

**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, 2024

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

Commission file number: 001-39902

RLX Technology 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)

**35/F, Pearl International Financial Center
No. 9 Jian'an First Road, Financial Street
Third District, Bao'an District
Shenzhen, Guangdong Province 518101
People's Republic of China**

(Address of principal executive offices)

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

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

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

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

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

None

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

None

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, 2024, there were 1,570,790,570 ordinary shares outstanding (including 352,346,961 shares that consist of treasury shares held by our depositary bank and shares held by our ESOP platforms for future exercise of share option awards granted under our share incentive plans), par value US\$0.00001 per share, being the sum of 1,262,075,580 Class A ordinary shares and 308,714,990 Class B ordinary shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

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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, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

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.

Yes No

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

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INTRODUCTION

Unless otherwise indicated or the context otherwise requires, references in this annual report to:

- “Acting-In-Concert Undertakings” refer to the Founders’ Acting-In-Concert Undertakings and the Minority Shareholders’ Acting-In-Concert Undertakings;
- “ADRs” refers to the American depositary receipts evidencing the ADSs;
- “ADSs” refers to the American depositary shares, each of which represents one Class A ordinary share;
- “China” or “PRC”, unless otherwise specified herein, refers to the People’s Republic of China, and only in the context of describing PRC laws, regulations and other legal or tax matters in this annual report, excludes Taiwan, Hong Kong, and Macau;
- “Class A ordinary shares” refers to our Class A ordinary shares, par value US\$0.00001 per share;
- “Class B ordinary shares” refers to our Class B ordinary shares, par value US\$0.00001 per share;
- “CAC” refers to the Cyberspace Administration of China;
- “CSRC” refers to the China Securities Regulatory Commission;
- “Founders’ Acting-In-Concert Undertakings” refer to a series of acting-in-concert undertakings entered into on October 19, 2022 among RLX Technology Inc., Leo Valley Holding Limited, Ms. Ying (Kate) Wang, on the one hand, and each of Mr. Long (David) Jiang and Longtian Holding Limited, Mr. Yilong Wen and StarryInv Holding Limited, and certain minority shareholders of RLX Technology Inc., on the other hand;
- “KRW” refers to Korean won, the legal currency of South Korea;
- “Minority Shareholders’ Acting-In-Concert Undertakings” refer to an acting-in-concert undertakings entered into on December 21, 2023 among RLX Technology Inc., Leo Valley Holding Limited, Ms. Ying (Kate) Wang, on the one hand, and certain minority shareholders of RLX Technology Inc., on the other hand;
- “MOFCOM” refers to the Ministry of Commerce;
- “NDRC” refers to the National Development and Reform Commission;
- “North Asia Business” refers to our business operation conducted through SS North Asia Holding Limited, a well-known e-vapor company in North Asia which offers e-vapor products. We acquired SS North Asia Holding Limited by entering into a share purchase agreement with SS North Asia Holding Limited and its shareholder, and the transaction was closed in December 2023;
- “NYSE” refers to the New York Stock Exchange;
- “ordinary shares” refers to our Class A and Class B ordinary shares, par value US\$0.00001 per share;
- “our WFOE” refers to Beijing Yueke Technology Co., Ltd.;
- “Restructuring” refers to the establishment of RLX Technology Inc., the transfer of the offshore holding company holding Relx Inc.’s business in China from Relx Inc. to RLX Technology Inc., and our issuance of an additional 143,681,555 ordinary shares concurrently with deemed settlement of amount due to Relx Inc. of RMB600 million provided to us as capital support in the form of advances, each of those shares was subdivided into ten ordinary shares as a result of the 10 for 1 share subdivision effected by us on January 11, 2021;

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- “RMB” and “Renminbi” refer to the legal currency of China;
- “SAFE” refers to the State Administration of Foreign Exchange of China;
- “the consolidated VIE” and “the consolidated variable interest entity” refer to Beijing Wuxin Technology Co., Ltd. The consolidated VIE and its subsidiaries are domestic PRC companies in which we do not have any equity ownership but whose financial results have been consolidated into our consolidated financial statements based solely on contractual arrangements in accordance with U.S. GAAP. See “Item 4. Information on the Company—C. Organizational Structure” for an illustrative diagram of our corporate structure;
- “US\$,” “U.S. dollars,” “\$,” and “dollars” refer to the legal currency of the United States;
- “we,” “us,” “our company,” “the company,” “Group” and “our”, (i) prior to the completion of the Restructuring, refer to the business operated by Relx Inc. inside China, (ii) after the completion of the Restructuring, refer to RLX Technology Inc., a Cayman Islands holding company and its subsidiaries, and (iii) in the context of describing operations related to our consolidated financial statements and our consolidated financial information, risk factors and financial results, also include the consolidated VIE and its subsidiaries; and
- “2021 Plan” refers to 2021 Share Incentive Plan.

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 RMB7.2993 to US\$1.00, the exchange rate in effect as of December 31, 2024 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.

FORWARD-LOOKING INFORMATION

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

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

- our mission, goals and strategies;
- our future business development, financial condition and results of operations;
- the expected growth of the global e-vapor industry;
- our expectations regarding demand for and market acceptance of our e-vapor products;
- our expectations regarding our relationships with users, distributors, retailers, suppliers, manufacturers and other partners;
- competition in our industry;
- our proposed use of proceeds;
- our licenses, approvals and permits obtained and products approved; 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 this annual report and the documents that we refer to thoroughly with the understanding that our actual future results may be materially different from and worse than what we expect. We qualify all of our forward-looking statements by these cautionary statements.

This annual report contains certain data and information that we obtained from various government and private publications. Statistical data in these publications also include projections based on a number of assumptions. The e-vapor industry may not grow at the rate projected by market data, or at all. Failure of this market to grow at the projected rate may have a material and adverse effect on the business of us and the consolidated VIE and the market price of the ADSs. In addition, the rapidly evolving nature of this industry results in significant uncertainties for any projections or estimates relating to the growth prospects or future condition of our market. Furthermore, if any one or more of the assumptions underlying the market data are later found to be incorrect, actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements.

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

PART I.

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

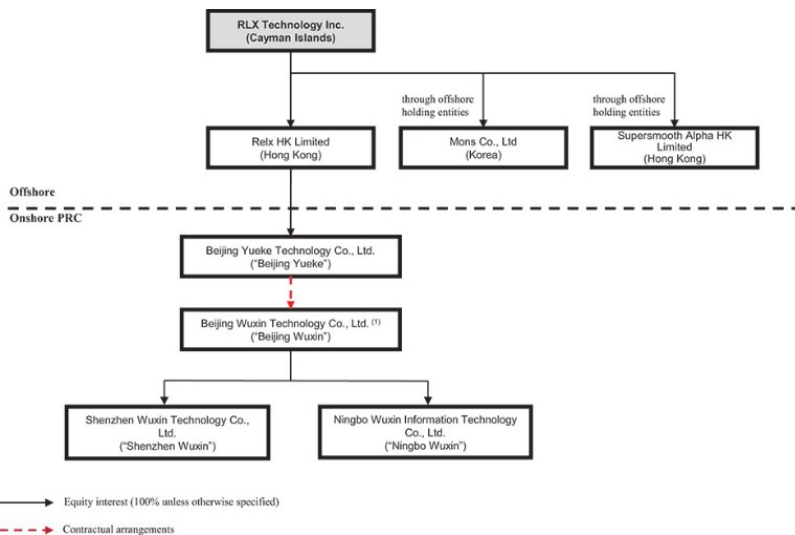
Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Our Holding Company Structure and Contractual Arrangements with the Consolidated Variable Interest Entity

The following diagram illustrates our corporate structure as of the date of this annual report, including our principal subsidiaries, the variable interest entity and its principal subsidiaries:



Note:

- (1) Beijing Wuxin Technology Center (Limited Partnership) and Tianjin Wuxin Technology Partnership (Limited Partnership) each holds 86.77% and 13.23% of the equity interests in Beijing Wuxin, respectively. Ms. Ying (Kate) Wang and Mr. Bing Du each holds 93.635% and 6.365% of the partnership interests in Beijing Wuxin Technology Center (Limited Partnership), respectively. Ms. Ying (Kate) Wang and Mr. Bing Du each holds 1.00% and 99.00% of the partnership interests in Tianjin Wuxin Technology Partnership (Limited Partnership), respectively. Ms. Wang is a beneficial owner and co-founder of our company and serves as the chairperson of our board of directors and the chief executive officer of our company. Mr. Du is a beneficial owner of our company. For details of the contractual arrangements between Beijing Wuxin and Beijing Yueke, see “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with the Consolidated Variable Interest Entity and its Shareholders.”

RLX Technology Inc. is a Cayman Islands holding company. It does not conduct business operations directly in China and it does not have equity ownership in the consolidated variable interest entity in China. Rather, we conduct operations in China through (i) our PRC subsidiaries and (ii) the consolidated VIE with which we have maintained contractual arrangements and its subsidiaries. As advised by our PRC legal counsel, Han Kun Law Offices, according to the Several Policies and Measures in Relation to Promoting the Legalization and Standardization of the E-cigarettes Industry (for Trial Implementation), or the E-cigarettes Industrial Policies and Measures (for Trial Implementation), which were issued by the State Tobacco Monopoly Administration on April 25, 2022 and came into effect on the same day, the Administrative Rules on the Examination and Approval of the Establishment of Foreign-invested E-cigarette-related Manufacturing Enterprises, which were issued by the State Tobacco Monopoly Administration on September 2, 2022 and came into effect on the same day, and the Administrative Rules on the Import and Export Trade and Foreign Economic and Technical Cooperation of E-cigarettes, which were issued by the State Tobacco Monopoly Administration on October 12, 2022 and came into effect on the same day, and the Special Administrative Measures (Negative List) for Foreign Investment Access (2024 Version), foreign investors are prohibited from investing in the wholesale or retailing business of e-vapor products, and foreign investment in the production of e-vapor products is subject to regulatory approval. In addition, according to the Special Administrative Measures (Negative List) for Foreign Investment Access (2024 Version), the value-added telecommunications services conducted through the consolidated VIE and its subsidiaries are also subject to foreign investment restrictions. We are a Cayman Islands holding company, and our PRC subsidiaries are considered foreign-invested enterprises. Accordingly, our PRC subsidiaries are not eligible to conduct the businesses that are subject to such foreign investment restrictions under PRC laws and regulations. In line with common practice in industries in the PRC subject to foreign investment restrictions, our businesses in China are operated through the consolidated VIE and its subsidiaries, and we rely on contractual arrangements among our PRC subsidiaries, the consolidated VIE and its shareholders to direct activities of the consolidated VIE. The consolidated VIE is consolidated for accounting purposes, but is not an entity in which our Cayman Islands holding company, or our investors, own equity. Our company and shareholders may never hold equity interests of the consolidated VIE and its subsidiaries so long as such foreign investment restrictions remain in effect under PRC laws and regulations. Though the Foreign Investment Law does 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 in the future. If the VIE were deemed as foreign-invested enterprise under any such future laws, administrative regulations or provisions and any of the business of us and the consolidated VIE were included in any negative list or other form of restrictions on foreign investment, we may need to take further actions to comply with such future laws, administrative regulations or provisions. Such actions may have a material and adverse impact on the business, financial condition, result of operations and prospects of us and the consolidated VIE. For more details, see “—D. Risk Factors—Risks Relating to Our Corporate Structure—The interpretation and implementation of the Foreign Investment Law may be subject to changes from time to time, and it remains to be seen how it may impact the viability of our current corporate structure, corporate governance and operations.” Revenues contributed by the consolidated variable interest entity accounted for all our total revenues for the year of 2022, and a significant portion of our total revenues for the years of 2023 and 2024. RLX Technology Inc. also conducts business outside China through its subsidiaries.

As used in this annual report, “we,” “us,” “our company” and “our” refer to RLX Technology Inc., our Cayman Islands holding company and its subsidiaries, and, in the context of describing operations related to our consolidated financial statements and our consolidated financial information, risk factors and financial results, also include the consolidated variable interest entity Beijing Wuxin Technology Co., Ltd. and its subsidiaries.

Investors in our ADSs are not purchasing equity interest in the consolidated VIE in China, but instead are purchasing equity interest in a holding company incorporated in the Cayman Islands. This VIE structure involves unique risks to investors, and investors may never directly hold equity interests in the Chinese operating company. See “—D. Risk Factors—Risks Relating to Our Corporate Structure.”

A series of contractual agreements, including exclusive business cooperation agreement, power of attorney, equity interest pledge agreements, exclusive option agreement, and exclusive assets option agreement have been entered into by and among our subsidiaries, the consolidated VIE and its shareholders. Our Cayman Islands holding company and its subsidiaries do not have legal majority ownership in the VIE, but depend on these contractual arrangements to provide our subsidiaries with a “controlling financial interest” in the consolidated VIE, as defined in FASB ASC 810, making it the primary beneficiary of the consolidated VIE for accounting purposes. Terms contained in these contractual arrangements with the consolidated VIE and their respective shareholders are substantially similar, which enable us to (i) have power to direct activities of the consolidated VIE that most significantly affect the economic performance of the consolidated VIE, and (ii) receive the economic benefits from the consolidated VIE that could be significant to the consolidated VIE. However, neither RLX Technology Inc. nor its investors have an equity ownership in, direct foreign investment in, or control through such ownership or investment of, the consolidated VIE, and the VIE contractual arrangements are not equivalent to an equity ownership in the business of the VIE. As of the date of this annual report, the contractual arrangements with the consolidated VIE have not been tested in a court of law. The contractual arrangements may be less effective than direct ownership and our company may incur substantial costs to enforce the terms of the arrangements. See “—D. Risk Factors—Risks Relating to Our Corporate Structure” for more detailed information.

As advised by our PRC legal counsel, Han Kun Law Offices, subject to the disclosure in this annual report, the terms of the contractual arrangements are valid, binding and enforceable under the PRC laws and regulations currently in effect. Despite the lack of legal majority ownership, our Cayman Island holding company consolidates the consolidated variable interest entity as required by Accounting Standards Codification topic 810, Consolidation. Accordingly, we treat the consolidated variable interest entity and its subsidiaries as our consolidated entities under U.S. GAAP and we consolidate the financial results of operations, assets and liabilities of the consolidated variable interest entity and its subsidiaries in our consolidated financial statements in accordance with U.S. GAAP. For more details of these contractual arrangements, see “Item 4. Information on the Company—A. History and Development of the Company.”

However, the contractual arrangements may not be as effective as direct ownership in providing us with control over the consolidated VIE, and we may incur substantial costs to enforce the terms of the arrangements. Changes in the regulatory environment in China may limit our ability, as a Cayman Islands holding company, to enforce these contractual arrangements. Meanwhile, there are very few precedents as to whether contractual arrangements would be judged to form effective control over the consolidated variable interest entity through the contractual arrangements, or how contractual arrangements in the context of a consolidated variable interest entity 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 variable interest entity 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 variable interest entity, and our ability to conduct the business of us and the consolidated VIE may be materially adversely affected. See “—D. Risk Factors—Risks Relating to Our Corporate Structure—Any failure by the consolidated VIE or its shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on the business of us and the consolidated VIE” and “—D. Risk Factors—Risks Relating to Our Corporate Structure—The shareholders of the consolidated VIE may have potential conflicts of interest with us, which may materially and adversely affect the business of us and the consolidated VIE.”

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 VIE and its 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 the consolidated VIE is found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take actions in dealing with such violations or failures. The relevant PRC regulatory authorities could disallow the variable interest entity structure, which would likely result in a material change in the operations of our company. The related risks and uncertainties could cause the value of our ADSs to significantly decline or become worthless. See “—D. Risk Factors—Risks Relating to Our Corporate Structure—Any failure by the consolidated VIE or its shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on the business of us and the consolidated VIE.”

Our corporate structure is subject to risks associated with our contractual arrangements with the consolidated VIE. If the PRC government deems that our contractual arrangements with the consolidated VIE do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations are amended or interpreted differently in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations. Our holding company, our subsidiaries and the consolidated variable interest entity, 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 variable interest entity and, consequently, significantly affect the financial performance of the consolidated variable interest entity and our company as a whole. 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 Relating to Our Corporate Structure.”

We face various risks and uncertainties related to doing business in China. The business operations of us and the consolidated VIE 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, which may impact our ability to conduct certain businesses, accept foreign investments, or list on a United States or other foreign exchange. These risks could result in a material adverse change in the operations of us and the consolidated VIE 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 relating to doing business in China, please refer to risks disclosed under “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China.”

PRC government’s significant authority in regulating the operations of ours and the consolidated VIE and its oversight 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, including data security or anti-monopoly related regulations, may cause the value of such securities to significantly decline. For more details, see “—D. Risk Factors—Risks Relating to Doing Business in China—The business of us and the consolidated VIE is subject to complex and evolving PRC laws and regulations regarding data privacy and cybersecurity. Failure to protect confidential information of our users, business partners and network against security breaches could damage our reputation and brand and substantially harm the business and results of operations of us and the consolidated VIE” and “—D. Risk Factors—Risks Relating to Doing Business in China—We may be subject to the approval, filing or other requirements of the CSRC or other PRC governmental authorities in connection with future capital raising activities.”

Changes in the regulatory environment 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 the operations of us and the consolidated VIE and the value of our ADSs. For more details, see “—D. Risk Factors—Risks Relating to Doing Business in China—Failure to respond to changes in the regulatory environment in China could materially and adversely affect us.”

