applicable **Law**, **Contract** or otherwise) by such **Party** with respect to the Transfer of Equity contemplated by **the Agreement**.

5.4.2 **The Selling Shareholders** undertake to use their best efforts to ensure that **100%** of **the Company**'s equities are transferred to **the Investor**.

5.4.3 Each **Party** shall, subject to the applicable **Law** and all applicable privileges (including the attorney-client privilege): (i) give timely notice to the other **Parties** of any legal proceedings initiated by or with any **Governmental Authority** with respect to the Transfer of Equity

contemplated by **the Agreement**; (ii) keep the other **Parties** informed of the status of any such legal proceedings; and (iii) promptly notify the other **Parties** of any communication from any **Governmental Authority** regarding the Transfer of Equity contemplated by **the Agreement**.

5.4.4 If at any time **the Party** responsible for the satisfaction of a condition becomes aware of any fact or circumstance that would affect the satisfaction of that condition, it shall immediately notify the other **Parties**.

5.5 **Exclusivity**. From the date of signing **the Agreement** to **the Date for Industrial and Commercial Registration of Changes**, neither **Selling Shareholder** nor **the Company** shall, directly or indirectly through any **Affiliate**, officer, director, representative, legal representative, agent, holder of share capital or otherwise (collectively referred to as "**the Representatives**"), conduct, induce, initiate or encourage submission of any proposal or offer by any third party to invest in, finance or acquire the share capital or assets of **the Company** or **the Target Company** or other material transactions with respect to **the Company** or **the Target Company** (in each case, referred to as "**the Relevant Advice**"). **The Selling Shareholders** or **the Company** shall (and shall procure that each of their respective **Representatives** will): (a) immediately terminate all ongoing contracts or negotiations with respect to any **Relevant Advice** (if any); (b) notify **the Investor** within twenty-four (24) hours of any **Relevant Advice** being given (or any third party being consulted or approached with respect to such advice), and provide **the Investor** with such information as **the Investor** requires with respect to **the Relevant Advice**, consultation or approach; and (c) refuse to discuss, consider, negotiate or carry out any **Relevant Advice** or consultation or approach related thereto with any person in any way (directly or indirectly) through any **Representative** or otherwise.

5.6 **Post-Closing Covenants**

After **the Closing**, **the Selling Shareholders** agree and undertake that:

5.6.1 **The Parties** shall cooperate with each other to complete the industrial and commercial change of the transfer of **the Target Equities** of **the Company** within fifteen (15) Business Days after **the Closing Date**, including but not limited to signing all documents and materials required for such industrial and commercial change, and issuing the statement of giving up the right of preemption, etc.

5.6.2 Depending on the circumstances at that time, **the Investor** has the right to appoint an auditor to issue a special audit report of **the Company** and **the Target Company** as of **the Closing Date** ("**the Special Audit Report**").

The Selling Shareholders, **the Company** and **the Target Company** shall cooperate. **The Parties** agree that if **the Investor** finds that the net assets of **the Company** and **the Target Company** are less than RMB 235 million according to **the Special Audit Report** (with the deficiency referred to as "**the Deficiency of Net Assets**"), **the Selling Shareholders** shall compensate **the Investor** for **the Deficiency of Net Assets** suffered by **the Investor** in full.

5.6.3 **The Selling Shareholders** shall fully cooperate and complete the handover as set out in Schedule 6. If any damage is caused to **the Investor** or **the Company** due to a **Selling Shareholder**'s non-cooperation, **the Selling Shareholder** shall compensate **the Investor** and **the Company** for all the losses they have suffered.

5.6.4 With three years after **the Closing Date**, **the Selling Shareholders** shall ensure the continuous production of the Target Company's core products (see Schedule 12) (except in cases not attributable to the Selling Shareholders).

5.6.5 The Selling Shareholders shall ensure the stability of the cooperative relationship between **the Target Company** and the suppliers of imported equipment (at least including Asclepion Laser Technologies GmbH, Strata Skin Sciences, TavTech Ltd, Humanmed AG, Sciton Inc.). In addition, within three years after the Closing Date, the Selling Shareholders shall procure the renewal of the exclusive agency agreements between **the Target Company** and the suppliers of imported equipment (except in cases not attributable to the Selling Shareholders).

5.6.6 Each Party undertakes not to publish any press release, announcement or other public disclosure regarding **the Equity Transfer** and/or any other content about **the Company** without the prior written consent of **the Investor**, unless disclosed in accordance with the laws, regulations and requirements of competent authorities.

5.6.7 From the date of signing **the Agreement** until two (2) years after **the Closing** or two (2) years after the date on which he/she ceases to work at **the Target Company** (whichever is later), **the Selling Shareholder** will not directly or indirectly **Control**, operate or engage in any business similar to or competing with **the Main Business** of **the Target Company** ("**the Competitive Business**"), nor directly or indirectly hold any interest in, or provide any consulting or advisory services to, or work part-time in any Entity that engages in a **Competitive Business** with **the Target**

Company,nor engage in any other conduct detrimental to the interests of **the Company** and **the Target Company**, including but not limited to**:** (a) investing, holding, participating or indirectly Controlling an **Entity** engaged in a **Competitive Business**; (b) providing loans, customer information or any other form of assistance to an **Entity** engaged in a **Competitive Business**; (c) benefiting directly or indirectly from a **Competitive Business** or an Entity engaged in a **Competitive Business**; (d) winning or attempting to transact in any way with customers related to **the Target Company** or **the Main Business**, whether such customers are the customers of **the Company** and **the Target Company** before or after **the Closing Date**; or (e) employing in any form any person who has left **the Company** and **the Target Company** since **the Closing Date** through any person or **Entity** under his/her direct or indirect control or having interest with him/her, or seeking in any way to employ any employee then

employed by **the Company** and **the Target Company**.

6. Closing Conditions

6.1 **The Investor's Closing Conditions**. **The Investor**'s obligations to complete **the Closing** shall be conditional upon each of the following conditions (collectively, "**the Investor's Conditions**") being satisfied or waived in writing by **the Investor** at or before **the Closing**:

6.1.1 **Warranties of the Selling Shareholders**. The warranties set forth in Schedule 3 are true and accurate in all material respects as of the date of signing **the Agreement** and **the Closing Date** (if any such warranties are expressly made on any other date, as of such other date).

6.1.2 **Performance of the Company. The Company** has performed and complied with all agreements, obligations and conditions required to be performed or complied with by it under **the Agreement** on or before **the Closing**.

6.1.3 **Performance of the Selling Shareholders.** Each **Selling Shareholder** has performed and complied with all agreements, obligations and conditions under **the Agreement** which are required to be performed or complied with by him/her at or before **the Closing**.

6.1.4 **Government Authorizations**. All approvals, consents, authorizations, registrations or similar ratification required by any **Governmental Authority** with respect to **the Equity Transfer** shall have been duly obtained, completed and valid at **the Closing**. If **the Equity Transfer** does not require any **Governmental Authority**'s approval, consent,

authorization, registration or similar ratification, this condition shall not apply.

6.1.5 **No Injunction or Order, etc.** No injunction, order or decree of whatever nature has been issued by any court or any **Governmental Authority** of competent jurisdiction having the effect of preventing or prohibiting a **Party** from completing the Equity Transfer contemplated by **the Agreement** or **the Transaction Documents**.

6.1.6 **Confidentiality and Non-compete Agreements.** The Company has procured **the Target Company** and **the Core Staff** to sign employment agreements/labor contracts, intellectual property attribution agreements, and confidentiality and non-compete agreements, in each case, confirmed by **the Investor**.

6.1.7 **Appointment of the Directors and/or Officers.** The executive director or the board of directors (as the case may be) and/or the officers of **the Company** have been composed of such persons as **the Investor** shall notify in writing to **the Company** within 5 Business Days after the signing of **the Agreement**, being effective from **the Closing Date**.

6.1.8 **Internal Approval of the Company**. **The Investor** has received internal resolutions from **the Company** approving **the Agreement**, the proposed **Equity Transfer** and the resignation/appointment of **Directors** and/or **Officers**. The Directors and/or **Officers** to be replaced in accordance with Clause 6.1.7 of **the Agreement** have submitted resignation or have been removed, and **the Investor** has received a true and complete copy of such letters of resignation, confirming that such persons have no claims of compensations or damages against **the Company** based on resignation, position adjustment, termination of agreement, or unpaid remuneration

6.1.9 **The Consent Letter of PENG Guohong's Spouse**. At **the Closing**, **PENG Guohong** shall deliver to **the Investor** a confirmation letter stating that the conditions set forth in this Clause 6.1 have been satisfied and a letter from her spouse (if any) agreeing with the Equity Transfer.

6.1.10 **The Confirmation Letter of SUN Wen and Chutian Group. The Investor** has received a confirmation letter issued by SUN Wen and Wuhan Chutian Laser (Group) Co., Ltd. ("**Chutian Group**") regarding the corresponding patents of **the Target Company**, and the contents of the

confirmation letter include: (i) the background and reasons for SUN Wen's inclusion as an inventor although he is not involved in the research and development of such patents; (ii) such patents do not constitute service inventions of SUN Wen; and (iii) SUN Wen and **Chutian Group** have no objection to the ownership of such patents, and will not claim any rights with respect to thereto in the future.

6.1.11 No **Material Adverse Effect** has occurred or is foreseeable to **the Target Company**.

6.2 **The Selling Shareholders' Closing Conditions**. **The Selling Shareholders**' obligations to complete **the Closing** shall be conditional upon each of the following conditions (collectively, "**the Selling Shareholders' Conditions**") being satisfied or waived in writing by **the Selling Shareholders** at or before **the Closing**:

6.2.1 **Warranties of the Investor**. The warranties set forth in Schedule 4 are true as of the date of signing **the Agreement** and **the Closing Date** (if any such warranties are expressly made on any other date, as of such other date), other than any breach of the foregoing warranties which does not materially affect **the Investor**'s ability to perform its obligations under **the Agreement**.

6.2.2 **Performance of the Investor. The Investor** has in all material aspects performed and complied with all agreements, obligations and conditions under **the Agreement** which are required to be performed or complied with by **the Investor** at or before **the Closing**.