The Holding Foreign Companies Accountable Act

Pursuant to the Holding Foreign Companies Accountable Act, or the HFCAA, if the Securities and Exchange Commission, or the SEC, determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspections by the Public Company Accounting Oversight Board (United States), or the PCAOB, for two consecutive years, the SEC will prohibit our shares or the ADSs from being traded on a national securities exchange or in the over-the-counter trading market in the United States. On December 16, 2021, the PCAOB issued a report to notify the SEC of its determination that the PCAOB was unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong, including our auditor. In May 2022, the SEC conclusively listed us as a Commission-Identified Issuer under the HFCAA following the filing of this annual report on Form 20-F for the fiscal year ended December 31, 2021. On December 15, 2022, the PCAOB issued a report that vacated its December 16, 2021 determination and removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. For this reason, we do not believe we are at risk of having our securities subject to a trading prohibition under the HFCAA unless a new determination is made by the PCAOB. However, the PCAOB will determine annually whether it can inspect and investigate completely audit firms in mainland China and Hong Kong, among other jurisdictions. If PCAOB determines in the future that it no longer has full access to inspect and investigate completely accounting firms in mainland China and Hong Kong and we continue to use an accounting firm headquartered in one of these jurisdictions to issue an audit report on our financial statements filed with the SEC, we would be identified as a Commission-Identified Issuer following the filing of the annual report on Form 20-F for the relevant fiscal year. There can be no assurance that we would not be identified as a Commission-Identified Issuer for any future fiscal year, and if we were so identified for two consecutive years, we would become subject to the prohibition on trading under the HFCAA. For details, see “—D. Risk Factors—Risks Relating to Doing Business in China—The PCAOB had historically been unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections of our auditor in the past has deprived our investors with the benefits of such inspections” and “—D. Risk Factors—Risks Relating to Doing Business in China—Our ADSs may be prohibited from trading in the United States under the HFCAA in the future if the PCAOB is unable to inspect or investigate completely auditors headquartered in mainland China and Hong Kong. The delisting of the ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment.”

Permissions Required From the PRC Authorities for the Operations of Us and the Consolidated VIE

We conduct business primarily through our subsidiaries and the consolidated variable interest entity. The operations of us and the consolidated VIE in China are governed by PRC laws and regulations. On March 11, 2022, the State Tobacco Monopoly Administration issued the Administrative Measures for E-Cigarettes, or the E-Cigarettes Administrative Measures, which came into effect on May 1, 2022. According to the E-Cigarettes Administrative Measures, e-cigarette manufacturing enterprises as well as enterprises holding e-cigarette brands and e-cigarette OEM enterprises (collectively referred to as “e-cigarette manufacturing enterprises”) are required to apply with the department of tobacco monopoly administration under the State Council (i.e., the State Tobacco Monopoly Administration) for a Tobacco Monopoly License for Manufacturing Enterprise. For details of the regulatory requirements, see “Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulations related to our Products.”

On June 30, 2023, a subsidiary of the consolidated VIE obtained the Tobacco Monopoly License for Manufacturing Enterprise from the State Tobacco Monopoly Administration to manufacture e-liquid in compliance with E-Cigarettes Administrative Measures, which is valid until June 30, 2025. On July 28, 2023, another subsidiary of the consolidated VIE obtained the Tobacco Monopoly License for Manufacturing Enterprise from the State Tobacco Monopoly Administration to own the RELX brand, as well as manufacture and export RELX branded e-vapor rechargeable devices, cartridge products, and products sold in combination with e-vapor rechargeable devices and cartridge products in compliance with E-Cigarettes Administrative Measures, which is valid until July 31, 2025. The offline stores operated by us in China have also obtained the Tobacco Monopoly Licenses for Retail Business. In the future, if we cannot obtain or renew the Tobacco Monopoly Licenses for Manufacturing Enterprise or the Tobacco Monopoly Licenses for Retail Business in a timely fashion, or at all, or fail to comply with the then applicable regulatory requirements, we may have to cease the business operation of us and the consolidated VIE that is not fully compliant and may be subject to penalties for any non-compliance of the business operations of us and the consolidated VIE. 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. See “—D. Risk Factors—Risks Relating to Our Business and Industry—Our business is subject to a large number of laws across many jurisdictions, many of which are evolving.”

Furthermore, in connection with offering and listing in an overseas market, as of the date of this annual report, we, our PRC subsidiary and the consolidated VIE, (i) have not been required to obtain prior approval or permissions from the China Securities Regulatory Commission, or the CSRC, the Cyberspace Administration of China, or the CAC, or any PRC governmental authorities for our historical issuance to foreign investors, (ii) have not been required to go through cybersecurity review by the Cyberspace Administration of China, or the CAC, and (iii) have not been involved in any formal investigations on cybersecurity review made by the CAC on such basis. However, the PRC government has recently indicated an intent to exert more oversight over offerings that are conducted overseas and foreign investment in China-based issuers. On February 17, 2023, the CSRC released the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies, or the Trial Measures and five supporting guidelines, which came into effect on March 31, 2023. Pursuant to the Trial Measures, domestic companies that seek to offer or list securities overseas, both directly and indirectly, should fulfill the filing procedure and report relevant information to the CSRC. However, since the Trial Measures was promulgated in early 2023 and may continue to evolve, the interpretation, application and enforcement of the Trial Measures are subject to further clarification. If the filing procedure with the CSRC under the Trial Measures is required for any future offerings, listing or any other capital raising activities, it is uncertain whether we, our PRC subsidiary and the consolidated VIE could complete the filing procedure in relation to any further capital raising activities in a timely manner, or at all. Moreover, we, our PRC subsidiary and the consolidated VIE may be required to go through cybersecurity review by the CAC, and to fulfill other applicable filing procedures or obtain approval from the State Tobacco Monopoly Administration or other PRC regulatory authorities. 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, the CAC or other PRC regulatory authorities, which may include fines and penalties on the operations of us and the consolidated VIE 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 the business, financial condition, results of operations, reputation and prospects of us and the consolidated VIE, as well as the trading price of our ADSs. For more detailed information, see “—D. Risk Factors—Risks Relating to Doing Business in China—We may be subject to the approval, filing or other requirements of the CSRC or other PRC governmental authorities in connection with future capital raising activities” and “—D. Risk Factors—Risks Relating to Doing Business in China—The business of us and the consolidated VIE is subject to complex and evolving PRC laws and regulations regarding data privacy and cybersecurity. Failure to protect confidential information of our users, business partners and network against security breaches could damage our reputation and brand and substantially harm the business and results of operations of us and the consolidated VIE.”

Cash and Asset Flows Through Our Organization

RLX Technology Inc. is a holding company with no operations of its own. We conduct operations in China primarily through our subsidiaries in China, the consolidated variable interest entity and its subsidiaries. As a result, although other means are available for us to obtain financing at the holding company level, RLX Technology Inc.'s ability to pay dividends to the shareholders and to service its debts may depend upon dividends paid by our subsidiaries in China and license and service fees paid by the consolidated VIE and its subsidiaries. If any of our subsidiaries incurs debt on its own behalf in the future, the instruments governing such debt may restrict its ability to pay dividends to RLX Technology Inc. In addition, our PRC subsidiaries are permitted to pay dividends to RLX Technology Inc. only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Further, our PRC subsidiaries and VIE are required to make appropriations to certain statutory reserve funds or may make appropriations to certain discretionary funds, which are not distributable as cash dividends except in the event of a solvent liquidation of the companies. Furthermore, cash transfers from our PRC subsidiaries to 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 our PRC subsidiaries and the consolidated variable interest entity to remit sufficient foreign currency to pay dividends or other payments to RLX Technology Inc., or otherwise satisfy our foreign currency denominated obligations. For more details, see "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Holding Company Structure." We have also started our international expansion through our subsidiaries. In 2024, we successfully expanded into three more markets in Asia-Pacific region, marking a significant milestone in our international growth strategy and reinforcing our presence in key global markets.

Under PRC laws and regulations, our PRC subsidiaries and the consolidated variable interest entity are subject to certain restrictions with respect to paying dividends or otherwise transferring any of their net assets to us. Remittance of dividends by a wholly foreign-owned enterprise out of China is also subject to examination by the banks designated by the SAFE. The amounts restricted include the paid-up capital and the statutory reserve funds of our PRC subsidiaries and the net assets of the consolidated variable interest entity in which we have no legal ownership, totaling RMB73.6 million, RMB71.7 million and RMB73.6 million (US\$10.1 million) as of December 31, 2022, 2023 and 2024, respectively. For risks relating to the fund flows of the operations of us and the consolidated VIE in China, see "—D. Risk Factors—Risks Relating to Doing Business in China—We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct the business of us and the consolidated VIE."

Under PRC law, RLX Technology Inc. may provide funding to our PRC subsidiaries only through capital contributions or loans, and to our PRC consolidated variable interest entity only through loans, subject to satisfaction of applicable government registration and approval requirements. For the years ended December 31, 2022, 2023 and 2024, RLX Technology Inc. provided capital contributions of nil, nil and nil, respectively, to our intermediate holding companies and subsidiaries. For the years ended December 31, 2022, 2023 and 2024, RLX Technology Inc. provided loans of RMB4,313.9 million, RMB3,226.1 million and RMB4,357.1 million (US\$596.9 million), respectively, to our intermediate holding companies and subsidiaries, and received repayments of RMB4,463.4 million, RMB2,200.7 million and RMB5,771.6 million (US\$790.7 million), respectively. For the years ended December 31, 2022, 2023 and 2024, the consolidated variable interest entity received nil, nil and nil as loans provided by RLX Technology Inc., respectively, and repaid nil, nil and nil, respectively. For the years ended December 31, 2022, 2023 and 2024, no assets other than cash were transferred between the Cayman Islands holding company and a subsidiary, a PRC consolidated variable interest entity or its subsidiary of our Group, and no subsidiaries paid dividends or made other distributions to the holding company. For details of the financial position, cash flows and results of operations of our PRC consolidated variable interest entity, see "—Financial Information Related to the Consolidated Variable Interest Entity" and page F-15 of this annual report on Form 20-F.

On November 15, 2024, we announced the approval of a cash dividend of US\$0.01 per ordinary share, or US\$0.01 per ADS, to holders of ordinary shares and holders of ADSs, respectively, as of the close of business on December 6, 2024 Beijing/Hong Kong Time and New York Time, respectively, payable in U.S. dollars. The dividend was paid in cash in December 2024 for holders of ordinary shares and holders of ADSs.

Future cash dividends, if any, will be declared at the discretion of our board of directors, subject to certain requirements of Cayman Islands law, and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors as our board of directors may deem relevant.

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According to Maples and Calder (Hong Kong) LLP, our Cayman Islands counsel, under the currently effective laws of the Cayman Islands, RLX Technology Inc. is not subject to Cayman Islands tax on income or capital gains. Upon payments of dividends to our shareholders, no Cayman Islands withholding tax will be imposed. For the purposes of illustration, the following discussion reflects the hypothetical taxes that might be required to be paid in mainland China and Hong Kong, assuming that: (i) we have taxable earnings in the consolidated VIE, and (ii) we determine to pay a dividend in the future:

Hypothetical pre-tax earnings in the consolidated VIE ⁽¹⁾	RMB	100.00
Tax on earnings at statutory rate of 25% at WFOE level ⁽²⁾	RMB	(25.00)
Amount to be distributed as dividend from WFOE to Relx HK Limited ⁽³⁾	RMB	75.00
Withholding tax at tax treaty rate of 5%	RMB	(3.75)
Amount to be distributed as dividend at Relx HK Limited level and net distribution to RLX Technology Inc. ⁽⁴⁾	RMB	71.25

Notes:

- (1) For the purposes of this example, the tax calculation has been simplified. The hypothetical book pre-tax earnings amount is assumed to equal Chinese taxable income in RMB.
- (2) Certain of our subsidiaries and the consolidated VIE qualify 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 the purposes of this hypothetical example, the table above reflects a maximum tax scenario under which the full statutory rate would be effective.
- (3) China's Enterprise Income Tax Law imposes a withholding income tax of 10% on dividends distributed by a Foreign Invested Enterprise to its immediate holding company outside of mainland China. A lower withholding income tax rate of 5% is applied if the Foreign Invested Enterprise's immediate holding company is registered in Hong Kong or other jurisdictions that have a tax treaty arrangement with mainland China, subject to a qualification review at the time of the distribution. There is no incremental tax at Relx HK Limited level for any dividend distribution to RLX Technology Inc.
- (4) If a 10% withholding income tax rate is imposed, the withholding tax will be RMB7.5 and the amount to be distributed as dividend at Relx HK Limited level and net distribution to RLX Technology Inc. will be RMB67.5.

The table above has been prepared under the assumption that all profits of the consolidated VIE will be distributed as fees to our PRC subsidiaries under tax neutral contractual arrangements. If, in the future, the accumulated earnings of the consolidated VIE 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 non-substantive and disallowed by Chinese tax authorities), the consolidated VIE could make a non-deductible transfer to our PRC subsidiaries for the amounts of the stranded cash in the consolidated VIE. This would result in such transfer being a non-deductible expense for the consolidated VIE but still taxable income for the PRC subsidiaries. This would have the impact of reducing the amount available above from 71.25% to approximately 53% of pre-tax income, respectively. Our management believes that there is only a remote possibility that this scenario would happen.

Financial Information Related to the Consolidated Variable Interest Entity

The following tables present the condensed consolidating schedule of financial information for the consolidated variable interest entity and other entities as of the dates presented. The condensed consolidating schedules include financial information for RLX Technology Inc., our Cayman Islands holding company and various other entities and groups, including other subsidiaries, primary beneficiary of the consolidated VIE, and consolidated VIE and its subsidiaries, along with eliminating adjustments and consolidated totals. The names and domiciles of these entities are enlisted in the table below.

	Entity	Domicile
Primary Beneficiary of the Consolidated VIE	Beijing Yueke Technology Co., Ltd.	PRC
Other Subsidiaries	Relx HK Limited	Hong Kong
	Mons Co., Ltd.	South Korea
	Supersmooth Alpha HK Limited	Hong Kong
	Other 39 subsidiaries	Other Jurisdictions
VIE	Beijing Wuxin Technology Co., Ltd.	PRC
Subsidiaries of the VIE	Ningbo Wuxin Information Technology Co., Ltd.	PRC
	Shenzhen Wuxin Technology Co., Ltd.	PRC
	Other 20 VIE's subsidiaries ⁽¹⁾	PRC

Note:

(1) These entities are subsidiaries of the VIE domiciled in PRC, each and all of which accounted for a fractional percentage of the Group's revenues.

Condensed Consolidating Statements of Income Information

For the Year Ended December 31, 2024					
RLX Technology Inc.	Other Subsidiaries	Primary Beneficiary of the Consolidated VIE	Consolidated VIE and its Subsidiaries	Eliminating Adjustments	Consolidated Total
(RMB in thousands)					
Third-party revenues	—	1,614,149	1,249	1,133,178	2,748,576
Inter-group revenues ⁽¹⁾	—	234,828	100,940	369,356	(705,124)
Third-party cost of revenues	—	(902,601)	(1,804)	(813,601)	(1,718,006)
Inter-group cost of revenues ⁽¹⁾	—	(360,839)	—	(1,188)	362,027
Excise tax on products	—	—	—	(304,053)	(304,053)
Third-party operating expenses	(14,378)	(340,575)	(78,925)	(399,784)	(833,662)
Inter-group operating expenses ⁽¹⁾	—	(79,750)	—	(267,518)	347,268
Income/(loss) of subsidiaries ⁽²⁾	438,284	(184,755)	—	—	(253,529)
Loss on the VIE ⁽²⁾	—	—	(201,907)	—	201,907
Other income/(expense)	127,931	443,728	(4,308)	93,321	671,489
Net income/(loss)	551,837	424,185	(184,755)	(190,289)	(36,634)
Less: net income attributable to noncontrolling interests	—	11	—	11,618	878
Net income/(loss) attributable to RLX Technology Inc.	551,837	424,174	(184,755)	(201,907)	551,837

For the Year Ended December 31, 2023					
RLX Technology Inc.	Other Subsidiaries	Primary Beneficiary of the Consolidated VIE	Consolidated VIE and its Subsidiaries	Eliminating Adjustments	Consolidated Total
(RMB in thousands)					
Third-party revenues	—	247,005	646	1,338,746	1,586,397
Inter-group revenues ⁽¹⁾	—	176,707	111,753	15,937	(304,397)
Third-party cost of revenues	—	(190,395)	(1,274)	(664,660)	(856,329)
Inter-group cost of revenues ⁽¹⁾	—	(154)	—	(1,268)	1,422
Excise tax on products	—	—	—	(342,354)	(342,354)
Third-party operating expenses	(20,363)	(274,016)	(105,051)	(484,994)	(884,424)
Inter-group operating expenses ⁽¹⁾	—	(15,937)	—	(237,664)	253,601
Income/(loss) of subsidiaries ⁽²⁾	404,342	(169,894)	—	—	(234,448)
Loss on the VIE ⁽²⁾	—	—	(162,306)	—	162,306
Other income/(expense)	199,761	631,417	(13,662)	220,220	(38)
Net income/(loss)	583,740	404,733	(169,894)	(156,037)	(121,554)
Less: net income attributable to noncontrolling interests	—	391	—	6,269	—
Net income/(loss) attributable to RLX Technology Inc.	583,740	404,342	(169,894)	(162,306)	534,328

For the Year Ended December 31, 2022 (As adjusted)⁽³⁾

RLX Technology Inc.	Other Subsidiaries	Primary Beneficiary of the Consolidated VIE	Consolidated VIE and its Subsidiaries	Eliminating Adjustments	Consolidated Total
(RMB in thousands)					
Third-party revenues	1,787	—	5,330,992	—	5,332,779
Inter-group revenues ⁽¹⁾	242,534	217,249	4,533	(464,316)	—
Third-party cost of revenues	(8,569)	(1,243)	(2,965,169)	—	(2,974,981)
Inter-group cost of revenues ⁽¹⁾	(90)	—	(144)	234	—
Excise tax on products	—	—	(52,668)	—	(52,668)
Third-party operating expenses	(19,553)	(309,315)	(199,331)	(713,520)	(1,241,719)
Inter-group operating expenses ⁽¹⁾	(4,533)	—	(459,549)	464,082	—
Income of subsidiaries ⁽²⁾	1,373,510	1,326,570	—	(2,700,080)	—
Income on the VIE ⁽²⁾	—	—	1,309,698	(1,309,698)	—
Other income	87,262	125,126	197	132,736	345,321
Net income	1,441,219	1,373,510	1,326,570	1,277,211	1,408,732
Less: net loss attributable to noncontrolling interests	—	—	—	(32,487)	(32,487)
Net income attributable to RLX Technology Inc.	1,441,219	1,373,510	1,326,570	1,309,698	1,441,219

Notes:

- (1) Representing the elimination of the inter-group service charge and assets transaction at the consolidation level.