6.2.3 **Internal Approval. The Investor** has completed its internal approval procedures for signing **the Agreement** and other **Transaction Documents** as well as performing and completing the transactions contemplated herein and therein.

7. Rights of General Indemnity and Special Claims

7.1 **General Indemnity**. **The Selling Shareholders** shall indemnify and hold harmless **the Investor** ("**the Indemnified Parties**") from and against any and all losses, costs, damages, liabilities, claims, payment demands, judgments, settlements, taxes and dues, interests and expenses (including reasonable attorney's fees and investigation and defense fees) ("**the Loss**") incurred or suffered by or filed against **the Indemnified Parties**, whether or not arising from any claim by a third party, due to any of the following reasons: (i) a **Selling Shareholder** or **the Company** breaches any representations and warranties made in the **Transaction Documents** or any such

warranty is untrue, inaccurate, willfully omitted or misleading**;** (ii) **the Company** or a **Selling Shareholder** breaches any covenant, promise or agreement given in **the Agreement**; or (iii) any matter as mentioned in Clause 7.2 hereof. For the avoidance of doubt, **the Investor** is entitled to exercise the right of recourse for the part of the accumulated **Loss** under this clause that exceeds RMB 1 million, and **the Investor** shall exercise such right of recourse within three (3) years after **the Closing**, failing which, the right of recourse shall be lost.

7.2 **Right of Special Claims**

For the Loss incurred or suffered by the relevant **Entities** as a result of any of the following issues, whether or not disclosed or known to **the Investor** and regardless of the Disclosure Schedule, **the Selling Shareholders** shall indemnify and hold harmless **the Investor** from and against such **Loss**:

7.2.1 any tax evasion including that through special treatment of transactions or finance by **the Company** or **the Target Company** prior to **the Closing Date**;

7.2.2 any unpaid or underpaid pension, unemployment insurance, medical insurance, work-related injury insurance, maternity insurance, housing provident fund, housing fund, welfare fund, union fund, employee education fund and any other social security fund ordered to be paid by the relevant competent authorities due to **the Company**'s or **the Target Company**'s violation of the applicable **Law** or the regulations promulgated from time to time by the competent authorities prior to **the Closing Date** (unless social security compliance certificates have been obtained for the relevant Entities from the competent authorities);

7.2.3 any off-balance sheet liabilities, administrative penalties, **Actions**, arbitrations, administrative investigations or other administrative or judicial proceedings arising out of any act or event of **the Company** or **the Target Company** at or before **the Closing Date**, or which result in **the Target Company's** inability to continue to carry out **the Main Business**;

7.2.4 Hubei Haoweilai Photoelectric Technology Co., Ltd., a subsidiary of **the Target Company**, has its right to use state-owned construction land recovered free of charge by the competent authority due to the land being left idle and/or has to pay liquidated damages to the land administrative department according to *the Contract for Assigning the Right to Use State-owned Construction Land*;

7.2.5 any dispute or Loss caused by defective ownership of the machine or equipment that **the Target Company has** placed or tried out and not stored

in the warehouse of **the Target Company** at or before **the Closing Date**; and

7.2.6 **the Deficiency of Net Assets** suffered by **the Company** or **the Target Company** prior to **the Closing Date** in accordance with Clause 5.6.2 of **the Agreement**.

7.3 If **the Loss** corresponding to the claim has occurred before **the Investor** pays **the Individual Prices**, **the Investor** has the right to deduct all or part of **the Loss** from **the Individual Prices**, and explain to **the Selling Shareholders**. For the avoidance of doubt, **the Investor** is entitled to exercise the right of recourse for the part of the accumulated **Loss** under this clause that exceeds RMB 1 million, and **the Investor** shall exercise such right of recourse within three (3) years after **the Closing**, failing which, the right of recourse shall be lost.

7.4 For the avoidance of doubt, if **the Target Company** suffers any Loss in excess of RMB 1 million due to any matter under Clause 7.2.4, **PENG Guohong** shall be liable to **the Target Company/the Investor** for 35% of the excess amount (for the matters under Clause 7.2.4, this clause shall apply, rather than any other clause).

8. Force Majeure

8.1 No Party shall be liable to the other Parties nor shall it be deemed to be in breach of any of its obligations under **the Agreement** if such **Party** delays in performing or fails to perform any of its obligations due to causes beyond its reasonable control (including but not limited to, strikes, lockouts or other industrial action, natural disaster, plague, war or war threat, accidental or malicious damage, failure or interruption of settlement system, suspension or interruption of bank operations, or changes in international relations or failure to implement the transactions due on schedule due to Laws and regulations, policies or regulatory reasons, or any other event which should be deemed as a force majeure event under general international business practice ("**Force Majeure Event**").

8.2 If a **Party** claims that it is unable to perform its obligations under **the Agreement** due to a **Force Majeure Event** (either on time or at all), it must immediately notify the other Parties of the nature and extent of such **Force Majeure Event** and provide evidence of the occurrence and persistence of such **Force Majeure Event** within fifteen (15) days after its occurrence.

9. Termination and Survival

9.1 **The Investor** shall have the right to terminate **the Agreement** by giving written notice to **the Company** and **the Selling Shareholders** under any of the following

circumstances, and **the Agreement** shall be terminated when such written notice is served on the other **Parties**:

9.1.1 any **Material Adverse Effect** has occurred to **the Target Company** prior to **the Closing**; or

9.1.2 any warranty or covenant made by **the Company** or **the Selling Shareholders** with respect to **the Company** and/or **the Target Company** is untrue, inaccurate, misleading or with omission, which has or is likely to have a **Material Adverse Effect** on **the Company** and/or **the Target Company**; or

9.1.3 **the Investor's Conditions** fail to be fully satisfied or waived in writing by the Investor within thirty (30) Business Days after the **Date of Signing** the Agreement, due to any reason attributable to **the Company**, **the Target Company** or **the Selling Shareholders**; or

9.1.4 **the Conditions for Price Payment II** and/or **the Conditions for Price Payment III** fail to be fully satisfied or waived in writing by **the Investor** within sixty (60) Business Days after the **Date of Signing** the Agreement, due to any reason attributable to **the Company**, **the Target Company** or **the Selling Shareholders**.

9.2 **The Parties** agree that if **the Agreement** is terminated pursuant to Clause 9.1:

9.2.1 With respect to all or part of **the Price Payment** made by **the Investor** to **the Selling Shareholders** pursuant to **the Agreement** prior to the termination of **the Agreement** ("**the Paid Price**"), **the Selling Shareholders** shall return such **Paid Price** to **the Investor** within three (3) days after **the Investor** serves the termination notice pursuant to Clause 9.1 of **the Agreement**. If a **Selling Shareholder** fails to return **the Paid Price** within the aforesaid period, **the Selling Shareholder** shall pay interest to **the Investor** for the period from the overdue date to the date when **the Selling Shareholder** returns **the Paid Payment** in full to **the Investor**, which shall be calculated by the refundable yet not refunded price multiplied by the annual interest rate of 5%.

9.2.2 If **the Agreement** is terminated in accordance with Clause 9.1.1, Clause 9.1.2, Clause 9.1.3 or Clause 9.1.4 of **the Agreement**, **the relevant Selling Shareholder** ("**the Default Selling Shareholder**") shall also pay **the Liquidated Damages** to **the Investor** for such breach. **The Default Selling Shareholder** agrees and

acknowledges that such Liquidated Damages are the true estimate of **the Investor**'s Loss caused by such breach.

9.3 **The Parties** agree that if **the Agreemen**t is terminated due to **PENG Guohong**'s willful or fraudulent conduct:

9.3.1 **The Investor** has the right to require **PENG Guohong** to repurchase the shares of **the Target Company** that it has actually acquired under **the PENG Guohong Share Transfer Agreement** and **the Minority Shareholder Share Transfer Agreement** ("**the Held Target Shares**") in the following manner and at the following price: **PENG Guohong** shall, within sixty (60) days after the termination notice given by **the Investor** in accordance with Clause 9.1 of **the Agreement** (if it is difficult to carry out the repurchase at the agreed price or within the repurchase period according to the sale window, trading method and sale restriction rules at that time, **the Investor** shall have the right to unilaterally extended such period), complete the repurchase of **the Held Target Shares** from **the**

Investor at the price of RMB 15.6 per share of **the Target Company** in the sale window and trading methods then available (including but not limited to block trading). If **PENG Guohong** fails to complete the repurchase of **the Held Target Shares** within the time limit as aforesaid, **PENG Guohong** shall pay the repurchase price to **the Investor** according to the transfer prices actually paid by **the Investor** in accordance with **the PENG Guohong Share Transfer Agreement** and **the Minority Shareholder Share Transfer Agreement**. **The Investor** shall, upon receipt of the repurchase price in full, cooperate with **PENG Guohong** to transfer the corresponding shares to the extent practicable. **PENG Guohong** does not need to pay the transfer consideration to **the Investor** again when handling such transfer.

9.3.2 **PENG Guohong** agrees to undertake to **the Investor** that, with respect to the equities of **the Company** actually acquired by **the Investor** under **the Exiting Shareholders' Equity Transfer Agreement**, **the Investor** has the right to request **PENG Guohong** to repurchase the shares in the following manner and at the following price, specifically: **PENG Guohong** shall complete the repurchase of the shares of **the Target Company** at a price of RMB 15.6 per share for **the Target Company** within thirty (30) days of the termination notice given by **the Investor** in accordance with Section 9.1 of **the Agreement**. If **PENG Guohong** fails to fulfill such repurchase obligations within the time limit as aforesaid, **PENG Guohong** shall pay the repurchase price to **the Investor** according

to the transfer prices actually paid by **the Investor** in accordance with **the Exiting Shareholders' Equity Transfer Agreement**. **The Investor** shall, upon receipt of the repurchase price in full, cooperate with **PENG Guohong** to transfer the corresponding shares to the extent practicable. **PENG Guohong** does not need to pay the transfer consideration to **the Investor** again when handling such transfer.

9.3.3 If **PENG Guohong** has completed the repurchase from **the Investor** in accordance with the manner and at the prices stipulated in Clause 9.3.1 and Clause 9.3.2 of **the Agreement**, **the Investor** has the right to exempt **PENG Guohong** from **the Liquidated Damages** under Clause 9.2.2 of the Agreement.

9.3.4 **PENG Guohong** shall bear all taxes and transaction costs incurred by **the Parties** in performing the repurchase issues in Clause 9.3.1 and Clause 9.3.2.

9.3.5 If **PENG Guohong** fails to complete the repurchase within the purchase period stipulated in Clause 9.3.1 and Clause 9.3.2, **PENG Guohong** shall pay interest to **the Investor** for the period from the 30th day after the notice of termination or the expiry date of the period unilaterally extended by **the Investor** until the date on which **PENG Guohong** actually fulfil his repurchase obligation, which shall be calculated by the payable yet unpaid amount multiplied by the annual interest rate of 5%.

9.4 If **the Investor** fails to make the corresponding **Price Payment** to **the Selling Shareholders** within the time limit specified in Clauses 2.3, 2.4, 2.5 and 2.6 of **the Agreement**, **the Investor** shall pay penalty interest to **the Selling Shareholders** based on **the Price Payment** actually payable under **the Agreement** multiplied by the annual interest rate of 5%, until the date when **the Investor** actually pays the corresponding **Price Payment** or each **Selling Shareholder** terminates **the Agreement** in accordance with Clause 9.5 of **the Agreement**.

9.5 Each Selling Shareholder shall have the right to terminate the Agreement by giving written notice to the Investor under any of the following circumstances, and the Agreement shall be terminated when such written notice is served on the other Parties:

9.5.1 the Investor breaches the terms and time limit set forth in Clause 2 of the Agreement for making any Price Payment and fails to rectify the default within fifteen (15) days upon receipt of the notice from the Selling Shareholder requesting the same; or

9.5.2 due to the Investor, the Selling Shareholders' Conditions fail to be fully satisfied within thirty (30) Business Days after the signing date, which has not been waived in writing by the Selling Shareholders; or

9.5.3 due to the Investor, the Conditions for Price Payment II and/or the Conditions for Price Payment III fail to be fully satisfied or waived in writing by the Investor within sixty (60) Business Days after the date of signing the Agreement.

9.6 If **the Agreement** is terminated in accordance with Clause 9.5 of **the Agreement**, **the Investor** shall also pay **the Liquidated Damages** to **the Selling Shareholders** for such breach.

9.7 If **the Agreement** is terminated, **the Investor** shall, within three (3) days of the termination of **the Agreement**, return to **the Selling Shareholders** all assets handed over as listed in Schedule 6 and items described in Clauses 3.2.3.2 and 3.2.3.3 of **the Agreement**, return all **Target Equities** to **the Selling Shareholders** within thirty (30) days after the termination of **the Agreement**, and restore the directors, supervisors and officers of **the Company** and **the Target Company** that have been changed due to **the Agreement** to the state before such changes or make the changes according to **the Selling Shareholders**' opinions. **The Selling Shareholders** shall provide cooperation in this regard. If **the Investor** fails to perform the aforesaid obligations on time, it shall pay interest to **the Selling Shareholders** for the period from the expiry date of the aforesaid period to the date on which **the Investor** completes the performance of the aforesaid obligations based on the Total Price multiplied by the annual interest rate of 5%. The Selling Shareholders shall refund **the Paid Price** in full to **the Investor** within three (3) days after the termination of **the Agreement** by **the Investor**. If a **Selling Shareholder** fails to refund **the Paid Price** within the aforesaid period, **the Selling Shareholder** shall pay interest to **the Investor** for the period from the overdue date to the date when **the Selling Shareholder** refund **the Paid Price** in full to **the Investor** based on the refundable yet not refunded price multiplied by the annual interest rate of 5%.

9.8 Upon its termination, **the Agreement** shall no longer have any force and effect on **the Parties** other than:

9.8.1 Clauses 9, 12, 17 and 19; and

9.8.2 any rights or remedies accrued to a **Party** prior to the termination of **the Agreement**.

10. Tax and Expenses

10.1 **The Selling Shareholders** and **the Investor** shall bear all taxes, fees and expenses incurred by themselves in connection with the Equity Transfer contemplated by **the Agreemen**t. Notwithstanding the foregoing, if **the Closing** does not occur due to **the Company**, **the Target Company** and **the Selling shareholders**, **the Company** shall bear the expenses incurred by **the Investor** for the Equity Transfer contemplated by **the Agreement** (including but not limited to all expenses incurred in hiring law firms, accounting firms, financial consultants and other intermediaries to conduct due diligence on the Company, to draft and to negotiating **the Transaction Documents**, etc.) ("**the Investor's Expenses**"). If **the Closing** does not happen due to **the Investor**, **the Investor** shall bear the expenses incurred by **the Company**, **the Target Company** and **the Selling Shareholders** for the Equity Transfer under **the Agreement** (including but not limited to all expenses incurred in hiring law firms, accounting firms, financial consultants and other intermediaries for the Equity Transfer contemplated by **the Agreement** and all compensations for the relevant intermediaries due to the termination of being listed in the selected layer) ("**the Selling Shareholders' Expenses**"). For the avoidance of doubt, the amount of **the Investor's Expenses** or **the Selling Shareholders' Expenses** under this clause shall not exceed RMB 3 million.

11. No Partnership

Nothing in this Agreement shall be deemed to constitute a partnership between **the Parties** or any of them.

12. Announcement and Confidentiality

12.1 Without the prior approval of **the Investor**, **the Selling Shareholders** and **the Company** (which approval shall not be unreasonably withheld or delayed), no **Party** shall make any announcement relating to **the Agreement** or other **Transaction Documents** (whether before or after **the Closing Date**), unless such announcements are required by the applicable **Law** or the regulations of the stock exchange binding on **the Parties** concerned (in which case, the disclosing **Party** shall use its best efforts to notify and take into account the views of the other Parties).

12.2 In addition to the foregoing, **the Parties** understand and acknowledge that, **the Agreement** and other **Transaction Documents**, and any oral or written information exchanged between or obtained by **the Parties** and their **Affiliates** in connection with **the Transaction Documents**, as well as any information relating to any dispute arising out of or in connection with performance, interpretation, breach, termination or effectiveness of **the Transaction Documents** shall constitute **the Confidential Information**. Each **Party** shall, and shall cause its respective **Representative**

(including but not limited to any officer, director, employee, shareholder, agent or **Affiliate**) to keep confidential such **Confidential Information**, and not to disclose any such **Confidential Information** to any third party (other than **the Investor**'s potential investors, affiliates and their professional advisors), unless:

12.2.1 such **Confidential Information** is publicly available or becomes publicly available through no disclosure of a **Party** to **the Agreement** or its Representatives or third parties subject to confidentiality provisions;

12.2.2 **the Confidential Information** is informed to the other **Parties** of **the Agreement** or their **Representatives** by a **Party** or its **Representatives** on a non-confidential basis prior to disclosure hereunder;

12.2.3 disclosure of **the Confidential Information** is required by the applicable **Law**, including but not limited to disclosure of **the Confidential Information** pursuant to listing rules or requirements of any securities regulatory authority, in which case, **the Party** obligated to disclose shall consult the other **Parties** with respect to such disclosure within a reasonable time prior to the disclosure and seek possible confidential treatment for **the Confidential Information** disclosed at the request of the other **Parties**;

12.2.4 any disclosure is made to third parties (including professional advisers) on a confidential basis for the purpose of fulfilling a **Party**'s obligations or exercising its rights under **the Agreement**; and

12.2.5 any disclosure is made on a confidential basis to a **Party**' shareholders, **Affiliates**, limited partners and general partners (including existing or potential limited partners and general partners of the **Affiliates**) and their respective professional advisers.

13. Entire Agreement

13.1 **The Agreement**, **the Transaction Documents** and the documents in the agreed forms attached to the Agreement as the schedule hereto constitute the entire agreement between **the Parties** with respect to the subject matter of **the Agreement**.

13.2 For the avoidance of doubt:

13.2.1 **the Transaction Documents** supersede and terminate any warranties previously made or given by any **Party**;

13.2.2 each **Party** confirms to the other **Parties** (and **the Transaction Documents** shall be executed on the basis of such confirmation) that it has not been induced to enter into any such **Document** by any warranty other than those contained in **the Agreement**, and it does not rely on any warranty other than those contained in **the Agreement**; and

13.2.3 In the absence of fraud, each **Party** irrevocably and unconditionally waives its right to claim compensation in respect of **the Agreement** or any other **Transaction Document** or to terminate **the Agreement** or any other **Transaction Document** as a result of any misrepresentation or warranty not mentioned in **the Agreement** or any other **Transaction Document**.

13.3 **The Parties** acknowledge and agree that the provisions of this Clause 13 are reasonable.

14. Amendment

Any amendment to the Agreement or to any document in the agreed forms shall not be effective unless it is in writing and signed by **the Investor**, **the Selling Shareholders** and **the Company** or their respective representatives.

15. Waiver

No waiver by a Party of any breach or non-performance of any provision of **the Agreement** by any other **Party** shall be deemed a waiver of any subsequent or other breach of this or any other provision. No failure to exercise or delay in exercising any right or remedy under **the Agreement** shall constitute a waiver of such right or remedy. No single or partial exercise of any right or remedy under **the Agreement** shall preclude or limit any further exercise of such right or remedy. The rights and remedies of a **Party** under **the Agreement** are cumulative and do not exclude any rights and remedies provided by **Law**.

16. Severability

The invalidity, illegality or unenforceability of any provision of **the Agreement** shall not affect the continuing validity of the remainder of **the Agreement**.

17. Notice

17.1 Any notice given pursuant to the terms of **the Agreement** must be in writing and the addresses and contact information of **the Parties** are set forth in Schedule 7.

17.2 If a **Party** is an individual, notice may only be served:

17.2.1 by personal delivery;

17.2.2 by a courier service company to his/her address referred to in Clause 17.1 with a prepaid letter identifying such person as the addressee;

17.2.3 in an envelope identifying such person as the addressee delivered by hand to him/her or left at his/her address; or

17.2.4 by fax (with confirmation of transmission without error) or E-mail.