The subsidiaries of our company and the primary beneficiary of the consolidated VIE provide operation supporting services and assets transactions to entities within our corporate structure. The inter-group service charge and assets transactions are eliminated at the consolidation level.

Starting from 2022, the consolidated VIE and its subsidiaries began to provide operation services and assets transactions to entities within the Group. Starting from 2024, a subsidiary of the consolidated VIE sells products to entities within the Group. The inter-group service revenue is eliminated at the consolidated level.

- (2) Representing the elimination of the investment of RLX Technology Inc., other subsidiaries, and the primary beneficiary of the consolidated VIE, and the consolidated VIE.
- (3) The Company acquired various companies on December 13, 2023, which was accounted for as an under common control transaction in accordance with ASC 805-50. The Company retrospectively adjusted the above comparative condensed consolidating statements of income in prior year.

Condensed Consolidating Balance Sheets Information

As of December 31, 2024						
RLX Technology Inc.	Other Subsidiaries	Primary Beneficiary of the Consolidated VIE	Consolidated VIE and its Subsidiaries	Eliminating Adjustments	Consolidated Total	
(RMB in thousands)						
Assets:						
Cash and cash equivalents	1,345,705	2,137,952	134,490	1,975,345	—	5,593,492
Restricted cash	—	—	—	50,867	—	50,867
Receivables from online payment platforms	—	1,270	—	3,452	—	4,722
Short-term investments, net	—	106,957	—	612,798	—	719,755
Short-term bank deposits, net	—	690,600	—	1,489,286	—	2,179,886
Accounts and notes receivable, net	—	43,514	—	34,970	—	78,484
Inventories	—	60,951	—	81,838	(237)	142,552
Amounts due from related parties	823	257,185	320	87,804	—	346,132
Amounts due from group companies ⁽¹⁾	8,685,222	315,855	30,939	203,905	(9,235,921)	—
Prepayments and other current assets, net	2,735	50,647	3,751	127,903	55	185,091
Net assets of the subsidiaries ⁽²⁾	6,206,208	4,726,275	—	—	(10,932,483)	—
Net assets of the VIE ⁽²⁾	—	—	4,578,634	—	(4,578,634)	—
Property, equipment and leasehold improvement, net	—	21,781	38	29,665	(697)	50,787
Intangible assets, net	—	49,275	1,283	47,364	(45,126)	52,796
Deferred income tax assets, net	—	1,523	94	24,931	11,519	38,067
Right-of-use assets, net	—	6,668	—	17,442	—	24,110
Long-term investments, net	—	—	—	8,000	—	8,000
Long-term bank deposits, net	—	393,066	—	334,382	—	727,448
Long-term investment securities, net	—	6,599,365	—	—	—	6,599,365
Goodwill	—	59,581	—	—	—	59,581
Other non-current assets, net	—	1,970	1,281	6,663	—	9,914
Total assets	16,240,693	15,524,435	4,750,830	5,136,615	(24,781,524)	16,871,049
Liabilities:						
Dividend payable	—	1,144	—	—	—	1,144
Accounts and notes payable	—	206,137	—	252,401	—	458,538
Contract liabilities	4,025	5,437	—	1,148	—	10,610
Salary and welfare benefits payable	—	22,366	8,589	42,785	—	73,740
Tax payable	—	85,119	10,260	30,720	55	126,154
Short-term loan	—	—	—	40,000	—	40,000
Amounts due to related parties	—	27,375	—	26	—	27,401
Amounts due to group companies ⁽¹⁾	244,938	8,888,995	4,584	91,835	(9,230,352)	—
Accrued expenses and other current liabilities	3,514	17,414	1,122	92,335	(5,569)	108,816
Lease liabilities-current portion	—	2,146	—	9,301	—	11,447
Deferred tax liabilities	—	12,903	—	3,293	—	16,196
Lease liabilities-non-current portion	—	2,307	—	4,743	—	7,050
Total liabilities	252,477	9,271,343	24,555	568,587	(9,235,866)	881,096
Total RLX Technology Inc. shareholders' equity ⁽²⁾	15,988,216	6,241,967	4,726,275	4,578,634	(15,546,876)	15,988,216
Noncontrolling interests	—	11,125	—	(10,606)	1,218	1,737
Total shareholders' equity	15,988,216	6,253,092	4,726,275	4,568,028	(15,545,658)	15,989,953

As of December 31, 2023						
RLX Technology Inc.	Other Subsidiaries	Primary Beneficiary of the Consolidated VIE (RMB in thousands)	Consolidated VIE and its Subsidiaries	Eliminating Adjustments	Consolidated Total	
Assets:						
Cash and cash equivalents	527,990	931,779	3,432	927,097	—	2,390,298
Restricted cash	—	42	—	29,718	—	29,760
Receivables from online payment platforms	—	1,495	—	5,398	—	6,893
Short-term investments, net	—	944,414	—	2,148,719	—	3,093,133
Short-term bank deposits, net	—	2,531,260	—	99,996	—	2,631,256
Accounts and notes receivable, net	—	39,992	—	20,490	—	60,482
Inventories	—	72,382	—	72,468	—	144,850
Amounts due from related parties	—	15,391	684	102,661	—	118,736
Amounts due from group companies ⁽¹⁾	11,585,791	3,788,027	129,710	129,214	(15,632,742)	—
Prepayments and other current assets, net	253	391,610	3,997	112,575	—	508,435
Net assets of the subsidiaries ⁽²⁾	5,403,973	4,665,765	—	—	(10,069,738)	—
Net assets of the VIE ⁽²⁾	—	—	4,556,977	—	(4,556,977)	—
Property, equipment and leasehold improvement, net	—	25,059	197	52,102	—	77,358
Intangible assets, net	—	63,789	1,846	53,672	(49,529)	69,778
Deferred income tax assets, net	—	15,455	—	42,808	—	58,263
Right-of-use assets, net	—	10,033	—	42,529	—	52,562
Long-term investments, net	—	—	—	8,000	—	8,000
Long-term bank deposits, net	—	359,428	—	1,398,376	—	1,757,804
Long-term investment securities, net	—	5,236,109	—	—	—	5,236,109
Goodwill	—	66,506	—	—	—	66,506
Other non-current assets, net	—	1,910	365	2,599	—	4,874
Total assets	17,518,007	19,160,446	4,697,208	5,248,422	(30,308,986)	16,315,097
Liabilities:						
Dividend payable	—	881	—	—	—	881
Accounts and notes payable	—	42,043	—	224,383	—	266,426
Contract liabilities	38,165	102	—	11,319	—	49,586
Salary and welfare benefits payable	—	14,147	5,590	19,519	—	39,256
Tax payable	—	36,030	4,202	36,932	—	77,164
Amounts due to related parties	—	101,927	—	—	—	101,927
Amounts due to group companies ⁽¹⁾	1,867,035	13,469,440	20,891	275,376	(15,632,742)	—
Accrued expenses and other current liabilities	3,414	4,697	760	95,125	—	103,996
Lease liabilities-current portion	—	4,013	—	25,422	—	29,435
Deferred tax liabilities	—	15,896	—	7,695	—	23,591
Lease liabilities-non-current portion	—	6,327	—	18,092	—	24,419
Total liabilities	1,908,614	13,695,503	31,443	713,863	(15,632,742)	716,681
Total RLX Technology Inc. shareholders' equity ⁽²⁾	15,609,393	5,453,502	4,665,765	4,556,977	(14,676,244)	15,609,393
Noncontrolling interests	—	11,441	—	(22,418)	—	(10,977)
Total shareholders' equity	15,609,393	5,464,943	4,665,765	4,534,559	(14,676,244)	15,598,416

Notes:

- (1) Representing the elimination of inter-group balances among RLX Technology Inc., other subsidiaries, primary beneficiary of the consolidated VIE and the consolidated VIE and its subsidiaries. The functional currency for all PRC entities within the consolidated group is RMB. The functional currency for entities incorporated in the Cayman Islands, BVI and Hong Kong within the consolidated group is the U.S. dollar. Entities within the consolidated group in other jurisdictions generally use their respective local currencies as functional currencies. All inter-group balances between PRC entities are denominated in RMB and inter-group balances between non-PRC entities are denominated in the U.S. dollar or RMB. As of December 31, 2024, (i) Relx HK Limited had receivables from PRC entities of RMB105.4 million (US\$14.4 million) denominated in RMB, and (ii) RLX Technology Inc. had payables to PRC entities of RMB19.6 million (US\$2.7 million) denominated in RMB. As of December 31, 2023, (i) Relx HK Limited had receivables of RMB112.5 million denominated in RMB from PRC entities, and (ii) RLX Technology Inc. had payables to PRC entities of RMB21.2 million denominated in RMB.
- (2) Representing the elimination of the investment of RLX Technology Inc., other subsidiaries, and the primary beneficiary of the consolidated VIE.

Condensed Consolidating Cash Flows Information

	For the Year Ended December 31, 2024					Consolidated Total
	RLX Technology Inc.	Other Subsidiaries	Primary Beneficiary of the Consolidated VIE (RMB in thousands)	Consolidated VIE and its Subsidiaries	Eliminating Adjustments	
Net cash (used in)/ generated from operating activities						
with Group company	—	(210,577)	17,751	192,826	—	—
Other operating activities	79,340	896,904	(53,892)	(68,003)	—	854,349
Net cash generated from/(used in) operating activities	79,340	686,327	(36,141)	124,823	—	854,349
Loans to group companies	(4,357,124)	(213,013)	(312,584)	(233,835)	5,116,556	—
Repayment of loans from group companies	5,771,571	213,010	467,946	95,915	(6,548,442)	—
Other investing activities	(13,770)	1,821,890	11,840	1,198,041	—	3,018,001
Net cash generated from investing activities	1,400,677	1,821,887	167,202	1,060,121	(1,431,886)	3,018,001
Borrowings from group companies	—	4,590,962	213,010	312,584	(5,116,556)	—
Repayment of loans to group companies	—	(5,867,486)	(213,010)	(467,946)	6,548,442	—
Other financing activities	(677,010)	(40,845)	—	39,824	—	(678,031)
Net cash used in financing activities	(677,010)	(1,317,369)	—	(115,538)	1,431,886	(678,031)

For the Year Ended December 31, 2023					
RLX Technology Inc.	Other Subsidiaries	Primary Beneficiary of the Consolidated VIE (RMB in thousands)	Consolidated VIE and its Subsidiaries	Eliminating Adjustments	Consolidated Total
Net cash generated from/(used in) operating activities					
with Group company	—	136,977	73,502	(210,479)	—
Other operating activities	128,329	(4,745)	(127,295)	202,414	198,703
Net cash generated from/(used in) operating activities	128,329	132,232	(53,793)	(8,065)	198,703
Loans to group companies	(3,226,102)	(290,382)	(448,660)	(80,805)	4,045,949
Repayment of loans from group companies	2,200,692	275,504	486,506	61,590	(3,024,292)
Other investing activities	2,339,504	(299,534)	(2,276)	53,451	2,091,145
Net cash generated from/(used in) investing activities	1,314,094	(314,412)	35,570	34,236	1,021,657
Borrowings from group companies	—	3,309,906	192,130	543,912	(4,045,948)
Repayment of loans to group companies	—	(2,262,281)	(171,250)	(590,760)	3,024,291
Other financing activities	(1,081,991)	(111,225)	—	—	(1,193,216)
Net cash (used in)/generated from financing activities	(1,081,991)	936,400	20,880	(46,848)	(1,021,657)

For the Year Ended December 31, 2022 (As adjusted) ⁽¹⁾					
RLX Technology Inc.	Other Subsidiaries	Primary Beneficiary of the Consolidated VIE (RMB in thousands)	Consolidated VIE and its Subsidiaries	Eliminating Adjustments	Consolidated Total
Net cash generated from/(used in) operating activities					
with Group company	—	229,096	283,589	(512,685)	—
Other operating activities	187,349	(181,799)	(160,586)	641,865	486,829
Net cash generated from operating activities	187,349	47,297	123,003	129,180	486,829
Loans to group companies	(4,313,937)	(89,069)	(311,089)	(450,769)	5,164,864
Repayment of loans from group companies	4,463,367	86,217	78,191	342,000	(4,969,775)
Other investing activities	—	(4,474,981)	(1,376)	343,317	(4,133,040)
Net cash generated from/(used in) investing activities	149,430	(4,477,833)	(234,274)	234,548	195,089
Borrowings from group companies	—	4,327,442	447,064	390,358	(5,164,864)
Repayment of loans to group companies	—	(4,463,367)	(342,000)	(164,408)	4,969,775
Other financing activities	(477,934)	1,427	—	(763)	(477,270)
Net cash (used in)/generated from financing activities	(477,934)	(134,498)	105,064	225,187	(195,089)

(1) The Company acquired various companies on December 13, 2023, which was accounted for as an under common control transaction in accordance with ASC 805-50. The Company retrospectively adjusted the above comparative condensed consolidating cash flows in prior year.

Selected Consolidated Financial Data

The following tables present the selected consolidated financial information for the business of us and the consolidated VIE. You should read the following information in conjunction with “Item 5. Operating and Financial Review and Prospects” below. The selected consolidated statements of comprehensive income data for the years ended December 31, 2022, 2023 and 2024, selected consolidated balance sheets data as of December 31, 2023 and 2024, and selected consolidated statements of cash flows data for the years ended December 31, 2022, 2023 and 2024 have been derived from our audited consolidated financial statements included elsewhere in this annual report beginning on page F-1. The Company acquired various companies on December 13, 2023, which was accounted for as an under common control transaction in accordance with ASC 805-50. The Company retrospectively adjusted the comparative data in prior year. Our consolidated financial statements are prepared and presented in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP. Our historical results are not necessarily indicative of results expected for future periods.

The following table presents our selected consolidated statements of comprehensive income data for the years ended December 31, 2022, 2023 and 2024:

	For the Year Ended December 31,			
	2022 (As adjusted)	2023	2024	
	RMB	RMB	RMB	US\$
(in thousands, except for share amounts and per share data)				
Selected Consolidated Statements of Comprehensive Income Data:				
Net revenues	5,332,779	1,586,397	2,748,576	376,553
Cost of revenues	(2,974,981)	(856,329)	(1,718,006)	(235,366)
Excise tax on products	(52,668)	(342,354)	(304,053)	(41,655)
Gross profit	2,305,130	387,714	726,517	99,532
Operating expenses: ⁽¹⁾				
Selling expenses	(347,798)	(213,723)	(229,466)	(31,437)
General and administrative expenses	(576,811)	(498,015)	(515,887)	(70,676)
Research and development expenses	(317,110)	(172,686)	(88,309)	(12,098)
Total operating expenses	(1,241,719)	(884,424)	(833,662)	(114,211)
Income/(loss) from operations	1,063,411	(496,710)	(107,145)	(14,679)
Other income:				
Interest income, net	180,729	627,879	616,388	84,445
Investment income	136,531	245,700	49,636	6,800
Others, net	399,641	214,874	99,924	13,690
Income before income tax	1,780,312	591,743	658,803	90,256
Income tax expense	(371,580)	(50,755)	(94,459)	(12,941)
Net income	1,408,732	540,988	564,344	77,315
Other comprehensive income:				
Foreign currency translation adjustments	937,428	198,534	143,811	19,702
Unrealized (loss)/income on long-term investment securities	(5,425)	632	(2,167)	(297)
Total other comprehensive income	932,003	199,166	141,644	19,405
Total comprehensive income	2,340,735	740,154	705,988	96,720
Net income per ordinary share/ADS				
Basic	1.092	0.407	0.448	0.061
Diluted	1.085	0.399	0.428	0.059
Weighted average number of ordinary shares/ADS				
Basic	1,319,732,802	1,311,401,901	1,232,148,531	1,232,148,531
Diluted	1,328,144,092	1,340,445,653	1,288,911,783	1,288,911,783
Unaudited Non-GAAP Financial Measure:				
Adjusted income/(loss) from operations⁽²⁾	1,229,572	(133,842)	262,510	35,963
Adjusted net income⁽²⁾	1,574,893	903,856	933,999	127,957

Notes:

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

	For the Year Ended December 31,			
	2022 (As adjusted)	2023		2024
	RMB	RMB	RMB	US\$
	(in thousands, except for share amounts and per share data)			
Selling expenses	(6,993)	16,700	32,563	4,461
General and administrative expenses	162,229	334,344	348,629	47,762
Research and development expenses	10,925	11,824	(11,537)	(1,581)

(2) For discussions of net income and adjusted income/(loss) from operations and their reconciliation to corresponding GAAP measures, see “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Unaudited Non-GAAP Financial Measure.”

The following table presents our summary consolidated balance sheets data as of December 31, 2023 and 2024:

	As of December 31,		
	2023	2024	
	RMB	RMB	US\$
	(in thousands)		
Selected Consolidated Balance Sheets Data:			
Cash and cash equivalents	2,390,298	5,593,492	766,305
Short-term bank deposits, net	2,631,256	2,179,886	298,643
Short-term investments, net	3,093,133	719,755	98,606
Inventories	144,850	142,552	19,530
Amounts due from related parties	118,736	346,132	47,420
Prepayments and other current assets, net	508,435	185,091	25,357
Total current assets	8,983,843	9,300,981	1,274,229
Long term bank deposits, net	1,757,804	727,448	99,660
Long-term investment securities, net	5,236,109	6,599,365	904,109
Total non-current assets	7,331,254	7,570,068	1,037,095
Total assets	16,315,097	16,871,049	2,311,324
Accounts and notes payable	266,426	458,538	62,819
Accrued expenses and other current liabilities	103,996	108,816	14,908
Amounts due to related parties	101,927	27,401	3,754
Total current liabilities	668,671	857,850	117,525
Total liabilities	716,681	881,096	120,710
Total shareholders' equity	15,598,416	15,989,953	2,190,614
Total liabilities and shareholders' equity	16,315,097	16,871,049	2,311,324

The following table presents our summary consolidated statements of cash flows data for the years ended December 31, 2022, 2023 and 2024:

	For the Year Ended December 31,			
	2022 (As adjusted)	2023	2024	
	RMB	RMB	RMB	US\$
	(in thousands)			
Selected Consolidated Statements of Cash Flows Data:				
Net cash generated from operating activities	486,829	198,703	854,349	117,045
Net cash (used in)/generated from investing activities	(4,133,040)	2,091,145	3,018,001	413,464
Net cash used in financing activities	(477,270)	(1,193,216)	(678,031)	(92,890)
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	203,100	34,340	29,982	4,108
Net (decrease)/increase in cash, cash equivalents and restricted cash	(3,920,381)	1,130,972	3,224,301	441,727
Cash, cash equivalents and restricted cash at the beginning of the year	5,209,467	1,289,086	2,420,058	331,547
Cash, cash equivalents and restricted cash at the end of the year	1,289,086	2,420,058	5,644,359	773,274

A. Reserved

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Summary of Risk Factors

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 Relating to Our Business and Industry

- We have a limited operating history and our historical operating and financial results may not be indicative of future performance, which makes it difficult to predict our future business prospects and financial performance. For details, see page 24 of this annual report.
- Our business is subject to a large number of laws across many jurisdictions, many of which are evolving. For details, see pages 24 to 29 of this annual report.
- We are subject to a variety of uncertainties, costs and risks during our international expansion. For details, see pages 29 and 30 of this annual report.
- Our international business expansion exposes us to risks associated with our relationship with Relx Inc. For details, see page 30 of this annual report.
- If it is determined or perceived that the usage of e-vapor products poses long-term health risks, the use of e-vapor products may decline significantly, which may materially and adversely affect the business, financial condition and results of operations of us and the consolidated VIE. For details, see page 31 of this annual report.
- We operate in an emerging and evolving market in China and globally, which may develop more slowly or differently than we expect. For details, see page 31 of this annual report.
- We are exposed to product liabilities and user complaints arising from the products we sell, which could have a material adverse impact on us. For details, see page 32 of this annual report.
- The business and results of operations of us and the consolidated VIE may be harmed by any failure to maintain and enhance the value of our brand. For details, see pages 33 and 34 of this annual report.
- We have adapted our business, including distribution of products, to the new and currently effective regulatory framework applicable to China’s e-vapor industry and us, which have materially and adversely affected and may further materially and adversely affect our business, prospects, results of operations and financial performance. For details, see pages 34 and 35 of this annual report.
- We may be subject to interest rate risk in connection with our interest income. For details, see page 35 of this annual report.
- We may be exposed to credit risk. For details, see pages 35 and 36 of this annual report.
- We may fail to continue to develop, innovate and utilize our technologies, which are core to our success. For details, see page 36 of this annual report.
- We may not be able to develop and introduce new products or upgrade existing products in a timely and cost-effective manner, which may adversely affect the business, results of operations and prospects the business of us and the consolidated VIE. For details, see pages 36 and 37 of this annual report.
- We may engage in acquisitions, investments or strategic alliances, which could require significant management attention and materially and adversely affect our business and results of operations. For details, see page 37 of this annual report.

- Fluctuations in exchange rates could have a material and adverse effect on our results of operations and the value of your investment. For details, see page 37 of this annual report.
- We are subject to risks relating to our leased properties. For details, see pages 37 and 38 of this annual report.
- We may be subject to the approval, filing or other requirements of the CSRC or other PRC governmental authorities in connection with future capital raising activities. For details, see pages 38 to 40 of this annual report.
- There might be competitions between us and our affiliated companies. For details, see page 40 of this annual report.
- The business, financial condition and results of operations of us and the consolidated VIE may be adversely impacted by product defects or other quality issues. For details, see page 40 of this annual report.

Risks Relating to Our Corporate Structure

- If the PRC government deems that our contractual arrangements with the consolidated variable interest entity 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 in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations. For details, see pages 55 and 56 of this annual report.
- We rely on contractual arrangements with the consolidated VIE and its shareholders to direct activities of the consolidated VIE, which may not be as effective as direct ownership in providing operational control. For details, see page 57 of this annual report.
- Any failure by the consolidated VIE or its shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on the business of us and the consolidated VIE. For details, see page 57 of this annual report.
- The shareholders of the consolidated VIE may have potential conflicts of interest with us, which may materially and adversely affect the business of us and the consolidated VIE. For details, see pages 57 and 58 of this annual report.

Risks Relating to Doing Business in China

- Changes in China's economic, political or social conditions or government policies could have a material adverse effect on the business and operations of us and the consolidated VIE. For details, see page 60 of this annual report.
- Failure to respond to changes in the regulatory environment in China could materially and adversely affect us. For details, see page 60 of this annual report.
- The PRC government's significant oversight over the business operation of us and the consolidated VIE could result in a material adverse change in the operations of us and the consolidated VIE and the value of our ADSs. For details, see page 60 of this annual report.
- The PCAOB had historically been unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections of our auditor in the past has deprived our investors with the benefits of such inspections. For details, see page 61 of this annual report.
- Our ADSs may be prohibited from trading in the United States under the HFCAA in the future if the PCAOB is unable to inspect or investigate completely auditors headquartered in mainland China and Hong Kong. The delisting of the ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment. For details, see page 61 of this annual report.
- 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 this annual report based on foreign laws. For details, see page 68 of this annual report.

Risks Relating to Our ADSs

- The trading price of the ADSs is likely to be volatile, which could result in substantial losses to investors. For details, see pages 70 and 71 of this annual report.
- Our dual-class share structure with different voting rights 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. For details, see page 72 of this annual report.
- We believe that we were likely a PFIC for U.S. federal income tax purposes for 2024 and may be a PFIC for 2025, which could result in adverse U.S. federal income tax consequences to U.S. Holders of our ADSs or Class A ordinary shares. For details, see page 78 of this annual report.

Risks Relating to Our Business and Industry

We have a limited operating history and our historical operating and financial results may not be indicative of future performance, which makes it difficult to predict our future business prospects and financial performance.

Since e-vapor products were only introduced to the market in the last two decades, we operate in an innovative and rapidly evolving industry in China and globally. We commenced the operation of us and the consolidated VIE in January 2018 and thus have a limited operating history, which makes it difficult to evaluate our future prospects and performance. We cannot assure you that we can successfully implement our business model. As the market and our business develop, we may modify our products and services. These changes may not lead to expected results and may have a material and adverse impact on our results of operations and financial condition. Our net revenues decreased from RMB5,332.8 million for the year ended December 31, 2022 to RMB1,586.4 million for the year ended December 31, 2023, and increased to RMB2,748.6 million (US\$376.6 million) for the year ended December 31, 2024. We generated net income of RMB1,408.7 million, RMB541.0 million and RMB564.3 million (US\$77.3 million) for the years ended December 31, 2022, 2023 and 2024, respectively. We cannot assure you that we will be able to maintain the ability to generate net profit or maintain profitability at a similar level or at all.

Our ability to maintain profitability will depend primarily on the evolving regulatory environment, and our ability to generate sufficient revenues and to manage our costs of revenues and operating expenses. You should consider the business prospects of us and the consolidated VIE in light of the risks and difficulties we may encounter as an early-stage company operating in a new market, including, among other things, our ability to adapt to an evolving regulatory landscape, develop and utilize our technologies, provide high-quality products and services, meet users' expectations, maintain and enhance our brand and reputation, improve our operational efficiency, and anticipate and adapt to changing market conditions. We may not be able to successfully address these risks and difficulties, which could significantly harm the business, results of operations and financial condition of us and the consolidated VIE.

Our business is subject to a large number of laws across many jurisdictions, many of which are evolving.

We are subject to a variety of laws and regulation around the world, including those relating to the e-vapor market, as well as those relating to employment laws, accessibility requirements and taxation. These laws and regulations are continuously evolving, and compliance is costly and can require changes to our business practices and significant management time and effort.

We strive to comply with all applicable laws, but they may conflict with each other, and by complying with the laws or regulations of one jurisdiction, we may find that we are violating the laws or regulations of another jurisdiction. Despite our efforts, we may not have fully complied in the past and may not fully comply in the future, particularly where the applicable regulatory regimes have not been broadly interpreted. If we become liable under laws or regulations applicable to us, we could be required to pay significant fines and penalties, our reputation may be harmed, and we may be forced to change the way we operate. That could require us to incur significant expenses or to discontinue certain services, which could negatively affect our business. In addition, if we are restricted from operating in one or more countries, our ability to attract and retain sellers and buyers may be adversely affected and we may not be able to grow our business as we anticipate. Additionally, if third parties with whom we work violate applicable laws or our policies, those violations could also result in liabilities for us and could harm our business. Our ability to rely on insurance, contracts, indemnification and other remedies to limit these liabilities, may be insufficient or unavailable in some cases. Furthermore, the circumstances in which we may be held liable for the acts, omissions, or responsibilities of our merchants is uncertain, complex, and evolving.

As an example, in China, where we also conduct part of our operations, the regulatory landscape for e-vapor products has experienced significant changes in recent years, including the following developments.

Prohibition on Sales to the Underage and Online Sales

The regulatory efforts commenced with the announcements regarding prohibition on the sale of e-cigarettes, including e-vapor products, to juveniles and prohibition on sale through the internet, as well as the smoking control rules of some cities regarding using e-cigarettes as a form of smoking, such as,

- on August 28, 2018, the State Administration for Market Regulation and the State Tobacco Monopoly Administration jointly issued the Announcement on Prohibition of Selling E-Cigarettes Products to the Underage, or the August 2018 Announcement, which specifically prohibits all sales of e-cigarettes to the underage,
- on October 30, 2019, the State Administration for Market Regulation and the State Tobacco Monopoly Administration jointly issued the Announcement on Further Protecting the Underage from E-Cigarettes, or the October 2019 Announcement, to further strengthen the protection of the physical and mental health of the underage and prevent the underage from buying e-cigarettes through the internet and using them, and
- on September 28, 2022, the State Tobacco Monopoly Administration issued the Notice on Matters Related to Strengthen the Supervision of E-Cigarettes, to reaffirm the prohibition of selling or advertising e-cigarettes to the underage.

As a result, we ceased to generate revenues from sales of e-vapor products to users through third-party e-commerce platforms and sales of e-vapor products to third-party e-commerce platform distributors, and we do not expect to generate revenues from selling e-vapor products through these distribution channels going forward.

E-Cigarettes Administrative Measures

On March 11, 2022, the State Tobacco Monopoly Administration issued the Administrative Measures for E-Cigarettes, or the E-Cigarettes Administrative Measures, which came into effect on May 1, 2022. The E-Cigarettes Administrative Measures primarily aim at strengthening the management of e-cigarettes and regulating the e-cigarette market order, and stipulating the definition, licensing system, distribution management, technical review and quality control, transport, import and export, advertising and promotion of e-cigarettes, including but not limited to the following.

- *Tobacco Monopoly License for Manufacturing Enterprise.* The E-Cigarettes Administrative Measures require all e-cigarette manufacturing enterprises, enterprises holding e-cigarette brands and e-cigarette OEM enterprises (collectively referred to as “e-cigarette manufacturing enterprises”) to apply with the department of tobacco monopoly administration under the State Council for a Tobacco Monopoly License for Manufacturing Enterprise.

On June 30, 2023, a subsidiary of the consolidated VIE obtained the Tobacco Monopoly License for Manufacturing Enterprise from the State Tobacco Monopoly Administration to manufacture e-liquid in compliance with E-Cigarettes Administrative Measures, which is valid until June 30, 2025.

On July 28, 2023, another subsidiary of the consolidated VIE obtained the Tobacco Monopoly License for Manufacturing Enterprise from the State Tobacco Monopoly Administration to own the RELX brand, manufacture and export RELX branded e-vapor rechargeable devices, cartridge products, and products sold in combination with e-vapor rechargeable devices and cartridge products in compliance with E-Cigarettes Administrative Measures, which is valid until July 31, 2025.

However, in the future, if we cannot obtain or renew the Tobacco Monopoly License for Manufacturing Enterprise in a timely fashion, or at all, or fail to comply with the then applicable regulatory requirements, we may have to cease the business operation of us and the consolidated VIE that is not fully compliant and may be subject to penalties for any non-compliance of the business operations of us and the consolidated VIE. In such cases, the business operations of us and the consolidated VIE will be materially and adversely affected or discontinued.

In addition, the approved manufacturing capacity assigned to the applicable e-cigarette manufacturing enterprise would be specified on its Tobacco Monopoly License for Manufacturing Enterprise, which imposes a limitation on the quantity of the applicable e-cigarette products and/or raw materials that can be produced and supplied by such e-cigarette manufacturing enterprise during the term of the license. Further, according to the Several Policies and Measures in Relation to Promoting the Legalization and Standardization of the E-cigarettes Industry (for Trial Implementation), or the E-cigarettes Industrial Policies and Measures (for Trial Implementation), which were issued by the State Tobacco Monopoly Administration on April 25, 2022 and came into effect on the same day, the department of tobacco monopoly administration under the State Council shall be responsible for planning, managing and coordinating e-cigarettes' domestic overall distribution, manufacturing capacity and market demands. According to the Administrative Rules on Fixed Asset Investment of E-cigarettes, fixed asset investment of e-cigarettes shall obtain the approval from or complete the filing procedure with the tobacco monopoly administration under the State Council before investment, the scope of the fixed asset investment assessment for e-cigarette enterprises includes fixed asset investment activities (i) for establishing e-cigarette enterprises, (ii) for engaging in the production of e-cigarette products and raw materials and conducted by the enterprises that have not obtained the Tobacco Monopoly License for Manufacturing Enterprises, (iii) for new factory (and branch factory) and conducted by the enterprises that have obtained Tobacco Monopoly License for Manufacturing Enterprises, (iv) for on-site expansion, reconstruction and technological transformation, relocation and restoration of construction and conducted by the enterprises that have obtained Tobacco Monopoly License for Manufacturing Enterprises, and (v) other circumstances prescribed by the tobacco monopoly administration under the State Council. The Administrative Rules on Fixed Asset Investment of E-cigarettes clarified that enterprises must complete the filing procedure for conducting the activity prescribed in (iv) if there is no increase in the manufacturing capacity of e-cigarette products and raw materials, and, however, obtain the approval if such increase is intended. Additionally, according to the Catalogue for Guiding Industry Restructuring, tobacco product (including e-cigarettes) processing projects fall into restricted industries under this catalogue, which means all tobacco manufacturing enterprises are subject to certain restrictions, including being prohibited from investing in new tobacco product (including e-cigarettes) processing projects. Therefore, the Administrative Rules on Fixed Asset Investment of E-cigarettes provided that, the above-mentioned (i), (ii) and (iii) will be disapproved according to relevant requirements on industries of restricted categories under the Catalogue for Guiding Industry Restructuring.

The two Tobacco Monopoly Licenses for Manufacturing Enterprise we obtained are subject to certain approved manufacturing capacity. Even if we are able to timely renew these licenses, we cannot assure you that we will be allotted the same or higher manufacturing capacity as compared to the existing one. And though we could apply for an increase in manufacturing capacity when we reach the approved capacity, there can be no assurance that the relevant PRC regulatory authorities will approve such application. In addition, under current regulations, we cannot expand our manufacturing capacity by establishing new e-cigarette enterprises or new factories. If the extra manufacturing capacity cannot be granted to us in a timely fashion, or at an amount no less than the required additional capacity, or at all, or if the manufacturing capacity of our current factories cannot produce sufficient e-cigarette products or raw materials, we may not be able to provide adequate e-cigarette products or raw materials to meet our needs and the market demands. All of the above may harm the business, financial condition and results of operations of us and the consolidated VIE.

We also rely on a limited number of suppliers and manufacturers to supply and produce our products. In response to the regulatory developments in 2022, we had adapted our cooperation with suppliers and manufacturers to the new and currently effective regulatory framework applicable to China's e-vapor industry and us. By December 31, 2024, all of our suppliers and manufacturers had obtained the requisite licenses and authorization under the E-Cigarettes Administrative Measures for our operations in China. However, there can be no assurance that our suppliers and manufacturers will be able to renew or update their existing licenses in a timely fashion, or at all, or they will be allotted the same or higher manufacturing capacity when they renew the licenses, or can always provide us with adequate e-cigarette products or raw materials to meet our needs and the market demands through their current e-cigarette manufacturing fixed assets. Also, given the uncertainties with respect to the evolving regulatory regime including the implementation of the applicable laws, regulations, policies, our suppliers and manufacturers may not be able to continue manufacturing our e-vapor products after they have reached the applicable manufacturing capacity. All of the above may render our suppliers and manufacturers unable to maintain or increase their production and supply of our products and as a result, the supply of our e-vapor products may be less than what the market demands, which may harm the business, financial condition and results of operations of us and the consolidated VIE. See also “—We rely on a limited number of suppliers and manufacturers to supply and produce our products. Loss of any of those business partners would materially and adversely affect the business of us and the consolidated VIE.”