17.3 If a **Party** is a company, notice may only be served:

17.3.1 in a prepaid letter identifying such Party or any of its officers as the addressee which shall be sent to the registered office of such Party by a courier service company;

17.3.2 by personal delivery to its registered address; or

17.3.3 by fax (with confirmation of transmission without error) or E-mail (with confirmation of receipt) to any officer of the Party.

17.4 Any notice:

17.4.1 if delivered to the recipient in the manner specified in **the Agreement** and if delivered by a courier services company, it shall be deemed to have been served or delivered two Business Days after delivery to the courier services company;

17.4.2 if delivered to or placed at an address by hand in accordance with **the Agreement** rather than being delivered by a courier services company, it shall be deemed to have been served on the day of delivery or placement by hand;

17.4.3 if sent by fax, it shall be deemed to have been served or delivered at the time of sending, and a processing report or log generated by the facsimile machine attesting to the correctness of the facsimile transmission shall constitute sufficient proof of such service; and

17.4.4 if sent by email, it shall be deemed to have been served or delivered at the time of sending and a copy of such email indicating the date and time of transmission shall constitute sufficient proof of such service.

17.5 In the event any Party changes the address for service and contact information set forth in Schedule 7 to **the Agreement** ("**the Changing Party**"), it shall notify the other Parties within five (5) days of such change. Otherwise, the service made according to

the service address and contact information agreed in Schedule 7 to **the Agreement** shall be valid, and **the Changing Party** shall bear the legal consequences arising therefrom.

18. Counterparts

The Agreement may be executed in any number of counterparts, each of which, when executed by one or more **Parties**, shall constitute an original, but all counterparts shall constitute one and the same instrument.

19. Applicable Law and Dispute Settlement

19.1 **The Agreement** shall be governed by and construed in accordance with **the Chinese Law**, without regard to its conflicts of law principles.

19.2 Any dispute between **the Parties** shall be submitted to by China International Economic and Trade Arbitration Commission ("**CIETAC**") for arbitration in Beijing which shall be conducted in accordance with the CIETAC's arbitration rules in effect

at the time of applying for arbitration ("**the Arbitration Rules**"), with the following modifications:

19.2.1 The number of arbitrators shall be determined and appointed in accordance with **the Arbitration Rules**;

19.2.2 The language used in the arbitration proceedings shall be Chinese;

19.2.3 Subject to the overall discretion of the arbitration tribunal, the arbitration fees, including the fees of **CIETAC** and the arbitrators and attorneys' fees, shall be borne by the losing party;

19.2.4 When the dispute is submitted for arbitration under Clause 19.2, no **Party** shall disclose any information or details relating to the dispute without the written consent of the other Parties to the dispute, except as required by the applicable **Law** or the regulations of any stock exchange; and

19.2.5 Except for the matters in dispute, the Parties to the dispute shall continue to perform their respective undisputed obligations under **the Agreement**.

19.3 The arbitral award of the arbitration tribunal is final and binding upon the Parties. Parties to the dispute shall waive their right of appeal (if any) to the extent permitted by **the Laws**.

20. Language and Versions

The Agreement is made and executed in Chinese and shall come into force as of the date of being signed by the Parties, which shall be binding upon **the Parties**. The Parties agree that, if, for the purpose of registration of industrial and commercial changes, the Parties may separately sign another equity transfer agreement (hereinafter referred to as "**the Industrial and Commercial Version of the Equity Transfer Agreement**"). Any matter not stipulated in **the Industrial and Commercial Version of the Equity Transfer Agreement** shall be governed by **the Agreement**. If the provisions of **the Industrial and Commercial Version of the Equity Transfer Agreement** are inconsistent with those of **the Agreement**, the provisions of **the Agreement** shall prevail.

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IN WITNESS WEHEROF, **the Parties** or their duly authorized representatives have executed **the Agreement**.

Beijing So-Young Technology Co., Ltd. (Official Seal)

Signed by the Authorized Representative: /s/ Beijing So-Young Technology Co., Ltd.

Schedule 1. Details of the Company

Schedule 2. The Selling Shareholders and the Target Equities

No.	Name	Amount of the Transferred Registered Capital (RMB 0'000)	Equities Transfer Proportion	Shares of the Target Company (ten thousand shares)	Individual Price (RMB 0'000)	Price Payment I (RMB 0'000)	Price Payment II (RMB 0'000)	Price Payment III (RMB 0'000)	Price Payment IV (RMB 0'000)
1	PENG Guohong	2469.924	71.592%	1789.8	27,920.88	13,954.20	3,488.55	3,488.55	6,977.10
2	TAN Yan	82.8	2.40%	60	936.00	468.00	117.00	117.00	234.00
3	LI Mingbin	110.4	3.20%	80	1,248.00	624.00	156.00	156.00	312.00
4	HAO Sixin	110.4	3.20%	80	1,248.00	624.00	156.00	156.00	312.00
5	XUE Yongli	41.4	1.20%	30	468.00	234.00	58.50	58.50	117.00
6	ZHANG Honglin	34.5	1.00%	25	390.00	195.00	48.75	48.75	97.50
7	CHENG Hui	138	4.00%	100	1,560.00	780.00	195.00	195.00	390.00
8	ZHOU Linrong	6.9	0.20%	5	78.00	39.00	9.75	9.75	19.50
9	CUI Lan	69	2.00%	50	780.00	390.00	97.50	97.50	195.00
10	YU Yang	13.8	0.40%	10	156.00	78.00	19.50	19.50	39.00
11	XU Zhiqin	13.8	0.40%	10	156.00	78.00	19.50	19.50	39.00
12	ZHAO Bo	20.7	0.60%	15	234.00	117.00	29.25	29.25	58.50
13	FENG Zhengkai	6.9	0.20%	5	78.00	39.00	9.75	9.75	19.50
	Total	**3,118.524**	**90.392%**	**2,259.80**	**35,252.88**	**17,626.44**	**4,406.61**	**4,406.61**	**8,813.22**

Schedule 3. Warranties of the Selling Shareholders

Except as disclosed through the public information channels of National Equities Exchange and Quotations Co., Ltd. (**the Parties** agree that the serial numbers in **the Disclosure Schedule** shall correspond to the serial numbers in Schedule 3 to **the Agreement**. However, any of the terms of the Disclosure Schedule shall be deemed to disclosure with respect to such other warranties):

1. Matters about the Company and the Target Company

(a) Organization, legal registration and qualifications. **The Company** and **the Target Company** are duly incorporated and validly existing and meet all registration approval requirements. **The Company** and **the Target Company** have the capacity and authority to own and operate its business.

(b) Constitutional documents. The constitutional documents of **the Company** and **the Target Company** delivered to **the Investor** are true and complete, and the undelivered constitutional documents will not adversely affect **the Investor** or cause any Loss to **the Investor**. The aforesaid constitutional documents are valid on the date of signing **the Agreement** and not superseded by other documents. All **Laws** and procedural requirements and other formalities relating to the aforesaid constitutional documents have been duly complied with in all material respects.

(c) Options, warrants and reserved shares. There is no outstanding option, warrants, rights (including conversion rights or pre-emption rights) or agreements to subscribe for or purchase any equity securities of **the Company** and **the Target Company** or any other securities convertible to or ultimately exchangeable or exercisable for any equity securities of **the Company** and **the Target Company**. Neither shares or equities in the capital stock of **the Company** and **the Target Company**, nor shares or equities that may be issued upon exercise of any options, warrants or rights outstanding, nor any other shares or equities issuable by **the Company** and **the Target Company**, are subject to any preemptive right or any other to subscribe for or purchase such shares or equities (whether in favor of **the Company** and **the Target Company** or any other person) due to any agreement or undertaking by **the Company** and **the Target Company**.

(d) Other rights relating to the equities. There are no voting rights agreements or similar agreements relating to the equity securities of **the Company** and **the Target Company** currently outstanding or which may be subsequently issued.

(e) Encumbrance. No **Encumbrance** is created on **the Target Equities** nor is there any

agreement, arrangement or obligation to create or generate any **Encumbrance** on **the Target Equities**. Each **Selling Shareholder** has full ownership of the equities held in **the Company** and **the Target Company**, including the right of possession, use, earning and disposition. Such equities or capital contributions are free from any mortgage, pledge, trust, holding entrustment or any other **Encumbrance**, not subject to any judicial enforcement measures such as freezing, not involved in any controversy or dispute, and free from any other defect of rights such as contingent liabilities or potential liabilities that may affect the full ownership of such equities.

(f) Subsidiaries. Other than **the Target Company**, **the Company** has no **Subsidiary**.

(g) Records of the Company. The register of shareholders, resolutions and all other documents required by **the Company** to be filed with any relevant **Governmental Authority** have been filed or submitted for filing, and all resolutions required by the applicable **Law** or the articles of **the Company** then in force or the relevant by-law of **the Company** then in force have been passed.

2. Authorization and Validity of the Transaction

(a) Authorization. Each **Selling Shareholder** has the power and authority to execute, deliver and perform the Transaction Documents to which he/her is a signatory. All actions required for each **Selling Shareholder** to authorize, execute and deliver the Transaction Documents, to perform all of his/her obligations under such documents, to file and (if necessary) to ratify the articles of association and **the Agreement**, have been or will be taken prior to the date of the amended business license. All actions required for each **Selling Shareholder** to transfer the equities of **the Company** have been or will be taken prior to the date of the amended business license.

(b) Enforceability. **The Agreement** is, and each of the other Transaction Documents to which **the Company** and **the Selling Shareholders** are parties, when signed, will become valid and binding obligations for **the Entity**, enforceable against it in accordance with their respective terms, in each case, subject to bankruptcy or other similar **Laws** affecting creditor rights generally.

(c) Consent and approval. Unless otherwise provided in **the Agreement**, all consents, approvals, orders, authorizations, registrations, qualifications, instructions, declarations or filings required for **the Selling Shareholders** to execute, deliver and perform **the Transaction Documents** or to complete **the Equity Transfer** have been obtained from all **Governmental Authorities** concerned or any other competent corporate authority.