- *Flavor Ban.* The E-Cigarettes Administrative Measures impose a ban on flavored e-cigarettes other than those with tobacco flavor. The flavor ban imposes significant restrictions on our product offerings, and therefore have materially affected and may further materially affect our ability to continue to introduce new products and upgrade our existing products to meet our users' evolving preferences. We may lose our existing and potential users, and our revenues and competitiveness may be further reduced.
- *Tobacco Monopoly License for Retail Business.* Pursuant to the E-Cigarettes Administrative Measures, any e-cigarette retailer, including any entity or individual who engages in the retail business of e-cigarettes, must apply with the competent department of tobacco monopoly administration for a Tobacco Monopoly License for Retail Business or approval of modification of its registered business scope. The e-cigarette retailers should purchase e-cigarette products from local qualified distributors with the Tobacco Monopoly License for Wholesale Enterprises ("wholesale license") (namely provincial Tobacco Commercial Enterprises in China) and avoid conducting any exclusive operation regarding any marketed e-cigarette products.

As of December 31, 2024, we operated 49 offline stores in China by ourselves, all of which obtained the Tobacco Monopoly Licenses for Retail Business and conducted their businesses in compliance with the E-Cigarettes Administrative Measures and other applicable laws. These offline stores source e-vapor products solely from the qualified distributors with wholesale license (namely provincial Tobacco Commercial Enterprises in China) and offer a variety of branded e-vapor products. However, in the future, if we cannot obtain or renew the Tobacco Monopoly Licenses for Retail Business in a timely fashion, or at all, or fail to comply with the then applicable regulatory requirements, the related business operations of us and the consolidated VIE will be adversely affected or discontinued.

The E-Cigarettes Administrative Measures also impose various additional restrictions and requirements on the key participants along the e-cigarettes value chain, including our suppliers and manufacturers, as well as the distributors and retailers. See also "—We have adapted our business, including distribution of products, to the new and currently effective regulatory framework applicable to China's e-vapor industry and us, which have materially and adversely affected and may further materially and adversely affect our business, prospects, results of operations and financial performance" and "—We rely on a limited number of suppliers and manufacturers to supply and produce our products. Loss of any of those business partners would materially and adversely affect the business of us and the consolidated VIE" for more details.

The National Standards

On April 8, 2022, the State Administration for Market Regulation and the Standardization Administration of the PRC issued the National Standards for E-Cigarettes, or the National Standards, which came into effect on October 1, 2022. The National Standards stipulate the technical terminology in relation to e-cigarettes and definitions thereof, clarify the standards for product design and raw materials of e-cigarettes and technical requirements for e-cigarette devices, e-atomization materials and e-cigarette emissions, and prescribe rules for instructions and labels of e-cigarette products. The National Standards also require that e-liquid must contain nicotine.

In response to these regulatory developments in 2022, we have adjusted our product design, specifications and other aspects of our products in accordance with the applicable PRC laws and regulations. After such adjustment, which had been completed no later than September 30, 2022, and until the date of this annual report, all of our products sold, and the raw materials required for producing them, have satisfied the requirements of the National Standards and obtained the requisite product approvals. However, we cannot assure you that we will be able to produce e-vapor products that continuously fulfill the requirements of the National Standards, or obtain and maintain the required approval from the relevant technical authorities for our products in a timely manner, or at all; nor is there any assurance that we will be able to obtain the requisite approvals for our products in a more expeditious manner than our competitors in the market or efficiently launch our products in the relevant provinces and municipalities across China. Additionally, there have been cases of illegal distribution of non-tobacco-flavored e-cigarettes in the China market, which may adversely affect the distribution and sales of our products in China which are in compliance with the National Standards; in our ordinary course of business, we may also experience product recall due to quality issues from time to time; further, if any such non-tobacco-flavored e-cigarettes are associated with our brand and are in the market from unauthorized distribution beyond our control, our brand image may be impaired and the business of us and the consolidated VIE may be disrupted. See also "—The business and results of operations of us and the consolidated VIE may be harmed by any failure to maintain and enhance the value of our brand."

E-cigarette Excise Tax

On October 2, 2022, the Ministry of Finance of the People's Republic of China, General Administration of Customs of the People's Republic of China, and State Taxation Administration of the People's Republic of China jointly issued the Announcement on Imposing Excise Tax on E-cigarettes (the "E-cigarette Tax Announcement"). The E-cigarette Tax Announcement, which came into effect on November 1, 2022, imposes excise tax on manufacturers, importers and/or distributors of e-cigarettes in China.

With respect to the tax implications for e-cigarette manufacturers, e-cigarette importers and e-cigarette distributors, the E-cigarette Tax Announcement contains the following key provisions, among others, (i) E-cigarette manufacturers and importers are subject to excise tax at the rate of 36% on the production or import of e-cigarettes, and (ii) E-cigarette distributors are subject to excise tax at the rate of 11% on the wholesale distribution of e-cigarettes. In addition, taxpayers exporting e-cigarettes are entitled to enjoy tax refund (exemption) policies.

Furthermore, on October 27, 2022, the General Administration of Customs of the People's Republic of China issued the Announcement on Matters relating to Imposing Tax on E-cigarettes, which came into effect on November 1, 2022 and was amended on November 29, 2024, further elaborating the implementing measures on collecting excise tax on the import of e-cigarettes through channel of goods.

We have become subject to additional taxation pursuant to the above-mentioned announcements, and there remains further uncertainty with regard to the tax regime that may be applicable to us or the e-vapor industry in the future. Under the regulatory framework applicable to the e-vapor industry, we may no longer be qualified as a "high and new technology enterprise" as an e-vapor brand in China. Therefore, we may no longer be eligible for the preferential income tax rate of 15% or be entitled to claim super-deduction of certain qualified research and development expenses when determining the taxable income. See "Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulations on Tax" for more details. Furthermore, we may no longer be entitled to subsidies granted by the local government. If additional tax or increased tax rates become applicable to our e-vapor products or us in the future, the business, results of operation and financial condition of us and the consolidated VIE would be materially and adversely affected. See also "— Failure to obtain or maintain any of the preferential tax treatments and government subsidies or imposition of any additional taxes and surcharges could adversely affect our financial condition and results of operations."

Other Implementing Rules and Guidance Opinions

From April 2022 to the date of this annual report, the State Tobacco Monopoly Administration have issued a series of implementing rules and guidance opinions, including the Several Policies and Measures in Relation to Promoting the Legalization and Standardization of the E-cigarette Industry (for Trial Implementation), the Implementing Rules on E-cigarette Product Technical Review, the Administrative Rules on E-cigarette Product Traceability, the Notice on Matters relating to the Labeling of the Traceability QR Codes of E-cigarette Products, the Guiding Opinions on Approval of the Tobacco Monopoly License for Manufacturing Enterprises to E-cigarette Manufacturing Enterprises, the Administrative Rules on the Tobacco Monopoly License for E-cigarette Manufacturing Enterprises or E-cigarette Wholesale Enterprises, the Guiding Opinions on E-cigarette Wholesale Enterprises Layout, the Guiding Opinions on E-cigarette Retail Outlets Layout and License Administration, the Implementation Rules on the E-cigarette Product Quality Supervision and Random Inspection, the Implementation Rules on the E-cigarette Product Identification and Testing, the Implementation Rules on the E-cigarette Product Packaging, the Regulations on the Warning Signs of E-cigarettes, the Administrative Rules on Logistics of E-cigarettes, the Administrative Rules on Transaction of E-cigarettes, the Administrative Rules on Establishment, Division, Merger or Dissolution of E-cigarette Manufacturing Enterprises, the Administrative Rules on Fixed Asset Investment of E-cigarettes, the Administrative Rules on the Examination and Approval of the Establishment of Foreign-invested E-cigarette-related Manufacturing Enterprises, the Administrative Rules on the Import and Export Trade and Foreign Economic and Technical Cooperation of E-cigarettes and the Guidelines on Promoting the Construction of Product Quality Assurance System for Export of E-cigarette.

Such implementing rules and guiding opinions further regulate e-cigarette industrial policies, the technical review of e-cigarette products, e-cigarette product traceability system, approval and administration of licenses for e-cigarette manufacturing enterprises, e-cigarette wholesale enterprises and e-cigarette retail outlets, layout of e-cigarette wholesale enterprises and e-cigarette retail outlets, e-cigarette product quality supervision and random inspection, e-cigarette product identification and testing, e-cigarette product packaging, warning signs on e-cigarette product package, the logistics and transactions of e-cigarette products, the establishment, division, merger or dissolution of e-cigarette manufacturing enterprises, fixed asset investment of e-cigarettes, foreign investment in e-cigarettes, and import and export trade, foreign economic and technical cooperation of e-cigarettes.

The existing and additional laws, regulations, policies or governmental announcements that regulate the sale and use of e-cigarettes may continue to adversely affect the business, growth and prospects of us and the consolidated VIE. For example, the Notice of Maintaining Civil Aviation Order to Ensure Air Transportation Security promulgated by Civil Aviation Administration of China states that the usage of e-cigarettes would be treated as smoking and is therefore prohibited in aircrafts. In addition, some cities, such as Shenyang, Hainan, Shenzhen, Hangzhou, Chengdu, Xi'an, Nanning and Chongqing, have banned the use of e-cigarettes in public places, which include, among others, public transportation and indoor workspace. Such prohibition may also affect the usage of our products, which may in turn adversely affect the sales of our products. Further, sales of e-cigarettes in China are also subject to relevant PRC laws and regulations that are generally applicable to the sales of goods, such as the PRC Civil Code and the Product Quality Law of the PRC. See "Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulations Related to Our Products." In addition, certain articles published on *Bulletin of the WHO* stated that governments should consider prohibiting the use of e-vapor products in indoor areas to protect non-users from involuntary exposure to second-hand aerosols, issuing warnings about the potential health risks of e-vapor products and imposing higher taxes on e-vapor products. Certain limitations may be imposed on the e-vapor industry, such as prohibition of usage in public spaces or imposition of additional tax, either of which may materially and adversely affect the development of the e-vapor industry.

In addition, regulations governing vaping products outside of China are subject to a dynamic and often fragmented global regulatory environment, which may present additional compliance challenges. These varying regimes may evolve further in response to public health considerations, and any significant changes could affect our ability to operate in those markets and result in additional compliance costs. For more details on regulations in these jurisdictions, see "Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulations in Other Jurisdictions."

We cannot assure you that government authorities will not impose further restrictions on e-vapor products in the future. Such restrictions, if any, may adversely affect supplies of raw materials, production and sales activities, taxation or other aspects of the business operation of us and the consolidated VIE. We may not be able to comply with any or all changes in existing laws and regulations or any new laws and regulations and may incur significant compliance cost. All of the above may adversely affect our production, distribution or market demand for e-vapor products, and thus adversely affect the business, financial condition and results of operations of us and the consolidated VIE. As we continue to grow in scale and significance, we expect to face increased scrutiny, which may result in increased investment in compliance and related capabilities.

We are subject to a variety of uncertainties, costs and risks during our international expansion.

Our business and results of operations are affected by the execution of our international expansion strategy. In international markets, we offer rechargeable e-vapor products, disposable vaping system and e-liquid products. We plan to seek international expansion primarily by collaborating with established international partners, acquiring well-known brands, or setting up joint ventures in international markets. For instance, we began to conduct our North Asia Business in December 2023 after we acquired SS North Asia Holding Limited. In 2024, we made significant strides in our global expansion by entering three new markets in Asia Pacific region, further solidifying our presence in key international markets.

Our international expansion will place increased demands on our operational, managerial and administrative resources. A number of factors could have an adverse impact on our operating results if our efforts to expand internationally are not successful. These factors include changes in market needs and product trends, economic fluctuations, political and social turbulence, relevant countries or regions' relationships with China, changes in legal regulations or other conditions and difficulties in employing and training appropriate management and local employees. In comparison to our operations in China, we will become subject to a number of additional risks and challenges as we expand into international markets, including but not limited to, the following:

- increased legal compliance due to a wide variety of local laws and regulations;
- inability to obtain government approvals, licenses and permits;
- competition from major, established competitors in international markets with more experience and resources;
- inability to anticipate foreign users' preferences and customs;
- difficulties encountered when establishing overseas supply chain;
- difficulty to manage logistics and inventory effectively;

- difficulty to find qualified partners for overseas cooperation;
- our ability to manage costs during our global expansion;
- difficulties in hiring experienced staff and managing foreign operations;
- wars or political and economic instability;
- trade restrictions;
- lesser degrees of intellectual property protection;
- tariffs and customs duties and the classifications of our goods by applicable governmental bodies;
- a legal system subject to undue influence or corruption; and
- high inflation.

In particular, we face regulatory uncertainties and may incur substantial compliance costs when we enter into a new international market. Regulations in different international markets could vary significantly. Given the complexity, uncertainties and frequent changes in these laws, rules, regulations, policies and measures in international markets, including changes in their interpretation and implementation, our business activities and growth may be adversely affected if we do not respond to the changes in a timely manner or fail to fully comply with the applicable laws, rules, regulations, policies and measures. Non-compliance may subject us to sanctions by regulatory authorities, to monetary penalties, or to restrictions on our activities or revocation of our licenses, which may result in a material adverse effect on our business, financial condition and results of operations in the relevant international market. We also have to closely monitor changes in local laws and complete all necessary procedures and filings accordingly. Furthermore, we may also from time to time encounter legal disputes with various parties in international markets in our ordinary course of business operations.

Our international business expansion exposes us to risks associated with our relationship with Relx Inc.

As part of our international expansion, we maintain a business relationship with Relx Inc., an entity ultimately controlled by Ms. Ying (Kate) Wang, who also controls us. Relx Inc. currently operates the production and sale of e-vapor products in markets outside of China under the “RELX” and other brands pursuant to an intellectual property license agreement covering our trademarks and certain proprietary rights for international markets. For more details, see “Item 4. Information on the Company—A. History and Development of the Company—We undertook a corporate restructuring.”

A significant portion of our revenue in 2024 was generated from the supply of e-vapor products through our offshore entity to Relx Inc., which then distributed these products in overseas markets. This business arrangement exposes us to additional risks. For instance, changes in our relationship with Relx Inc. or in the underlying ownership and control structure may create uncertainties regarding the continuity or terms of our cooperation, which could materially and adversely affect our results of operations and prospects. Although Relx Inc. operates independently, its business activities may nonetheless be perceived by regulators, customers, or the general public as part of our consolidated business. As a result, any adverse developments, including regulatory scrutiny, operational issues or reputational events affecting Relx Inc. or its overseas business, may negatively impact our brand, our business, and the operations of our consolidated affiliated entities.

If it is determined or perceived that the usage of e-vapor products poses long-term health risks, the use of e-vapor products may decline significantly, which may materially and adversely affect the business, financial condition and results of operations of us and the consolidated VIE.

Since e-vapor products were only introduced to the market in the last two decades and are rapidly evolving, studies relating to the long-term health effects of e-vapor product usage are still ongoing. Currently, there remain uncertainties regarding whether e-vapor products are sufficiently safe for their intended use and health risks associated with the usage of e-vapor products have been under scrutiny. According to the WHO, there is no conclusive evidence that the use of e-vapor products facilitates smoking cessation. The WHO recommended governments to strengthen relevant laws and regulations on the sale of e-vapor products, to, among other things, prohibit marketing strategies targeting the underage and the non-smoking population.

Negative publicity on the health consequences of e-vapor products or other similar devices and their social impact, especially among juveniles, may also adversely affect the usage of e-vapor products. For example, a morbidity and mortality report published by CDC on October 1, 2021 claimed that use of tobacco products by youths in any form, including e-cigarettes, is unsafe. It reported that most e-cigarettes contain nicotine, and nicotine exposure during adolescence can harm the developing brain. There have been claims that users of e-vapor products may suffer a greater risk of bone damage, smoking relapse, depression, stroke or prediabetes. Additionally, there is also negative publicity on the social impact of e-vapor products or other similar devices. For example, many have criticized that the broad selection of different flavors of e-vapor products have imposed certain negative impact on the population of juveniles in China. Though it remains unclear whether the use of e-vapor products will increase such health-related risks or negative social impact, the ongoing negative publicity associated with e-vapor product usage may negatively impact the business, financial condition and results of operations of us and the consolidated VIE.

Research regarding the actual causes of these illnesses is still ongoing. If e-vapor product usage is determined or perceived to pose long-term health risks or to be linked to illnesses, the usage of e-vapor products may significantly decline, which would have a material adverse effect on the business, financial condition and results of operations of us and the consolidated VIE. Although we currently do not offer products containing THC, any perceived correlation between THC and Vitamin E acetate may adversely affect the public's perception of e-vapor products in general, regardless of whether such products contain THC and/or Vitamin E.

We operate in an emerging and evolving market in China and globally, which may develop more slowly or differently than we expect.