(d) No default. Neither execution and delivery by each **Selling Shareholder** of **the Transaction Documents** to which he/she is a party, nor implementation and

performance of **the Equity Transfer** by the above-mentioned Entities, will:

(i) breach or constitute a default under any constitutional document or memorandum, articles of association, bylaws or other constitutional documents of **the Entity**;

(ii) result in any breach of, or constitute a default under, any **Contract** to which the person is a party or to which his/her property or **Assets** are bound, or cause an acceleration of any obligation under any loan agreement; or

(iii) result in any breach, violation or non-performance of any applicable **Law** binding **the Entity**.

(e) No brokerage fees. No third party is entitled to collect any brokerage fee, referral fee, financial consulting fee, legal consulting fee, financial services fee, tax consulting fee and other similar intermediary fees and remuneration in connection with the Equity Transfer contemplated by **the Agreement** due to execution of any arrangement, **Contract** or agreement by or on behalf of a **Selling Shareholder**, thereby causing **the Company** or **the Target Company** to assume liabilities and obligations in excess of RMB 200,000.

3. Ownership of the Target Equities

At **the Closing**, **the Selling Shareholder** owns its own **Target Equities** free from any **Encumbrance**. Upon the sale and delivery of such **Target Equities** of **the Selling Shareholder** to **the Investor** pursuant to the terms of **the Agreement**, **the Investor** shall acquire all legal and valid ownership of such **Target Equities**, free from any **Encumbrance** (other than those unable to be realized due to any act or omission of **the Investor**), and all such equities are legally and validly issued, fully paid and non-assessable before and at **the Closing**.

4. Compliance with the Law

(a) No violation of **the Law**. In addition to the expenditure items listed before **the Financial Statements Date**, **the Company** and **the Target Company** do not violate any relevant **Law** which may result in the total **Loss** of **the Company** or **the Target Company** in excess of RMB 500,000, including but not limited to **the Laws** concerning industry and commerce, finance, taxation, fire control, customs, construction, land and house use and management, foreign exchange, environmental protection, labor (including the payment of social insurance and housing provident fund), and taxation, etc.

(b) License. **The Company** and **the Target Company** own all licenses, approvals,

authorizations, concessions and permits necessary to operate and maintain their existing businesses (including, but not limited to, the research & development, production, sales and agency of laser and other optoelectronic medical and beauty equipment). **The Company** and **the Target Company** have not breached or defaulted on any such licenses, approvals, authorizations, concessions or permits.

(c) Intervention in the transaction. To the knowledge of **the Selling Shareholders**, no **Governmental Authority** or anyone else:

(i) with respect to restricting, prohibiting or otherwise opposing the transfer of **the Target Equities**, has requested any information regarding **the Company** and **the Target Company** and the existing shareholders, or has brought or may bring any legal proceedings, arbitration or administrative proceedings or inquiries or regulatory inquiries against **the Company** and **the Target Company** and the existing shareholders; or

(ii) has proposed or made any statue that would prohibit, substantially limit or substantially delay the transfer of **the Target Equities** or the post-closing operations of **the Company** and **the Target Company**.

(d) No bribery. Neither **the Company** nor **the Target Company** nor any of their directors, officers or senior managers nor any person acting on their behalf, has been engaged in any act or transaction involving payment or authorization of payment or giving of anything of value to any **Government Official**, political party, official thereof or any candidate for political office, for purpose of influencing such recipient in its or his official capacity, in order to assist **the Company** and **the Target Company** or any other person in obtaining or retaining business or directing business to **the Company** and **the Target Company** or any other person.

5. Assets and Equities

(a) With respect to all material **Assets** and equities acquired and held by **the Company** and **the Target Company** (including but not limited to **Equipment**, land and real estate, buildings, intellectual properties and other intangible **Assets**):

(i) Their legal or beneficial ownership are exclusively owned by **the Company** and **the Target Company** (in respect of the patent with Patent Registration No. ZL201611257675.X, LIANG Hong is one of the named inventors), free from any **Encumbrance** (other than the security documents and any retention of title or lien arising in the ordinary course of business);

(ii) They are held or controlled by **the Company** and **the Target Company**, if it is practicable to do so; and

(iii) They have been acquired and held with proper procedures (if applicable) and the relevant considerations or compensations have been properly paid.

(b) Both **the Company** and **the Target Company** have entered into true and valid leases with respective owners or entitled leaseholders of the leased premises (other than the house-leasing contract concluded and signed by and between Wuhan Haoweilai Technology Co., Ltd. and Wuhan Huayuan Electric Power Co., Ltd.); **the Company** and **the Target Company** have a binding lease interest in the Leased Premises and perform their obligations under such leases in all material respects during (including but not limited to payment of rent and expenses) the lease terms.

(c) Apart from the civil case over purchase and sale contract between the Target Company and Beijing Ruiershi Import & Export Trade Company (Case No.: (2019) E 0192 MIN CHU No. 3642), to the knowledge of **the Selling Shareholders**, **the Company** and **the Target Company** have already obtained **the Assets** and equities required for conducting **the Main Business**, and they have not found any agreements, administrative orders or rulings that may adversely affect the normal use of **the Assets** and equities by **the Company** and **the Target Company** as agreed and expected.

(d) Confidential Information

(i) **The Company** and **the Target Company** have not abused or been engaged in activities involving the abuse of any confidential information of third parties.

(ii) **The Company** and **the Target Company** have not breached any agreement and/or arrangement that materially affect it and under which it is provided with any confidential information of third parties, and **the Company** and **the Target Company** have not been aware of any circumstance which may terminate their right to use such confidential information.

(iii) **The Company** and **the Target Company** have not been aware of any actual or alleged misuse of any confidential information of **the Company** and **the Target Company** by anyone. To the knowledge of **the Selling Shareholders**, **the Company** and **the Target Company** have not disclosed any confidential information to anyone except as appropriate in the normal course of business. **The Company** and **the Target Company** have entered into confidentiality agreements with the recipients of their confidential information at the time of disclosure, requiring such recipients to keep confidential such confidential information.

(e) Equipment. **The Company** and **the Target Company** lawfully possess, own, lease or are entitled by contract to use the material **Equipment** used in the course of business

(including **the Equipment** reflected in its latest **Financial Statements** and **the Equipment** acquired after the Financial Statement Date), without any off-the-book **Assets**; All such **Equipment** is not subject to any **Encumbrance,** and it is in compliance with the applicable **Law** in all material respects. **The Equipment** and **Assets** required by **the Company** and **the Target Company** to conduct their business are in good maintenance, operation and repair except for normal wear and tear.

(f) Intellectual Properties

(i) **The Company** and **the Target Company** legally own or have the right to use all Intellectual Properties (including but not limited to patents, trademarks, copyrights, know-how, domain names and trade secrets) required for their production and business operations. Such **Intellectual Properties** are free from any **Encumbrance** or any **Debt** under **Encumbrance**.

(ii) Apart from the four trademarks and the nineteen patents transferred from Wuhan Chutian Laser (Group) Co., Ltd., all other **Intellectual Properties** owned or used by **the Company** and **the Target Company** have derived from their own research and development and original acquisition. Apart from SUN Wen and LIANG Hong, the R&D staff, inventors and other personnel involved in R&D work for **the Company**'s Intellectual Properties are all employees of the Company. **The Target Company** has a valid license to use the Intellectual Properties obtained by license, and **the Target Company** does not license any third party to use the existing Intellectual Properties.

(iii) **The Company** and **the Target Company** have not been engaged in or failed to be engaged in any conduct (including failure to pay any application fee, review fee, license fee, subsequent registration fee, maintenance fee, annual fee or similar fee, and failure to disclose any known prior technology related to the patent application process) with respect to waiver, abolishment, cancellation, forfeit, invalidation or unenforceability of any Intellectual Property which is reasonably expected to have a material effect on their business. **The Company** and **the Target Company** have taken all reasonable steps to protect their Intellectual Properties in accordance with the general industry practice and have at all times maintained the confidentiality of the information constituting the trade secrets of **the Company** and **the Target Company**.

(iv) There are no claims, disputes or legal proceedings that have occurred or may occur against **the Company** and **the Target Company** alleging infringement upon or unauthorized use of any Intellectual Property, trade secret, proprietary information or other similar rights. There are no claims, disputes or legal proceedings that have arisen or may arise challenging the ownership, use,

validity or enforceability of any Intellectual Property owned by or licensed exclusively to **the Company** and **the Target Company**. In addition, neither **the Company** nor **the Target Company** has received any notice or claim challenging any Intellectual Property owned by them in whole or in part. All rights that **the Company** and **the Target Company** have to the Intellectual Properties owned by them are valid and enforceable. The Intellectual Properties owned by or licensed to **the Company** and **the Target Company** are not subject to any outstanding order, judgment or decision restricting its use or licensing, which has not been held invalid or unenforceable in whole or in part, and to the knowledge of the Selling Shareholders, there is no possibility of being judged invalid or unenforceable. **The Company** and **the Target Company** have obtained all authorizations or licenses required for any business operation involving the Intellectual Properties of others. **The Company** and **the Target Company** have not infringed on Intellectual Properties, trade secrets, proprietary information or other similar rights of any other person in China.

(v) **The Target Company** assembles and sells the agent products in accordance with the relevant agreement documents entered into between the Target Company and the agents. The Target Company does not reverse engineer the Intellectual Properties of the agents, or infringe on the Intellectual Properties of the agents, or otherwise violate the provisions on the Intellectual Properties in those agreements.

(vi) Except for the two domain names which have not accomplished the ICP filings, other trademarks, patents, software copyrights and domain names owned by **the Company** and **the Target Company** have been formally registered or recorded in accordance with the Law. Any and all Intellectual Properties developed by **the Target Company** and/or its directors, supervisors and officers and/or its past and present employees in the course of their acts of duty for **the Target Company** are owned by **the Target Company**. There is no Intellectual Property in connection with the Main Business of **the Target Company** registered in the name of PEN Guohong or any of her **Affiliates** (including any **Entity** which the foregoing persons can directly or indirectly control or exert significant influence on in any way) or any of **the Target Company**'s directors, supervisors or officers (other than outside directors). By accepting the employment of **the Target Company** and engaging in the business activities of **the Target Company**, **the Target Company**'s directors, supervisors and officers have not violated any confidentiality agreement, non-compete agreement or similar document entered into by **the Target Company** respectively, nor does it constitute a violation of the legal rights of their former employers or other intellectual property holders. Each Selling Shareholder shall

be liable for the warranty obligations and liabilities for damages under this clause separately.

(vii) **The Company** and **the Target Company** have taken all appropriate measures to protect the confidentiality, integrity and security of their software, databases, systems and networks, as well as the confidentiality, integrity and security of the Internet sites, all users thereof, and all information stored or posted on or transmitted through such sites (including transactions), to protect the foregoing from any unauthorized use, access, interference or modification, including: use of reliable encryption tools (or equivalent method) to ensure security and integrity of the transactions implemented by software, adoption of reliable method (including password) to ensure precise identities of their users and customers, and adoption of all reasonable mechanisms to ensure enforceability of any transaction reached through their websites. **The Company** and **the Target Company** have complied with the applicable **Laws** and privacy policies that govern the privacy and related information of all online users and customers.

(viii) **The Selling Shareholders** shall not be liable for compensation for any Loss related to Intellectual Properties incurred by **the Company** or **the Target Company** due to **the Investor**.

(ix) **The Selling Shareholders** shall not be liable for attorney's fees, litigation costs, arbitration fees, notarization fees, and investigation fees etc. arising from the Intellectual Property Actions/arbitrations.

6. Contracts and Transactions

(a) Abnormal Agreements. At the date of signing the Agreement, **the Company** and **the Target Company** have no outstanding agreements as follows:

(i) any agreement not entered into for general and normal business and involving **the Company**'s and **the Target Company**'s expenses or revenues in excess of RMB five hundred thousand (RMB 500,000);

(ii) any agreement with **the Company**'s and **the Target Company**'s **Affiliates** that involves cumulative expenditure or income in excess of RMB three hundred thousand (RMB 300,000) in a single transaction or within any consecutive 12 months;

(iii) any agreement concluded and signed with any of **the Company**'s and **the Target Company**'s directors or officers involving payment or other consideration to such director or officer in excess of RMB five hundred thousand (RMB 500,000) in any given year (other than labor contract, employment agreements and

appointment documents signed with the officers or directors);

(iv) any joint venture, partnership or similar agreement with any other person involving sharing of profits, losses, costs or liabilities other than in the ordinary course of business;

(v) any agreement prohibiting or restricting **the Company** and **the Target Company** from (a) participating in any service of whatever form related to **the Main Business**; (b) competing with any person; or (c) entering into or extending the nature or geographical scope of their business anywhere in the world;

(vi) any agreement to acquire or dispose of the business or Assets of **the Company** and **the Target Company** after the date of signing **the Agreement** in excess of RMB five hundred thousand (RMB 500,000), other than in the ordinary course of business;

(vii) any agreement involving the provision to any person of the right of first refusal to purchase **Assets** or property of **the Company** and **the Target Company** in excess of RMB five hundred thousand (RMB 500,000); or

(viii) agreements, understandings, documents, **Contracts**, proposed transactions, judgments, or orders which materially affect the financial or business position of **the Company** and **the Target Company** in any material aspect outside the ordinary course of business (”**the Material Contracts**“).

(b) Validity of Contracts. **The Material Contracts** provided by **the Company** and **the Target Company** to **the Investor** in the course of due diligence shall constitute valid and binding obligations of **the Company** and **the Target Company**, enforceable against **the Company** and **the Target Company** in accordance with their respective terms (other than subject to bankruptcy) and in full force and effect, except where they are invalidated or unenforceable for reasons not solely attributable to **the Company** and **the Target Company**. There is no ongoing or to the knowledge of **the Company** and **the Target Company**, threatened cancellation of any such **Contract**, nor any default under any such **Contract**, nor any event which may constitute a default with notice or lapse of time or both, other than such ongoing or threatened cancellations, existing defaults or events which, either separately or collectively, have a non-material impact on the financial conditions, properties, business or performance results of **the Company** and **the Target Company** as a whole.

(c) There is no non-compete agreement or other similar undertaking to which **the Company** and **the Target Company** are parties that would impose restrictions on **the Investor** or any of its **Affiliates**.

7. Finance

(a) Financial Statements. **The Company** and **the Target Company** have duly prepared or delivered to **the Investor** copies of their management accounts as of March 31, 2021 ("**the Financial Statements Date**") (including the balance sheet, relevant statement of profit and loss for the year ended on **the Financial Statements Date**, statement of changes in owners' equity and statement of cash flows, including the notes to such statements (collectively, "**the Financial Statements**"). The management accounts have been prepared on a consistent basis in accordance with **the PRC** GAAP in effect from time to time except as set out in the notes, fairly reflecting the financial positions of **the Company** and **the Target Company** as of the Financial Statements Date in all material respects and the income statement, statement of changes in owner's equity and cash flow statement up to the Financial Statements Date.

(b) Financial Obligations. **The Company** and **the Target Company** have no **Debt**, liabilities, obligations or claims, whether or not of a contingent nature (collectively, "**the Relevant Liabilities**"), other than those set forth or provisions made therewith in the management accounts. However, the Relevant Liabilities exclude the relevant liabilities incurred by **the Company** and **the Target Company** since the Financial Statements Date in carrying out their general and normal business in a manner consistent with past practice and the relevant liabilities incurred by **the Company** and **the Target Company** since the Financial Statements Date outside of their general and ordinary business but which, individually or cumulatively, are not material to the financial conditions, properties, business or performance results of **the Company** and **the Target Company** as a whole.

(c) Financial Records. **The Company** and **the Target Company** have not set up any funds or **Assets** for any purpose that are not recorded in the books, records or the Financial Statements of **the Company** and **the Target Company**. In accordance with *the Accounting Law of the People's Republic of China* and the Enterprise Financial and Accounting Reports Regulations, the flow and use of funds involved in all operating activities, investment activities and financing activities of **the Company** and **the Target Company** shall be reflected in the accounting records provided by **the Company** and **the Target Company** (including but not limited to accounting vouchers, accounting books, the Financial Statements and other accounting information) truly, completely and accurately. Receipt and payment vouchers of **the Company** and **the Target Company** in all material respects are a true, complete and accurate reflection of the nature, amount and purpose of each payment received or paid by or on behalf of them, complying with the existing financial accounting system or other internal control procedures of **the Company** and **the Target Company**.

(d) External Guarantees. **The Company** and **the Target Company** have not provided any guarantee for anyone's **Debt**.

8. No Change

Except as otherwise required or contemplated under the Transaction Documents, since the Financial Statements Date, **the Company** and **the Target Company** have only been engaged in their general and normal business in accordance with their past practice and not involved in any material transaction other than the general and normal business in accordance with their past practice. In addition, (i) there is no **Material Adverse Effect** on financial conditions, business or performance results of **the Company** and **the Target Company** and no material change in their properties; (ii) **the Company** and **the Target Company** have not made any material changes to their accounting principles, practices or methods in accordance with **the PRC** GAAP; (iii) **the Company** and **the Target Company** have not declared any dividend or made other distributions to the shareholders; (iv) no changes have been made to **the Company** and **the Target Company**'s constitutional documents other than the Amended and Restated Articles of Association; (v) **the Company** and **the Target Company** have not sold any material **Assets**, nor have **the Company** and **the Target Company** acquired any person or any of its divisions or any material part thereof; (vi) **the Company** and **the Target Company** have not waived any **Debt** outside of their general and normal business; (vii) **the Company** and **the Target Company** have not issued any class of equities, shares, options, warrants or other rights to purchase equities or shares or securities convertible into or exchangeable for equities or shares; and (viii) there has been no liquidation, dissolution or winding up of **the Company** and **the Target Company**.

9. Taxes, Records and Tax Returns

(a) All material taxes payable by **the Company** and **the Target Company** (including taxes withheld by **the Company** and **the Target Company** in connection with the distribution of profits to its shareholders) have been paid or reserved in their accounts.

(b) **The Company** and **the Target Company** have filed all taxable incomes, costs, expenses and profits within the time limit required by *the Tax Law of the People's Republic of China* and the relevant rules and regulations and have provided all major tax-related information to be provided, including but not limited to, monthly or quarterly tax returns and statistical statements, annual enterprise income tax settlement, and annual industrial and commercial inspections. The Company and the Target Company have kept all records related to taxes in all material respects and timely complied with all reasonable requirements set forth in all notices issued to them by any tax authorities and all other requirements according to Law.

(c) **The Company** and **the Target Company** have not had any major tax related disputes with any tax authorities.

10. Operations

(a) There are no existing facts or circumstances which have adversely affected or might adversely affect **the Company**'s and **the Target Company**'s ability to conduct its business in the current manner or the manner proposed to adopt in all material respects.

(b) The Equity Transfer proposed by **the Agreement** will not cause any significant client, supplier of or any **Governmental Authority** in cooperation with **the Company** and **the Target Company** to cease any material transaction with **the Company** and **the Target Company**, and the validity of the relevant **Contracts** will not be affected by the transaction under **the Agreement**.

(c) Post Report Date Events. From the Financial Statements Date to the Closing Date:

(i) **the Company** and **the Target Company** have at all times maintained their going concerns in accordance with lawful, normal and customary business procedures, without any interruption or change in nature, scope or manner;

(ii) there have been no **Material Adverse Effect** on business, operations, financial conditions, assets or liabilities of **the Company** and **the Target Company**;

(iii) **the Company** and **the Target Company** have not defaulted on their **Debts** and have not been told to prepay;

(iv) Other than the sale or disposal of assets in the ordinary course of business, **the Company** and **the Target Company** have not purchased, sold, transferred or otherwise disposed of any **Asset** in a single transaction in excess of RMB two hundred thousand (RMB 200,000) or for a series of related transactions in excess of RMB five hundred thousand (RMB 500,000);

(v) **the Company** and **the Target Company** have had no capital expenditure or capital expenditure commitment beyond the annual capital plan in excess of RMB five hundred thousand (RMB 500,000);

(vi) **the Company** and **the Target Company** have not paid amount or benefit to their directors, officers or employees in salaries, bonuses, awards or other forms in excess of those paid or distributed to the aforesaid persons by **the Company** and **the Target Company** on the Financial Statements Date to increase their total salaries;

(vii) except for the purposes of Clauses 6.1.6 and 3.2.3.1 of **the Agreement**, **the Company** and **the Target Company** have not entered into any new employment contract with their

directors or officers, nor have they been bound by any contractual or other obligations to change the terms of service agreements of its directors, officers or employees prior to **the Equity Transfer** or at any other time;

(viii) **the Company** and **the Target Company** have not passed any resolution or taken other actions that resulted in a material reduction in the value of their net assets (a material reduction refers to a change in net asset value of more than 10% (inclusive)).