The e-vapor market in China and globally is exposed to uncertainties with respect to the evolving regulatory environment, acceptance of e-vapor technologies and products, health studies relating to e-vapor product use, macro-economy, disposable income growth, the level of scrutiny imposed by regulatory authorities of local governments on the e-vapor industry and the pace of development of technologies and other factors. Furthermore, the e-vapor market is at its early stage and continues to evolve, and the penetration of e-vapor products among adult smokers remains relatively low. There can be no assurance that the penetration of e-vapor products among adult smokers will further deepen, or that the e-vapor market will grow at a pace that we expect. Additionally, the development of e-vapor market is subject to the uncertainty of the overall regulatory landscape for such products in different countries, which may have a material impact on the market development of e-vapor products. For instance, in China, the implementation of the E-Cigarettes Administrative Measures that came into effect on May 1, 2022, the National Standards that came into effect on October 1, 2022, and the relevant implementing rules and guiding opinions, have materially affected and may further materially affect the business, financial condition and results of operation of us and the consolidated VIE. See “—Our business is subject to a large number of laws across many jurisdictions, many of which are evolving” and “Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulations Related to Our Products” for more details.

There can be no assurance that the regulatory regime will be favorable to e-vapor products in general or us. It is also uncertain whether our products and services will achieve and sustain high levels of market acceptance and meet users' expectations. Our ability to increase the sales of our e-vapor products depends on several factors, some of which may be beyond our control, including users' receptiveness towards and adoption of e-vapor technologies and products, market awareness of our brand, the market acceptance of our products and services, the “word-of-mouth” effects of our products and services, and the cost, performance and functionality of our products and services. If we are unsuccessful in implementing our business strategies, developing our e-vapor products or reaching adult smokers, or if these users do not accept our e-vapor products, the market for our products may not continue to develop or may develop more slowly than we expect, any of which could materially and adversely affect our profitability and growth prospects.

We are exposed to product liabilities and user complaints arising from the products we sell, which could have a material adverse impact on us.

We may be subject to product liability claims and other legal liabilities in the jurisdictions in which we operate. Although we sell our products through different distribution models, we may still be held liable for product defects under general laws on product liability, consumer protection, or tort if the use of our products causes personal injury, property damage, or other health and safety concerns. For example, following changes to the regulatory framework applicable to China's e-vapor industry in 2022, we currently sell our products in China to qualified distributors with wholesale licenses (namely, provincial Tobacco Commercial Enterprises) via the National Transaction Platform. These distributors then supply our products to retailers holding Tobacco Monopoly Licenses for Retail Business ("Retail License"), who ultimately sell the products to users across China. Outside of China, we are also subject to local regulatory requirements, and adverse events related to our products in overseas markets may likewise give rise to product liability or consumer claims against us.

There is no assurance that we can succeed in defending ourselves, and we may be required to pay significant amounts of damages for product liability claims. Further, product liability claims against us, whether or not successful, are costly and time-consuming to defend. These disputes may result in negative publicity that could severely damage our reputation and affect the marketability of our products, and could result in substantial costs and diversion of our resources and management's attention. Any of the above could in turn materially and adversely affect the business, financial condition and results of operation of us and the consolidated VIE. Although we may seek indemnification or contribution from our suppliers in certain circumstances, we cannot assure you that we will be able to receive indemnification or contribution in full, or at all.

Although we may have legal recourse against the suppliers and manufacturers of such products pursuant to applicable laws, attempts to enforce our rights against such suppliers and manufacturers may be expensive, time-consuming and unsuccessful. We maintain limited product liability insurance for claims of personal injury and property damage caused by our products. There is no assurance that our insurance coverage will be adequate to cover such claims. Our insurance does not provide coverage for all liabilities (including liability for certain events involving pollution or other environmental claims). In addition, there can be no assurance that we will be able to maintain our product liability insurance on acceptable terms. If we cannot maintain our product liability insurance on reasonable terms or our insurance does not sufficiently compensate us for the losses we sustain in the event of a legal proceeding, the business, financial condition and results of operations of us and the consolidated VIE would be adversely affected.

We have received complaints in the past in relation to the quality and functionality of our products. We take these complaints seriously and endeavor to resolve such complaints by implementing various remedial measures. Nevertheless, we cannot assure you that we can successfully prevent or address all user complaints. We may also be subject to claims resulting from such complaints. Any complaints or claims against us, even if meritless and unsuccessful, may divert our management's attention and other resources from the business of us and the consolidated VIE and adversely affect the business and operations of us and the consolidated VIE. Furthermore, negative publicity including, but not limited to negative online reviews on social media and crowd-sourced review platforms, industry findings or media reports related to the quality, functionality and health concerns of e-vapor products, whether or not accurate, and whether or not concerning our products, can adversely affect our business, results of operations and reputation. Such negative publicity may reduce users' confidence in us, our products and our brand, which may adversely affect the business and results of operations of us and the consolidated VIE.

The business and results of operations of us and the consolidated VIE may be harmed by any failure to maintain and enhance the value of our brand.

As we primarily leverage word-of-mouth referrals among adult smokers to promote our brand, market recognition of our brand is critical for us to remain competitive. However, we may not be able to maintain the reputation of our brand in the future.

Our brand's recognition and reputation depend on our ability to consistently practice our ethical principles. For example, usage of our products by the underage would significantly impair our brand image. In addition, counterfeit and compatible products would also impair our brand image and cause disruption to the business of us and the consolidated VIE. We have undertaken a number of key initiatives to address underage usage of our products and the issue of counterfeiting and compatible products. We cannot assure you that these initiatives will be successful. For example, if we fail to implement effective measures to prevent purchases and uses of our products by the underage in accordance with announcements, guidance and regulations issued by government authorities, we may be subject to negative publicity and legal proceedings. Additionally, counterfeit and compatible products associated with our brand may also impair our brand image and cause disruption to the business of us and the consolidated VIE. Counterfeit and compatible products may use logos and designs similar to ours in order to confuse the users. Our prospective or existing users may mistakenly use those counterfeit and compatible products and attribute any issues, dissatisfaction or frustration they experience from such products to our company, which may significantly impair our brand image. Even though we have devoted significant resources to combat sales of counterfeit and compatible products, there can be no guarantee that we may succeed in eliminating counterfeit and compatible products and it could take even greater efforts to eliminate the negative public perception of our company caused by such counterfeit and compatible products. If we fail to address the risks and challenges above, public perception of our brand may be materially and adversely affected.

There have been historical cases of unauthorized distribution of our products and such distribution may continue without our authorization, violating applicable laws, regulations and policies. For example, though we have written down those products that do not satisfy the requirements of the National Standards in response to the regulatory developments in 2022, there could be unauthorized distribution of our products that are obsolete or otherwise do not satisfy the requirements of the National Standards. In particular, unauthorized distribution of non-tobacco-flavored e-vapor products associated with our brand would impair our brand image and cause disruption to the business of us and the consolidated VIE. As those unauthorized distributions are beyond our control, there can be no assurance that we can detect such unauthorized distribution in a timely manner or at all. Our reputation and brand image may be materially and adversely affected if such unauthorized distributions lead to negative public perception.

In order to maintain and enhance the value of our brand, we also have to continue to provide a superior user experience and a wide selection of products, cater to users' preferences and expectations, and maintain the reliability, quality and functionality of our products, which in turn may also help us maintain our existing user base or have more new users. However, there can be no assurance that the user experience we provide through our products will be recognized or accepted by adult smokers in China and other international markets. Failure to address these risks and challenges may materially and adversely affect the business, results of operations, financial condition and prospects of us and the consolidated VIE.

In addition, users may be discouraged from purchasing our products if there is any negative publicity in connection with the use of our products, such as the quality or side effects of our products. Our reputation may also be adversely affected if there is any negative publicity relating to us, our directors, officers, employees, distributors, suppliers or manufacturers that are known to associate with us. Negative publicity may concern various matters, including but not limited to failure to provide equal opportunities to our employees, inability to enforce our codes of ethics and business conducts and workplace sexual harassment. Furthermore, negative publicity about other market players or isolated incidents, regardless of whether or not it is factually correct or whether we have engaged in any inappropriate activities, may result in negative perception of our industry as a whole and undermine the credibility we have established. Any damage to our brand name or reputation as a result of these or other factors may cause our products and services to be perceived unfavorably by users, distributors, retailers, other business partners and governmental authorities, and the business operations and prospects of us and the consolidated VIE could be materially and adversely affected as a result.

We have adapted our business, including distribution of products, to the new and currently effective regulatory framework applicable to China's e-vapor industry and us, which have materially and adversely affected and may further materially and adversely affect our business, prospects, results of operations and financial performance.

Pursuant to the E-Cigarettes Administrative Measures, which came into effect on May 1, 2022, (i) any e-cigarette retailer, including any entity or individual who engages in the retail business of e-cigarettes, must apply with the competent department of tobacco monopoly administration for a Tobacco Monopoly License for Retail Business or approval of modification of its registered business scope, and (ii) any enterprise that has obtained the Tobacco Monopoly License for Wholesale Enterprises must apply with the department of tobacco monopoly administration under the State Council for approval of modification of its registered business scope prior to engagement in the wholesale business of e-cigarette products. In addition, according to the E-Cigarettes Administrative Measures and the Administrative Rules on Transaction of E-cigarettes, which came into effect on June 2, 2022 and was further amended on August 27, 2024, e-cigarette, e-atomization material, and e-cigarette nicotine, among others, can only be transacted via the national e-cigarette transaction and management platform, or the National Transaction Platform, which has been established by the department of tobacco monopoly administration under the State Council, and e-cigarette manufacturing enterprises are required to sell e-cigarettes to e-cigarette wholesale enterprises via the National Transaction Platform in China. See “Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulations Related to Our Products—E-Cigarettes Administrative Measures” for more details.

In response to the evolving regulatory requirements in China, we have adapted our business, including distribution of products, to the new and currently effective laws, regulations, and policies applicable to China's e-vapor industry and us. We currently sell our products in China to the qualified distributors with wholesale license (namely provincial Tobacco Commercial Enterprises in China) via the National Transaction Platform in compliance with the E-Cigarettes Administrative Measures, the Administrative Rules on Transaction of E-cigarettes, and other applicable laws. The qualified distributors would supply our products to the qualified retailers with retail license via the National Transaction Platform, who then sell our products to users across China. There is, however, no assurance that these qualified distributors will be able to maintain, renew or update their existing licenses, or that no additional restrictions will be imposed on the location of the e-vapor retail outlets and the availability of e-vapor products. If the qualified distributors fail to maintain, renew or update the requisite licenses, or there are new laws, regulations, policies or guidelines introduced to impose additional government approvals, licenses, permits and requirements, the distribution of our products may be adversely affected, our business may be disrupted, and our results of operations may suffer. Also, there can be no assurance that we will be able to maintain our cooperation and contractual relationships with all our existing qualified distributors, and we do not have any control over such distributors. If any of such relationships is terminated, our ability to supply our products to qualified retailers and then to users in China may be adversely affected, which will harm the business, results of operations and financial conditions of us and the consolidated VIE.

In addition, there remains uncertainty as to whether the retailers who sell our e-vapor products to users in China can obtain sufficient products for their orders placed with the qualified distributors with wholesale license, who need to transact directly and solely with the National Transaction Platform for the distribution of e-vapor products in China. Further, there remains uncertainty as to whether the scope or coverage of the qualified retailers that sell our products to the users across China will be subject to further changes due to the developments in applicable laws, regulations and policies, or the implementation thereof. If existing qualified retailers that sell our products fail to renew, maintain or update their retailer licenses or new applicants cannot obtain retail licenses in a timely manner, or at all, we may not have adequate retailers to cover the nationwide distribution of our products, which may adversely affect the availability of our e-vapor products in the China market or otherwise result in discrepancy between the supply of our e-vapor products to the users and the actual user demands. If the supply of our e-vapor products to users in China fails to meet the user demands, our results of operations and financial condition may be materially and adversely affected. In addition, for our products manufactured in China and exported to overseas markets, we are also required to comply with applicable requirements under the PRC tobacco regulatory framework. Any failure to comply with such requirements could result in regulatory penalties, disruption of product exportation, or reputational harm, which may in turn adversely affect our international business and results of operations.

We may be subject to interest rate risk in connection with our interest income.

We may be exposed to interest rate risk primarily relating to the interest income generated by excess cash, which is mostly held in interest-bearing bank deposits and investment securities. Our interest income decreased by 1.8% from RMB627.9 million in 2023 to RMB616.4 million (US\$84.4 million) in 2024, mainly due to decrease of our investment of excess cash into interest-bearing bank deposits. Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. As of the date of this annual report, we have not been exposed to material risks due to changes in market interest rates and we have not used derivative financial instruments in our investment portfolio to hedge exposure to such risk. However, our future interest income may fall short of expectations due to changes in market interest rates, and our financial condition may be materially and adversely affected as a result.

We may be exposed to credit risk.

We have certain financial instruments that potentially expose us to credit risk, consisting primarily of cash and cash equivalents, restricted cash, short-term bank deposits, long-term bank deposits, accounts and notes receivable, receivables from online payment platforms, short-term investments, long-term investment securities and amounts due from related parties. Meanwhile, actual events involving limited liquidity, defaults, non-performance or other adverse developments that affect financial institutions, transactional counterparties or other companies in the financial services industry or the financial services industry generally, or concerns or rumors about any events of these kinds or other similar risks, have in the past and may in the future lead to market-wide liquidity and credit risk problems. For example, on March 10, 2023, Silicon Valley Bank (“SVB”) was closed by the California Department of Financial Protection and Innovation, which appointed the Federal Deposit Insurance Corporation (“FDIC”) as receiver. Similarly, on March 12, 2023, Signature Bank and Silvergate Capital Corp. were each swept into receivership. Although a statement by the Department of the Treasury, the Federal Reserve and the FDIC indicated that all depositors of SVB would have access to all of their money after only one business day of closure, including funds held in uninsured deposit accounts, borrowers under credit agreements, letters of credit and certain other financial instruments with SVB, Signature Bank or any other financial institution that is placed into receivership by the FDIC may be unable to access undrawn amounts thereunder.

Though we do not have any banking relationship with SVB and Signature Bank and we select reputable financial institutions with high credit ratings and quality with caution to place our relevant assets, failure, entrance into receivership or insolvency by any of these financial institutions in response to conditions affecting the banking system and financial markets, such as the recent occurrence at SVB and Signature Bank, which did not materially affect us, could threaten our ability to access our existing cash, cash equivalents and investments and could materially and adversely impact our financial position and results of operations. As of the date of this annual report, there has been no recent history of default or any of the incidents described in the immediately preceding sentence in relation to these financial institutions. Also, although we are not a borrower or party to any such instruments with SVB, Signature or any other financial institution currently in receivership, if any of our lenders or counterparties to any such instruments were to be placed into receivership, we may be unable to access such funds. In addition, if any of our customers, suppliers or other parties with whom we conduct business are unable to access funds pursuant to such instruments or lending arrangements with such a financial institution, such parties’ ability to pay their obligations to us or to enter into new commercial arrangements requiring additional payments to us could be adversely affected.

Additionally, our trading terms with some of the offline distributors and other parties in e-cigarettes value chain are on credit and the related accounts receivable are typically unsecured. Substantial uncertainties remain as to how long the credit period will be and whether we can collect payments from the relevant counterparties in a timely manner, or at all. As of December 31, 2024, our accounts and notes receivable, net was RMB78.5 million (US\$10.8 million). Although we perform credit assessment on the distributors and other relevant counterparties and monitor our outstanding balances on an ongoing basis, we are not fully exempt from all the risks associated with potential bad debts. There can be no assurance that the qualified distributors and our other business partners will not default on their obligation to us in the future. In addition, the evolving regulatory regime may expose us to increased credit risk as the relevant counterparties in e-cigarettes value chain may not be able to or be willing to make payments to us if their businesses have been or will be materially and adversely affected by the regulatory developments. If we fail to address such risks and challenges, prolonged credit period and defaults may lead to an increase in provision of bad debts in the future, which may result in material losses. As a result, the business, results of operations, financial conditions and prospects of us and the consolidated VIE may be materially and adversely affected.

We may fail to continue to develop, innovate and utilize our technologies, which are core to our success.

We believe our technologies are core to our success and are critical to the business of us and the consolidated VIE. Our products are empowered by our proprietary technological innovations, such as e-liquid formulation, the engineering of the cartridge structure and the Essential Elements Solutions, to optimize adult smokers' experience with our products. However, we cannot assure you that we can keep up with the fast pace of the technology industry, especially the technologies applicable and related to e-vapor products, and continue to develop, innovate and utilize our proprietary capabilities. In particular, e-vapor technologies are still at an early stage. New solutions and technologies developed and introduced by competitors could render our technologies obsolete. Developing and integrating new technologies into our existing products could be expensive and time-consuming. We may not succeed in developing and incorporating new technologies at all. Additionally, we may also face competition from innovative tobacco products developed and introduced to the China and international market with attractive features, which will increase the level of competition and may cause us to lose market share. If we fail to continue to develop, innovate and utilize technologies effectively and on a timely basis, the business, financial performance and prospects of us and the consolidated VIE could be materially and adversely affected.

We may not be able to develop and introduce new products or upgrade existing products in a timely and cost-effective manner, which may adversely affect the business, results of operations and prospects the business of us and the consolidated VIE.