(ix) **the Company** and **the Target Company** have not adopted management or operating methods inconsistent with normal past business practices;

(x) **the Company** and **the Target Company** have not undergone any **Material Adverse Effect** on their business or prospects currently being performed or proposed to be performed, whether or not insured therefor;

(xi) **the Company** and **the Target Company** have not expressly waived all or part of any valuable right or claim;

(xii) **the Company** and **the Target Company** have not modified any **Material Contract** signed by them or to which they are bound;

(xiii) except for the purposes of Clauses 6.1.6 and 3.2.3.1 of **the Agreement**, **the Company** and **the Target Company** have had no directors, officers or Core Staff left office; and

(xiv) There has been no decrease in the value of tangible **Assets** of **the Company** and **the Target Company** (other than normal depreciation and amortization).

11. Labor

(a) There are no ongoing strikes or collective labor disputes between **the Company** or **the Target Company** and their respective employees.

(b) Outside the ordinary course of business, **the Company** and **the Target Company** have not materially changed any agreement or arrangement in the employment **Contract** of any director and employee, nor have they entered into any agreement obliging them to materially increase the compensation base and/or rates, and/or to provide other benefits in kind to directors or employees (other than normal holiday benefits to employees), except in compliance with Clauses 6.1.6 and 3.2.3.1 of **the Agreement**.

(c) **The Company** and **the Target Company** have not made outstanding loans or other advances to any employee (other than travel expenses, service fees and other advances

and employee benefits provided in the ordinary course of business).

(d) **The Company** and **the Target Company** have complied with all applicable **Laws** related to employment or labor relations, including taking the following actions promptly: (1) withholding the corresponding amounts required to be withheld from the employees of the group members by the applicable **Law**, and remitting the same to the competent government departments, including withholding and remitting individual income tax and the shares of social insurances payable by the employees of the group members (including pension insurance, medical insurance, work-related injury insurance, maternity insurance, unemployment insurance and housing provident fund, collectively, "**the Social Insurances**"); (2) paying all employee benefits required by the applicable **Law** to the competent government departments, including the corresponding shares of **the Social Insurances** and housing provident fund payable by **the Company** and **the Target Company**; and (3) paying to each employee of **the Company** and **the Target Company** all amounts required to be paid under the applicable labor **Laws** and labor terms applicable to such employee of the group, including all salaries, bonuses, benefits, severance payments, allowances and other emoluments payable to such employee, unless the relevant competent department has issued a certificate of no violation of laws and regulations.

(e) Neither **the Company** nor **the Target Company** shall, in accordance with any employment **Contract** or personnel service **Contract** concluded and signed by them, be liable for any outstanding material liability; make service payment or compensation, be subject to protective clauses or pay improper or unfair dismissal compensation, fail to comply with orders for reinstatement or re-employment of any employee; or assume any other liability arising from the termination of the employment or service contract.

(f) There are no pending or (to the knowledge of **the Selling Shareholders**) imminent strikes involving **the Company** or **the Target Company** arising in the ordinary course of business, except those that will not cause a **Material Adverse Effect**.

(g) To the knowledge of **the Selling Shareholders**, **the Company** and **the Target Company** have complied in all material respects with all applicable equal employment opportunity laws and other employment-related laws.

12. Affiliates and Related-party Transactions

(a) **The Company** and **the Target Company** and **the Selling Shareholders** have truthfully and accurately disclosed the main **Affiliates** of **the Company** and **the Target Company** and all material related-party transactions in the appropriate form. Neither **the Company** nor **the Target Company** has any other major **Affiliate** within or outside **the PRC**, nor have they conducted any other material related-party transaction of any

type or amount.

(b) **None of the Selling Shareholders**: (i) have any direct or indirect financial interest in any competitor, supplier or customer of **the Company** and **the Target Company**, or directly or indirectly own, or have any other property interest in, all or any part of, tangible or intangible properties of **the Company** and **the Target Company** that are used or have been used in the conduct of the business or otherwise; (ii) is not engaged in a competitive business; or (iii) is a shareholder, director, employee, adviser, representative or agent of any of the foregoing entities.

(c) None of the shareholders, officers or directors of **the Company** and **the Target Company**, and **Relatives** or other **Affiliates** of any shareholder holding more than 5% of the equities, any officer or any director of **the Company** and **the Target Company**, owes any liability to **the Company** and **the Target Company**. Neither **the Company** nor **the Target Company** owes any liability to any shareholder, officer or director of **the Company** or **the Target Company** or to any **Relative** or any other **Affiliate** of any shareholder holding more than 5% of the equities, any officer or any director of **the Company** and **the Target Company** (there is also no commitment to extend loans or credits to them, or to guarantee any credit extended to them), other than the following **Debts**: (1) payment of emoluments or remunerations for services rendered; (2) reimbursement of reasonable expenses incurred for **the Company** and **the Target Company**; and (3) other standard employee benefits generally available to all employees of **the Company** and **the Target Company**.

13. Claims and Procedures

(a) No Action. None of **the Company**, **the Target Company** and **the Selling Shareholders** has participated in or have been notified of being a subject to any litigation, arbitration or administrative or criminal proceeding (collectively, "**the Actions**") which has adversely affected or may adversely affect the operations of **the Company** and **the Target Company**, whether as plaintiff, defendant or otherwise. None of **the Company**, **the Target Company**, **the Selling Shareholders**, directors and legal representatives or officers of **the Company** and **the Target Company**, has participated in or been notified of being a subject to any **Action** which has adversely affected or may adversely affect the operations of **the Company** and **the Target Company**, whether as plaintiff, defendant or otherwise. There is no fact or circumstance which may cause any **Action** against any shareholder, equity holder, director or legal representative or any officer of **the Company**, **the Target Company** and **the Selling Shareholders** in respect of any claim brought against **the Company** and **the Target Company**, which have adversely affected or may adversely affect the operations of **the Company** and **the Target Company**.

(b) No Pending Action. There is neither pending **Action** that adversely affects the operations of **the Company** and **the Target Company**, nor pending or threatened **Action** against any **Affiliate** of **the Company** or **the Target Company**. **The Company**, **the Target Company** and **the Selling Shareholders** have not been aware of any fact or circumstance which might result in any **Action** brought against **the Company** and **the Target Company** adversely affecting the operations of **the Company** and **the Target Company** in any material aspect, while such fact or circumstance may give rise to claims against **the Company** and **the Target Company**.

(c) No Insolvency. No order has been made and no resolution has been passed to dissolve **the Company** or **the Target Company** by winding-up or liquidation. There is no seizure, enforcement or other proceeding against all or a substantial portion of **the Assets** of **the Company** and **the Target Company**. **The Company** and **the Target Company** have not been insolvent or unable to pay their due **Debts**.

(d) No Investigation, Inquiry or Administrative Punishment. No business engaged in by **the Company** and **the Target Company** is subject to any investigation, inquiry or administrative punishment by any **Governmental Authority** which may adversely affect **the Company** and **the Target Company** in any material aspect, nor is there any fact which may give rise to any such investigation, inquiry or administrative punishment. If any such fact occurs between **the Signing Date** and **the Closing Date**, a written report shall be made to **the Investor** as soon as possible.

14. Disclosure

(a) Due Diligence Information. The information in the written documents provided to **the Investor** and any of its advisers prior to the date of signing of **the Agreement** is true, accurate, complete and non-misleading in all material respects; provided however that, if the representations and warranties in this section are covered by other representations and warranties in the Agreement, the representations and warranties in this section shall not entitle **the Investor** to obtain indemnity more than once for the same breach.

(b) Books and Records. All material files, documents, instruments, notes, books and records ("**the Books and Records**") relating to the business, operations, future **Assets**, **Debts**, conditions (financial or otherwise) or operating performances of **the Company** and **the Target Company** provided to **the Investor** on **the Closing Date** are true, accurate and complete in all material respects, which are kept in accordance with business practice.

(c) Information. No representation, warranty or statement made in **the Agreement** or in any schedule, appendix, statement or certificate provided to **the Investor** pursuant to the Agreement contains a misrepresentation of any material matter, nor is there any

omission of material facts necessary to make any representation in **the Agreement** not misleading in respect of the circumstances under which such representations, warranties or statement are made.

15. “Sophisticated Investor” Clause

Each **Selling Shareholder** has sufficient financial and commercial knowledge and experience to evaluate any risks involved in **the Equity Transfer**.

Each **Selling Shareholder** has been provided with a copy set of the Transaction Documents and have sufficient understanding of the structure of **the Equity Transfer**, including but not limited to the basis and intent of each Transaction Documents to which it is a party and the Equity Transfer. It is further confirmed that the structure of the proposed transaction and the execution of the relevant Transaction Documents are reasonable, common in similar transactions and beneficial to **the Selling Shareholders**. Such Transaction Documents conform to the intentions and objectives of **the Selling Shareholders** and are necessary to achieve the benefits of the proposed transaction and to accomplish the purposes described in the Transaction Documents.

Each **Selling Shareholder** shall be fully aware of all terms, conditions, limitations and agreements set forth in the Transaction Documents.

No **Selling Shareholder** has been induced by fraud, manipulation, legal fiction, fiction, fabrication or other deceptive means to obtain the proceeds of the proposed transaction, or to enter into any such Transaction Documents, or to participate in any such transaction.

Schedule 4. Warranties of the Investor

1. **Establishment and Authorization**

   The Investor is a company duly organized, validly existing and in good standing under **the Laws** of the jurisdiction in which it is incorporated, with full corporate power and authority to own, lease and operate its properties and to carry out its business as currently conducted and proposed to be conducted; **the Investor** has legal qualifications to carry out its business and operates well in each jurisdiction in which it carries out business. The execution and delivery of **the Agreement** and the completion of the transaction of the transaction contemplated by **the Agreement** have duly and validly completed all necessary actions of **the Investor**, and it is not required for **the Investor** to fulfill other procedures to approve **the Agreement** or completion of the transaction contemplated by **the Agreement**. **The Investor** has full authorizations to enter into **the Agreement** and **the Transaction Documents** and each document constitutes (or will constitute if executed and delivered by **the Investor**) legal, valid and binding obligations, enforceable against **the Investor** in accordance with its terms, unless (i) subject to any applicable bankruptcy, liquidation, reorganization, suspension of production or other **Laws** generally affecting the rights of creditors; or (ii) subject to **the Laws** relating to the availability of specific performance, injunctive relief or other statutory relief.

2. **No Conflict**

   Execution, delivery and performance of **the Agreement** and **the Transaction Documents** and completion of the transaction contemplated by **the Agreement**, will not result in a breach of **the Investor**'s articles of association, or any provision, document, judgment, order, decree or **Contract** (as applicable) to which **the Investor** is a party or to which **the Investor** or its **Assets** are bound, which would constitute a default under or in conflict with any of the foregoing, other than any violation of **the Laws** relating to antitrust or concentration of undertakings.

3. **Source of Acquisition Fund**

   The acquisition of **the Target Equities** is legitimately funded by **the Investor**.

Schedule 5. The Disclosure Schedule

Schedule 6. Handover List

Schedule 7. Address and Contact Information of Each Party

Beijing So-Young Technology Co., Ltd.:

Address: Tower E, Ronsin Technology Center, Laiguangying, Chaoyang District, Beijing

Contact: GUO Jiyuan

Tel: ***

Email：***

The Company:

Address: 3/F, Building 7, Future Light, No.3 Optics Valley Avenue, Wuhan

Contact: PENG Guohong

Tel: ***

Email: ***

Selling Shareholder 1 to Selling Shareholder 13:

***

Schedule 8. List of Directors, Supervisors and Officers in the Reorganization

Schedule 9. Core Qualifications

Schedule 10. Core Staff

Schedule 11. Documents to be Delivered at the Closing

Schedule 12. Core Products

Schedule 13. Equity Transfer of Minority Shareholders

No.	Name of Minority Shareholder	Quantity Sold	Proportions in the Equities of the Target Company
1	Shanghai Laishuo Investment Partnership (L.P.)	4,000,000	6.67%
2	Wuhan Chushang Capital Selected Equity Investment Fund Center (L.P.)	3,470,000	5.78%
3	Hubei Gaojin Biotechnology Venture Capital Fund Partnership (L.P.)	3,000,000	5.00%
4	Zhongyu Hongshang (Wuhan) Equity Investment Center (L.P.)	2,940,000	4.90%
5	Wuhan Cybernaut Women Venture Capital Fund Partnership (L.P.)	1,200,000	2.00%
6	Wuhan Optical Valley Talents Innovation Investment Partnership (L.P.)	1,000,000	1.67%
7	Zhongyu Fubang (Wuhan) Equity Investment Center (L.P.)	1,000,000	1.67%
8	Ningbo Meishan Bonded Port Area Baodingying Equity Investment Partnership (L.P.)	800,000	1.33%
9	WANG Jialin	700,000	1.17%
10	Shenzhen Yanghe Biopharmaceutical Industry Investment Co., Ltd.	683,000	1.14%
11	Jilin Saijin Equity Investment Fund Partnership (L.P.)	600,000	1.00%
12	YU Rong	500,000	0.83%
13	XIA Renfeng	500,000	0.83%
14	Zhejiang Rushan Huixin Venture Capital Partnership (L.P.)	420,000	0.70%
15	Shenzhen Zhiyouge Assets Management Co., Ltd.	416,000	0.69%
16	JI Zhaohui	300,000	0.50%
17	Wuhan Booth Investment Information Co., Ltd. – Chengdu Feiran Yuantong II Equity Investment Fund Partnership (L.P.)	280,000	0.47%
18	ZHANG Ke	240,000	0.40%
19	WENG Xueping	191,700	0.32%
20	Zhuji Rushan Huiying Venture Investment Partnership (L.P.)	180,000	0.30%
21	LIAN Qingming	167,000	0.28%

22	LI Xiaoming	167,000	0.28%
23	SU Cailong	167,000	0.28%
24	LIU Wen	160,000	0.27%
25	LI Lu	42,000	0.07%
26	CHE Hongwei	68,000	0.11%
27	ZHAO Gang	3,000	0.01%

Exhibit 8.1

Principal subsidiaries and consolidated affiliated entities of the Registrant

Subsidiaries	Place of Incorporation
So-Young Hong Kong Limited	Hong Kong
Beijing So-Young Wanwei Technology Consulting Co., Ltd.	PRC
Wuhan Miracle Laser System, Inc.	

VIEs	Place of Incorporation
Beijing So-Young Technology Co., Ltd.	PRC
Beijing Chiyan Medical Beauty Consulting Co., Ltd.	PRC

VIEs' Subsidiaries	Place of Incorporation
Beijing So-Young Souyang Investment Management Co., Ltd.	PRC
Beijing So-Young Qingyang Medical Device Co., Ltd.	PRC
Beijing Shengshi Meiyan Culture Co., Ltd.	PRC

Exhibit 12.1

Certification by the Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Xing Jin , certify that:

1. I have reviewed this annual report on Form 20-F of So-Young International Inc.;

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 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 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: May 2, 2022

By: /s/ Xing Jin
Name: Xing Jin
Title: Chief Executive Officer

Exhibit 12.2

Certification by the Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Min Yu, certify that:

1. I have reviewed this annual report on Form 20-F of So-Young International Inc.;

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 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 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: May 2, 2022

By: /s/ Min Yu
Name: Min Yu
Title: Chief Financial Officer

Exhibit 13.1

Certification by the Principal Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of So-Young International Inc. (the "Company") on Form 20-F for the year ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Xing Jin, 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: May 2, 2022

By: /s/ Xing Jin
Name: Xing Jin
Title: Chief Executive Officer

Exhibit 13.2

Certification by the Principal Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of So-Young International Inc. (the “Company”) on Form 20-F for the year ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Min Yu, 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: May 2, 2022

By: /s/ Min Yu
Name: Min Yu
Title: Chief Financial Officer

Exhibit 15.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No.333-232109 and No. 333-259708) of So-Young International Inc. of our report dated May 2, 2022 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 20-F.

/s/PricewaterhouseCoopers Zhong Tian LLP

Beijing, the People's Republic of China
May 2, 2022

Exhibit 15.2

澄明律师 CM Law Firm 021-52526819 www.cm-law.com.cn 2805, Phase II, Plaza 66, 1366 West Nanjing Road, Shanghai

Date: May 2, 2022

So-Young International Inc.

Tower E, Ronsin Technology Center

Chaoyang District, Beijing

People's Republic of China

Dear Sir/Madam:

We hereby consent to the reference to our firm and the summary of our opinion under the headings, "Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure", "Item 4. Information on the Company—B. Business Overview—Regulations", "Item 4. Information on the Company—C. Organizational Structure" and "Item 10. Additional Information—E. Taxation—PRC Taxation" in So-Young International Inc.'s Annual Report on Form 20-F for the year ended December 31, 2021 (the "**Annual Report**"), which will be filed with the Securities and Exchange Commission (the "**SEC**") in the month of May 2022, and further consent to the incorporation by reference of the summary of our opinion under these headings into the Registration Statement on Form S-8 (File No. 333-232109 and No. 333-259708) pertaining to So-Young International Inc.'s Second Amended and Restated 2018 Share Plan and 2021 Share Incentive Plan. 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.

Yours Sincerely,

/s/ CM Law Firm

CM Law Firm

Our ref RDS/752169-000001/23483132v2
Direct +852 2971 3046
Email richard.spooner@maples.com

So-Young International Inc.
Tower E, Ronxin Technology Center Chaoyang District, Beijing
People's Republic of China

2 May 2022

Dear Sir

Re: So-Young International Inc.

We have acted as legal advisers as to the laws of the Cayman Islands to So-Young International Inc., an exempted company with limited liability incorporated in the Cayman Islands (the "**Company**"), in connection with the filing by the Company with the United States Securities and Exchange Commission (the "**SEC**") of an annual report on Form 20-F for the year ended 31 December 2021 (the "**Annual Report**"), which will be filed with the SEC in the month of May 2022.

We consent to the reference to our firm under the heading "Item 10. Additional Information—E. Taxation—Cayman Islands Taxation" in the Annual Report, and further consent to the incorporation by reference into the Registration Statements on Form S-8 (File No.: 333-232109 and 333-259708) filed on 14 June 2019 and 22 September 2021 respectively of the summary of our opinion under the heading "Item 10. Additional Information—E. Taxation— Cayman Islands Taxation" in the Annual Report. We also consent to the filing with the SEC of this consent letter 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.

Yours faithfully

/s/ Maples and Calder (Hong Kong) LLP
Maples and Calder (Hong Kong) LLP

Maples and Calder (Hong Kong) LLP
26th Floor Central Plaza 18 Harbour Road Wanchai Hong Kong
Tel +852 2522 9333 Fax +852 2537 2955 **maples.com**

Resident Hong Kong Partners: Everton Robertson (Cayman Islands), Michelle Lloyd (Ireland), Aisling Dwyer (British Virgin Islands)
Ann Ng (Victoria (Australia)), John Trehey (New Zealand), Matthew Roberts (Western Australia (Australia)), Nick Harrold (England and Wales)
Terence Ho (New South Wales (Australia)), L.K. Kan (England and Wales), W.C. Pao (England and Wales), Richard Spooner (England and Wales), Sharon Yap (New Zealand)
Nick Stern (England and Wales), Juno Huang (Queensland (Australia)), Karen Pallaras (Victoria (Australia)), Joscelyne Ainley (England and Wales), Andrew Wood (England and Wales)

Non-Resident Partners: Jonathan Green (Cayman Islands), Kieran Walsh (Cayman Islands)

Cayman Islands Attorneys at Law | British Virgin Islands Solicitors | Irish Solicitors