To optimize adult smokers' experience, we must introduce new products and upgrade our existing products to meet our users' evolving preferences for both China and international markets. On the one hand, it is difficult to predict the preferences of our users or a specific segment of users. Changes and upgrades to our existing products may not be well received by our users, and newly introduced products may not achieve expected results. On the other hand, the E-Cigarettes Administrative Measures, which came into effect on May 1, 2022, impose a ban on flavored e-cigarettes except for tobacco flavor e-cigarettes for our operations in China. The existing and evolving laws, regulations and policies applicable to us have restricted, and may further restrict, our ability to develop and introduce new products or upgrade existing products in a timely and cost-effective manner. The National Standards in China also require that e-liquid must contain nicotine and that the concentration of nicotine in the aerosol should not be higher than 20 mg/g and the total amount of nicotine should not be higher than 200 mg. In light of that, we have adjusted our product design, specifications and other aspects of our products in China to comply with the National Standards, and our ability to develop and introduce new products or upgrade existing products in the future may be further restricted. In addition to complying with the National Standards, the new products require approvals from the applicable governmental authorities in China. We would also need to launch our new products in the relevant provinces and municipalities, and communicate with each qualified distributor to get the new products listed in the market. All of the above, especially the limitations imposed by the evolving regulatory framework on our ability to develop and introduce new products or upgrade existing products, may materially and adversely affect the end-user experience in consuming our products and thereby significantly reduce the competitiveness and sales volume of our products in the future. We may also face competition from innovative tobacco products developed and introduced to the China and international market with attractive features, which will increase the level of competition and may cause us to lose market share. Additionally, there have been cases of illegal distribution of non-tobacco-flavored e-cigarettes in the China market, which may further adversely affect the distribution and sales of our products in China which are in compliance with the National Standards. See "Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulations Related to Our Products" for more details on the E-Cigarettes Administrative Measures and the National Standards. Going forward, we may introduce new products with different features to the extent permissible under the applicable regulatory regime. Such efforts may require substantial investments of additional human capital and financial resources. If we fail to improve our existing products or introduce new ones in a timely or cost-effective manner, our ability to attract and retain users may be impaired, and our results of operations and prospects may be adversely affected.

Although we endeavor to understand user preferences through surveys, sampling and other forms of interactions from time to time, we cannot assure you that we can anticipate, identify, develop or market products that respond to changes in users' preferences and expectations. For example, our surveys may not yield accurate or useful insights on user behaviors, and feedbacks on our products may be different after such products are commercially available to a wider public. There can be no assurance that any of our new products will achieve market acceptance or generate sufficient revenues to offset the costs and expenses incurred in relation to our development and promotion efforts. There can be no assurance that each of our new products will achieve market acceptance and be successful.

We may engage in acquisitions, investments or strategic alliances, which could require significant management attention and materially and adversely affect our business and results of operations.

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

Any 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. 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 financial results could be adversely affected by our investments or acquisitions. The investments and acquired assets or businesses may not generate anticipated synergies with our business or achieve anticipated financial growth as we would expect. They could result in significant investments and goodwill impairment charges and amortization expenses for other intangible assets, which would adversely affect our financial condition and operating results.

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

Due to our international presence, our business operation involves the use of various currencies, such as RMB, U.S. dollars and other currencies. For purposes of financial reporting, the local currency results are translated into U.S. dollars based on average exchange rates prevailing during a reporting period. We cannot assure you that foreign currencies will not appreciate or depreciate significantly in value against the U.S. dollar in the future. Especially, it is difficult to predict how market forces or government policy may impact the exchange rate between Renminbi, the U.S. dollar and other currencies. Capital controls and/or foreign currency exchange constraints may affect the ability of our subsidiaries in impacted jurisdictions to settle foreign currency denominated imports of goods and services and/or to pay dividends and royalties. These factors may also increase foreign currency devaluation risks, which may have a negative impact on our net assets and results of operations in these jurisdictions. All of which could have a material adverse effect on our financial condition, including our leverage ratios, cash flows, net earnings, and profitability.

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency. As a result, fluctuations in exchange rates may have a material adverse effect on your investment.

We are subject to risks relating to our leased properties.

We lease real properties from third parties primarily for our office, the offline stores operated by ourselves and production facilities in China, and most of these lease agreements for these properties have not been registered with the PRC governmental authorities as required by PRC law. Although the failure to do so does not in itself invalidate the leases, we may be ordered by the PRC government authorities to rectify such noncompliance and, if such noncompliance is not rectified within a given period of time, we may be subject to fines imposed by PRC government authorities ranging from RMB1,000 and RMB10,000 for each lease agreement that has not been registered with the relevant PRC governmental authorities.

The ownership certificates or other similar proof of most of our leased properties have not been provided to us by the relevant lessors. Therefore, we cannot assure you that such lessors are entitled to lease the relevant real properties to us. If the lessors are not entitled to lease the real properties to us and the owners of such real properties decline to ratify the lease agreements between us and the respective lessors, we may not be able to enforce our rights to lease such properties under the respective lease agreements against the owners. If our lease agreements are claimed as null and void by third parties who are the real owners of such leased real properties, we could be required to vacate the properties, in the event of which we could only initiate claims against the lessors under relevant lease agreements for indemnities for their breach of the relevant leasing agreements. We cannot assure you that suitable alternative locations are readily available on commercially reasonable terms, or at all, and if we are unable to relocate our officers in a timely manner, the operations of us and the consolidated VIE may be interrupted.

As of the date of this annual report, we are not aware of any claim or challenge brought by any third parties concerning the use of our leased properties without obtaining proper ownership proof. In 2021, a dispute arose between the owner and lessor of our former Beijing office regarding the lease agreement between them, and they have submitted the dispute to the court for resolution. The owner did not claim that our lease agreement with lessor was null or that we have been using our former Beijing office without obtaining proper ownership proof, but requested us to directly pay rent to the owner rather than the lessor. In May 2023, the Beijing Third Intermediate People's Court issued a ruling in favor of the owner, terminating the lease agreement between the owner and the lessor. Following an appeal by the lessor, the Beijing Higher People's Court reaffirmed the lower court's decision in September 2023. Upon negotiation with the owner and the lessor, we suspended the payment of property rent since March 2023 until the owner and the lessor reach an arrangement on who shall receive such rent from us. Because we are not a party of or otherwise involved in the foregoing dispute, and we have ceased to use the property in dispute in December 2023, our business operation has not been affected by such legal dispute.

We may be subject to the approval, filing or other requirements of the CSRC or other PRC governmental authorities in connection with future capital raising activities.

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 are subject to further clarification, and our offshore offerings may ultimately require approval of the CSRC. If the CSRC approval is required, it is uncertain whether we can, or how long it will take us to, obtain the approval and, even if we obtain such CSRC approval, the approval could be rescinded. Any failure to obtain or delay in obtaining the CSRC approval for any of our offshore offerings, or a rescission of such approval obtained by us, would subject us to sanctions imposed by the CSRC or other PRC regulatory authorities, which could include fines and penalties on the operations of us and the consolidated VIE 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 the business, financial condition and results of operations of us and the consolidated VIE.

On July 6, 2021, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council 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.

On February 17, 2023, the CSRC promulgated the Trial Measures for Overseas Listing and the Guidelines for Overseas Listing, or the Trial Measures and five supporting guidelines, which came into effect on March 31, 2023. According to the Trial Measures, PRC domestic companies that seek to offer and list securities in overseas markets, either in direct or indirect means, are required to fulfill the filing procedure with and report relevant information to the CSRC. The Trial Measures provide that if an issuer meets both of the following criteria, the overseas offering and listing of securities conducted by such issuer shall be determined as an indirect overseas offering and listing by a PRC domestic enterprise and is therefore subject to the filing and reporting requirements as required thereunder: (i) 50% or more of any of the issuer's operating revenue, total profit, total assets or net assets as documented in its audited consolidated financial statements for the most recent fiscal year is accounted for by domestic companies; and (ii) the main parts of the issuer's operation activities are conducted in mainland China, or the principal operation premises are located in mainland China, or the majority of senior management staff in charge of its business operations and management are PRC citizens or have habitual residences located in mainland China. The Trial Measures further stipulate that the determination as to whether a PRC domestic company is indirectly offering and listing securities in an overseas market shall be made on a substance-over-form basis.

Furthermore, the Trial Measures also provide that (i) where a domestic company seeks to indirectly offer and list securities in overseas markets, the issuer shall designate a major domestic operating entity, which shall, as the domestic responsible entity, fulfill the filing procedures with the CSRC; (ii) an initial public offering and listing shall be filed with the CSRC within three business days after the relevant application is submitted overseas; (iii) subsequent securities offerings of an issuer in the same overseas market where it has previously offered and listed securities shall be filed with the CSRC within three business days after the offering is completed; and (iv) subsequent securities offerings and listings of an issuer in overseas markets other than where it has offered and listed shall be filed pursuant to provisions as stipulated for initial public offerings and listings. Where a domestic company fails to fulfill the filing procedure or conceals any material fact or falsifies any major content in its filing documents, such domestic company may be subject to administrative penalties, such as orders to rectify, warnings, fines, and its controlling shareholders, actual controllers, the person directly in charge and other directly liable persons may also be subject to administrative penalties, such as warnings and fines.

On the same day, the CSRC also held a press conference for the release of the Trial Measures and issued the Notice on Administration for the Filing of Overseas Offering and Listing by Domestic Companies, which, among others, clarified that PRC domestic companies that have already been listed overseas on or before the effective date of the Trial Measures (i.e. March 31, 2023) shall be deemed as existing issuers, or the Existing Issuers. Existing Issuers are not required to complete the filing procedures immediately, and they are required to file with the CSRC when subsequent matters such as refinancing are involved.

In addition, pursuant to the Confidentiality and Archives Management Provisions, which was promulgated on February 24, 2023 and came into effect on March 31, 2023, PRC domestic enterprises seeking to offer securities and list in overseas markets, either directly or indirectly, shall establish and improve the system of confidentiality and archives work, and shall complete approval and filing procedures with competent authorities, if such PRC domestic enterprises or their overseas listing entities provide or publicly disclose documents or materials involving state secrets and work secrets of state organs to relevant securities companies, securities service institutions, overseas regulatory agencies and other entities and individuals. It further stipulates that (i) providing or publicly disclosing documents and materials which may adversely affect national security or public interests, and accounting records or photocopies thereof to relevant securities companies, securities service institutions, overseas regulatory agencies and other entities and individuals shall be subject to corresponding procedures in accordance with relevant laws and regulations; and (ii) any working papers formed in the territory of the PRC by securities companies and securities service agencies that provide domestic enterprises with securities services relating to overseas securities issuance and listing shall be stored in the territory of the PRC, the outbound transfer of which shall be subject to corresponding procedures in accordance with relevant laws and regulations.

However, given that the Trial Measures and the Confidentiality and Archives Management Provisions were promulgated in early 2023 and may continue to evolve, the implementation and interpretation, and how they will affect our listing status and future capital raising activities are subject to further clarification and interpretation. If we fail to complete the filing with or approval of the CSRC or other PRC government authorities in a timely manner or at all, for any future offering or any other activities which are subject to the filing or approval requirements under the aforesaid provisions, our ability to raise or utilize funds and our financial conditions, business operation, and business prospect may be adversely and materially affected.

Relatedly, on September 6, 2024, the NDRC and the MOFCOM jointly issued the Special Administrative Measures (Negative List) for Foreign Investment Access (2024 Version), or the 2024 Negative List, which became effective on November 1, 2024. Pursuant to such Special Administrative Measures, if a domestic company engaging in the prohibited business stipulated in the 2024 Negative List seeks an overseas offering and listing, it should obtain the approval from the competent governmental authorities. Besides, the foreign investors of the company should not be involved in the company's operation and management, and their shareholding percentage will be subject, mutatis mutandis, to the relevant regulations on the domestic securities investments by foreign investors. In a Q&A released on its official website, the respondent NDRC official indicated that the above mentioned requirements should only apply to direct overseas offering and listing of a domestic company engaging in the prohibited business stipulated in the 2024 Negative List. The interpretation and implementation of these new requirements in the 2024 Negative List are subject to further clarification, and it remains to be seen as to whether and to what extent we will be subject to these new requirements. If we are required to comply with these requirements and fail to do so on a timely basis, or at all, the business operation, financial conditions and business prospect of us and the consolidated VIE may be adversely and materially affected.

In addition, we cannot assure you that any new rules or regulations promulgated recently and, in the future, will not impose additional requirements on us. For example, the E-Cigarettes Administrative Measures stipulate that e-cigarette companies seeking initial public offering needs to obtain approval from the competent department of tobacco monopoly administration in advance. We are not certain how it will affect our current listing or any follow-on offering in the future. If it is determined in the future that approval and filing from the CSRC or other regulatory authorities or other procedures, including the cybersecurity review under the Cybersecurity Review Measures, the approval/filing requirements under the E-Cigarettes Administrative Measures, are required for our offshore offerings, it is uncertain whether we can or how long it will take us to obtain such approval or complete such filing procedures and any such 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 the operations of us and the consolidated VIE 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 the business, financial condition, results of operations, and prospects of us and the consolidated VIE, 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 the business, prospects, financial condition of us and the consolidated VIE, our reputation, and the trading price of our listed securities.

There might be competitions between us and our affiliated companies.

Historically, we entered into a non-competition agreement with Relx Inc., an entity ultimately controlled by Ms. Ying (Kate) Wang, to set forth the business scope of us and Relx Inc. and the non-compete obligations between these two companies. The non-competition agreement with Relx Inc. was terminated upon negotiation between Relx Inc. and us in November 2023, following which both companies are not restricted to operate their businesses inside and outside China and international markets. As we continuously expand into more international markets, there could be competition between us and Relx Inc. (and its affiliates) in the international markets. If we fail to coordinate well with Relx Inc. (and its affiliates) to minimize the competition, our financial condition and results of operations could be materially adversely affected and we may not achieve our development goals.

The business, financial condition and results of operations of us and the consolidated VIE may be adversely impacted by product defects or other quality issues.

Our products may contain defects that are not detected until after they are shipped or inspected by our users. Our failure to maintain the consistency and quality throughout our production process could result in substandard quality or performance of our products, and product defects could cause significant damage to our market reputation and reduce our sales and market share. For example, the products we distribute may contain lithium-ion or similar types of batteries. Defects in these products could result in personal injury, property damage, pollution, release of hazardous substances or damage to equipment and facilities. As we primarily rely on several suppliers and manufacturers to supply raw materials and produce our products, if there is any inherent defects in the raw materials or our manufacturers do not produce products that meet the industrial and our standards, we may fail to maintain our quality control over our products. Actual or alleged defects in the products we distribute may give rise to claims against us for losses and expose us to claims for damages. Historically, there have been instances of product recalls of our products. In the future, if we deliver any defective products, or if there is a perception that our products are of substandard quality, we may incur substantial costs associated with mass product recall, product returns and replacements and significant warranty claims, our credibility and market reputation could be harmed and our results of operations and market share may be adversely affected.

Further, defective products may result in compliance issues that could subject us to administrative proceedings and unfavorable results such as product recall and other actions. Such proceedings and unfavorable results could have a material adverse effect on our brand, reputation and results of operations. Some of our products may not be in strict compliance with certain existing regulations or industrial standards.

We are subject to supply shortages and interruptions, long lead times, and price fluctuations for key raw materials and components, any of which could disrupt our supply chain and have a material adverse impact on our results of operations.

Mass production of our products requires timely and adequate supply of various raw materials and components. We rely on third-party suppliers and manufacturers to source components and raw materials for production of our products, and some of these key components and raw materials are sourced from a limited number of suppliers. Therefore, we are subject to risks of shortages or discontinuation in supply, long lead times, cost increases and quality control issues with our suppliers. In addition, some of our suppliers may have more established relationships with our competitors and may choose to limit or terminate their relationships with us or prioritize our competitors' orders in the case of supply shortages.

In the event of a component or raw material shortage or supply interruption from suppliers, we will need to identify alternative sources of supply, which can be time-consuming, difficult to locate, and costly. We may not be able to source these components or raw materials on terms that are acceptable to us, or at all, which may undermine our ability to meet our production requirements or to fill distributor orders in a timely manner. This could cause delays in shipment of our products, harm our relationships with distributors and other business partners, and adversely affect our results of operations. In addition, there are laws and regulations that pose restrictions and requirements on certain raw materials and components of our products. Changes in the regulatory landscape of such raw materials and components may pose additional restrictions or requirements on such raw materials and components, which may further adversely affect the supply of such regulated raw materials and components. If we fail to address such risk, the business, results of operations and financial condition of us and the consolidated VIE may be materially and adversely affected.

Moreover, market prices for certain raw materials have been volatile. For example, we have experienced fluctuations in the market prices for certain important raw materials used in production in the past, and may continue to experience such fluctuations in the future. We may not be able to recover these costs through selling price increases, which would have a negative effect on our results of operations.

Human capital and equipment are also key elements in the overall manufacturing process. As the production process requires significant manpower and equipment, failure to effectively manage and address the risks relating to manpower shortage or equipment insufficiency could cause significant interruptions and delays to our production, which may in turn have a material and adverse impact on our results of operations.

Outbreaks of communicable diseases, natural disasters, banking crises or other events may materially and adversely affect the business, results of operations and financial condition of us and the consolidated VIE.

The business of us and the consolidated VIE could be adversely affected by the effects of communicable diseases and epidemics. In particular, the business and operations of us and the consolidated VIE could be disrupted if any of our employees or manufacturers, or any other key participants along the e-cigarettes value chain is suspected of having H1N1 flu, avian flu or another epidemic in our offices, within the distribution and retail process or at the manufacturing facilities of the manufacturers, since it could require all of the possible contact persons to be quarantined and/or their offices to be disinfected. In addition, our results of operations could be adversely affected to the extent that the outbreak harms the PRC economy in general. We are also vulnerable to natural disasters and other calamities. Our production and storage facilities and research laboratories as well as the offline stores operated by ourselves are located at several leased properties. We cannot assure you that such properties will have adequate measures to protect itself from the effects of fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, war, riots, terrorist attacks or similar events. Any of the foregoing events may give rise to cease of operations, which could cause the loss or corruption of products as well as adversely affect our ability to produce and distribute our products.

Furthermore, our manufacturers, suppliers and other third parties upon which we rely may be exposed to a number of global and regional risks outside of our control, including natural disasters, public health crises, political crises, banking crises or failures, political instability or other conflict, or other events outside of our control, which may in turn adversely affect the manufacturing or distribution of our products, which may harm the business, results of operations and financial condition of us and the consolidated VIE.

Misuse or abuse of our products may lead to potential adverse health effects, subjecting us to complaints, product liability claims and negative publicity.

We are unable to control how our users choose to use our products. For example, we cannot prevent the users from misusing or abusing our products or the underage from doing so if they somehow get access to our products. Our users may also use our products to inhale chemicals obtained from informal sources and in other potentially hazardous applications that can result in personal injury, product liability and environmental claims.

Misuse or abuse of our products, including use of our products in combination with other products and components from third parties, may significantly and adversely affect the health of our users, subjecting us to user complaints and product liability litigations, even though such products were not used in the manner recommended by us. Applicable law may render us liable for damages without regard to negligence or fault. Regardless of whether these complaints or product liability litigations hold merit, they may be costly and time-consuming to resolve, bring negative publicity that could damage our reputation and result in higher scrutiny by the government or stricter regulations, all of which could materially and adversely affect the business, financial condition and results of operations of us and the consolidated VIE.

We rely on a limited number of suppliers and manufacturers to supply and produce our products. Loss of any of those business partners would materially and adversely affect the business of us and the consolidated VIE.

We rely on a limited number of suppliers and manufacturers to supply and produce our products. In particular, a significant portion of our products is currently produced at an exclusive production plant in China that we manage in cooperation with a third-party operational partner. In addition, for our overseas business, we have engaged multiple third-party manufacturing partners to produce our products in accordance with our specifications and quality standards. If any of these suppliers or manufacturers experience operational disruptions, fail to meet our production requirements, or terminate their cooperation with us, we may face difficulties in maintaining product quality, managing costs, or ensuring timely delivery of products, which could materially and adversely affect our business, results of operations and reputation.

Especially in China, the E-Cigarettes Administrative Measures, which came into effect on May 1, 2022, require all e-cigarette manufacturing enterprises to apply with the department of tobacco monopoly administration under the State Council for a Tobacco Monopoly License for Manufacturing Enterprise. Additionally, the E-Cigarettes Administrative Measures stipulate that tobacco leaves, re-cured tobacco leaves, tobacco sheets and other tobacco monopoly products used for manufacturing e-cigarettes should be purchased from relevant enterprises that have been authorized by competent department of tobacco monopoly administration. The plan for purchase and sale of tobacco leaves, re-cured tobacco leaves, tobacco sheets and other tobacco monopoly products should be issued by the department of tobacco monopoly administration under the State Council. See “Item 4. Information on the Company—B. Business Overview-Government Regulations—Regulations Related to Our Products—E-Cigarettes Administrative Measures” for more details.

In response to these regulatory developments in 2022, we had adapted our cooperation with suppliers and manufacturers to the new and currently effective regulatory framework applicable to China’s e-vapor industry and us. By December 31, 2024, all of our suppliers and manufacturers had obtained the requisite licenses and authorization under the E-Cigarettes Administrative Measures for our operations in China. However, we cannot assure you that our suppliers and manufacturers will be able to maintain, renew, or update their existing licenses and authorization or obtain additional licenses or authorization necessary for the supply and production of our products from time to time. Failure to maintain the required licenses, permits and approvals or other non-compliance of our suppliers and manufacturers may adversely affect the supply and production of our products.

Additionally, the implementation of the E-Cigarettes Administrative Measures may limit the quantity of e-vapor products that can be produced and supplied, and therefore, the supply of our e-vapor products may be less than what the market demands. Pursuant to the E-Cigarettes Administrative Measures and the Administrative Rules on Establishment, Division, Merger or Dissolution of E-cigarette Manufacturing Enterprises, the e-cigarette manufacturing enterprise should obtain the Tobacco Monopoly License for Manufacturing Enterprise from the tobacco monopoly administration under the State Council, and conduct the production within the permitted business scope, including the manufacturing capacity assigned to the applicable e-cigarette manufacturing enterprise, which could effectively impose a limitation on the quantity of the applicable e-cigarette products and/or raw materials that can be produced and supplied by such e-cigarette manufacturing enterprise during the term of the license. Further, according to the E-cigarettes Industrial Policies and Measures (for Trial Implementation), which were issued by the State Tobacco Monopoly Administration on April 25, 2022 and came into effect on the same day, the department of tobacco monopoly administration under the State Council shall be responsible for planning, managing and coordinating e-cigarettes' domestic overall distribution, manufacturing capacity and market demands. According to the Administrative Rules on Fixed Asset Investment of E-cigarettes, fixed asset investment of e-cigarettes shall obtain the approval from or complete the filing procedure with the tobacco monopoly administration under the State Council before investment, the scope of the fixed asset investment assessment for e-cigarette enterprises includes fixed asset investment activities (i) for establishing e-cigarette enterprises, (ii) for engaging in the production of e-cigarette products and raw materials and conducted by the enterprises that have not obtained the Tobacco Monopoly License for Manufacturing Enterprises, (iii) for new factory (and branch factory) and conducted by the enterprises that have obtained Tobacco Monopoly License for Manufacturing Enterprises, (iv) for on-site expansion, reconstruction and technological transformation, relocation and restoration of construction and conducted by the enterprises that have obtained Tobacco Monopoly License for Manufacturing Enterprises, and (v) other circumstances prescribed by the tobacco monopoly administration under the State Council. The Administrative Rules on Fixed Asset Investment of E-cigarettes clarified that enterprises must complete the filing procedure for conducting the activity prescribed in (iv) if there is no increase in the manufacturing capacity of e-cigarette products and raw materials, and, however, obtain the approval if such increase is intended. Additionally, according to the Catalogue for Guiding Industry Restructuring, tobacco product (including e-cigarettes) processing projects fall into restricted industries under this catalogue, which means all tobacco manufacturing enterprises are subject to certain restrictions, including being prohibited from investing in new tobacco product (including e-cigarettes) processing projects. Therefore, the Administrative Rules on Fixed Asset Investment of E-cigarettes provided that, the above-mentioned (i), (ii) and (iii) will be disapproved according to relevant requirements on industries of restricted categories under the Catalogue for Guiding Industry Restructuring.

There can be no assurance that, even if our suppliers and manufacturers are able to timely renew their existing licenses, they will be allotted the same or higher manufacturing capacity as compared to the existing one. Also, given the suppliers and manufacturers cannot expand their manufacturing capacity by establishing new e-cigarette enterprises or new factories under current regulations, we cannot sure such suppliers and manufacturers can always provide us with adequate e-cigarette products or raw materials to meet our needs and the market demands through their current e-cigarette manufacturing fixed assets. Since the uncertainties with respect to the evolving regulatory regime including the implementation of the applicable laws, regulations, policies, our suppliers and manufacturers may not be able to continue manufacturing our e-vapor products after they have reached the applicable manufacturing capacity. All of the above may render our suppliers and manufacturers unable to maintain or increase their production and supply of our products and as a result, the supply of our e-vapor products may be less than what the market demands, which may harm the business, financial condition and results of operations of us and the consolidated VIE. See also “-Our business is subject to a large number of laws across many jurisdictions, many of which are evolving.”

Furthermore, we cannot assure you that our suppliers and manufacturers will successfully establish the product quality assurance system or that they can pass the technical review conducted by professional institutions certified by the department of tobacco monopoly administration under the State Council or authorized otherwise by applicable laws and regulations. As a result, we may not be able to maintain the existing relationships with our suppliers and manufacturers, and we may fail to establish and maintain arrangements with new suppliers and manufacturers on favorable terms or at all. As a result, the production and supply of our products may be severely disrupted, which may in turn materially and adversely affect the business, financial condition and results of operations of us and the consolidated VIE.

Due to China's more stringent scrutiny on the e-vapor market, any failure of our suppliers or manufacturers to obtain the required license, approval or permits from the competent regulatory authority may result in their default in contract and/or termination of our contractual relationship with them, which may bring about more disputes between them and us and higher litigation risks and costs. There can be no assurance that such disputes could be resolved in a timely or cost-effective manner, or at all. If we fail to address such litigation and reputation risks, our results of operations, financial condition and our reputation may be materially and adversely affected.

In the event that our key business partners experience any operational difficulties including equipment breakdowns, labor strikes or shortages, natural disasters, component or material shortages, cost increases, violation of environmental, health or safety laws and regulations, health epidemics, or other problems, such difficulties will cause significant interruption to the business operations of us and the consolidated VIE, as we may not be able to address such difficulties in a timely or cost-effective manner. We may be unable to pass potential cost increases to our users. We may have disputes with these business partners, which may result in litigation expenses, divert our management's attention and cause supply shortages to us. In addition, we may not be able to renew contracts with these suppliers and manufacturers or identify or enter into new agreements with them for additional services or for more favorable terms.

Any failure of such suppliers, manufacturers and third-party service providers to perform with regard to quantity, quality or timely supply of products may have a material negative impact on the business and results of operations of us and the consolidated VIE. Furthermore, although our agreements with our manufacturers contain provisions imposing confidentiality obligations on them, and we have adopted security protocols to ensure knowhow and technologies for manufacturing our products could not be easily leaked or plagiarized, we cannot guarantee the effectiveness of these efforts and, any leakage or plagiarism of our knowhow and technologies could be detrimental to the business prospects and results of operations of us and the consolidated VIE.

Any disruption of the exclusive production plant or the third-party manufacturers' and suppliers' production plants could materially and adversely affect the business and results of operations of us and the consolidated VIE.

Natural disasters or other unanticipated catastrophic events, including storms, fires, explosions, earthquakes, terrorist attacks and wars, as well as changes in governmental planning for the land where the exclusive production plant or third-party manufacturers' and suppliers' production plants are located, could significantly impair our ability to manufacture our products and operate the business of us and the consolidated VIE. Catastrophic events could also destroy the inventories stored in the exclusive production plant and those third-party manufacturers' and suppliers' production plants. The occurrence of any catastrophic event could result in the temporary or long-term closure of manufacturing facilities, and severely disrupt the business operations of us and the consolidated VIE.

In addition, the production plants are subject to environmental inspections and regulations. As of the date of this annual report, although significant improvement was made during the year of 2024, the exclusive production plant operated by the third-party operational partner was not in strict compliance with such environmental inspections and regulations based on our knowledge. If such facility fail to rectify and pass the environmental inspections or comply with relevant environmental requirements relating to production activities in a timely manner, it may be subject to fines, cohesive rectification, suspension and closure, which may materially and adversely affect the production of the exclusive production plant and in turn may impact the business of us and the consolidated VIE. In addition, the exclusive production plant and the third-party manufacturers' and suppliers' production plants are also subject to health and safety laws and regulations imposed by the PRC governmental authorities to ensure a healthy and safe production environment. Failure to comply with the existing and future health and safety laws and regulations could subject the production plants to monetary damages and fines, disruption to production plans, suspension of their operations, which may in turn materially and adversely affect the business operations of us and the consolidated VIE. Furthermore, if any on-site personnel at the exclusive production plant or any third-party manufacturers' and suppliers' production plants is suspected of having any communicable diseases, such production plants may be subject to temporary closure and quarantine requirements, which may in turn materially and adversely affect the business operations of us and the consolidated VIE.

Furthermore, the exclusive production plant is located on leased properties comprising of over 23,575 square meters. Though such lease is renewable upon expiration, our ability to renew existing leases upon its expiration is crucial to our production activities, operations and profitability. If we are unable to negotiate for a renewal of the relevant leases, we may be forced to relocate our production bases and it may be difficult and costly to replace or relocate the exclusive production plant and equipment on a timely basis. We have not registered the lease agreement relating to the exclusive production plant with the PRC governmental authorities as required by PRC law. As a result, we may be ordered by the PRC government authorities to rectify such noncompliance and, if such noncompliance is not rectified within a given period of time, we may be subject to fines imposed by PRC government authorities ranging from RMB1,000 and RMB10,000 for the lease agreement that has not been registered with the relevant PRC governmental authorities. If we fail to address the risks mentioned above, our production will be materially and adversely affected. See also “—We are subject to risks relating to our leased properties.”

If we experience any unanticipated disruptions to us or the third-party manufacturers or if we are unable to renew our current leases, our production will be severely disrupted, which may in turn materially and adversely affect the business, financial condition and results of operations of us and the consolidated VIE. Even though the third-party operational partner is contractually obligated to adjust and switch the production to other resources for us in the event that the production at the exclusive production plant is disrupted, there can be no assurance that the third-party operational partner will fulfill such contractual obligation or will be able to provide us with sufficient and satisfactory production lines to ensure the quality and quantity of our products manufactured.

We may be subject to certain risks relating to our e-liquid plant.

E-liquid solution is one of our key raw materials and components. We apply stringent standards in selecting our suppliers for e-liquid solution, considering a variety of factors, including their service standards, quality, capacity, supply chain capabilities and price. From October 1, 2022, due to the requirements under the new regulatory regime, we scaled our production of e-liquid solutions at an e-liquid plant (“our e-liquid plant”) owned and operated by a subsidiary of the consolidated VIE, which obtained the Tobacco Monopoly License for Manufacturing Enterprise to manufacture e-liquid on June 10, 2022. The e-liquid plant is in Shenzhen, China, and have a gross area of 2,285 square meters. We are reliant on equipment and technology in our e-liquid plant for the production and quality control of our e-liquid solutions, and our operations are subject to production difficulties such as capacity constraints of our production facilities, mechanical and systems failures, and the need for construction and equipment upgrades and maintenance and continuous supply of utilities, such as electricity and water, to operate our e-liquid plant. Any of these could have a material adverse effect on our business, financial condition, results of operations and prospects.

Moreover, we could be held liable for accidents that occur at our e-liquid plant. In the event of personal injuries or other accidents suffered by persons working at or visiting our e-liquid plant, we could face claims alleging that we should be liable for such injuries or accidents. Any material liability claim against us or any of our employees or contractors could adversely affect our reputation, create unfavorable publicity, cause us to incur substantial expenses and divert the time and attention of our management.

Additionally, our e-liquid plant is located in China. Some of our manufacturing processes are labor intensive and cannot be completely replaced by automation technology at this time. At the same time, there have been labor shortages from time to time in certain cities in China. Although we did not experience material operational difficulty due to labor shortages in the past, there is no assurance that there will be no labor shortage for our e-liquid plant in the future. In addition, we may also be required to increase the wages to keep our labor force or attract new workers if there is a labor shortage or other changes to labor market conditions. If we cannot transfer the increased costs to our distributors, our profit may be significantly impacted in such case. Also, although we have not experienced any labor unrest in the past, any future labor unrest will disrupt our production or pose threat to our properties. Therefore, any labor shortage or unrest or increased labor cost may adversely affect our business, financial condition and results of operations.

We are subject to risks relating to the warehousing and logistics of our products. If any of these risks materializes, the business, financial condition and results of operations of us and the consolidated VIE could be materially and adversely affected.

Natural disasters or other unanticipated catastrophic events, including power interruptions, water shortage, storms, fires, earthquakes, cybersecurity attacks, terrorist attacks and wars, as well as changes in governmental planning for the land underlying the warehousing facility, could destroy any inventory located in our warehouse facilities and significantly impair the business operations of us and the consolidated VIE. Furthermore, the lease for the warehousing facility that we use could be challenged by third parties or government authorities, which may cause interruptions to the business operations of us and the consolidated VIE. We cannot assure you that our use of such leased properties will not be challenged. In the event that our use of leased properties is successfully challenged, we may be subject to fines and forced to relocate the affected operations. We can provide no assurance that we will be able to find suitable replacement sites on terms acceptable to us on a timely basis, or at all, or that we will not be subject to material liability resulting from third parties’ challenges on our use of such properties.

We also rely on third-party logistics service providers to deliver products to the distributors. Logistics and transit to final destination may be disrupted for a number of reasons that may be beyond our control or the control of our logistics service providers, including, without limitation, epidemics, inclement weather, natural disasters, transportation interruptions or labor unrest or shortage. Such interruptions to or failures in such third-party logistics service providers’ operations may obstruct the timely or successful delivery of our products.

The E-Cigarettes Administrative Measures stipulate that the transport of e-cigarette products, e-atomization material and e-cigarette nicotine has to be subject to administration of competent department of tobacco monopoly administration for our operations in China. The Administrative Rules on Logistics of E-cigarettes further requires that all the e-cigarette manufacturing enterprises, e-atomization manufacturing enterprises, e-cigarette nicotine manufacturing enterprises, e-cigarette nicotine raw material sale enterprises, e-cigarette wholesale enterprises (including e-cigarette import enterprises) and relevant service providers shall rely on the National Transaction Platform to ensure the collection, maintenance, uploading and other work of logistics data and information. Quantity of e-cigarette products, e-atomization material and e-cigarette nicotine transmitted or off-site carried cannot exceed the limits prescribed by the competent government authority under the State Council. Import of e-cigarette products, e-atomization material and e-cigarette nicotine should be approved by the department of tobacco monopoly administration under the State Council. Meanwhile, the National Standards stipulate the technical terminology in relation to e-cigarettes and definitions thereof, clarify the standards for product design and raw materials of e-cigarettes and technical requirements for e-cigarette devices, e-atomization materials and e-cigarette emissions, and prescribe rules for instructions and labels of e-cigarette products. See “Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulations Related to Our Products” for more details.

These regulations and restrictions may cause disruptions or delay for the logistics and transit of our products and raw materials. If products are not delivered on time or are delivered in a damaged state, the distributors may return the products and may claim refund from us and the distributors’ confidence in us may be impaired. If any of our logistics service providers’ operations or services are disrupted or terminated, we may not be able to find alternative service providers with quality and on commercial terms to our satisfaction in a timely and reliable manner, or at all. As we continue to expand our international presence and engage in cross-border supply chains, we are increasingly exposed to logistics, warehousing and customs-related risks. In particular, international shipping and cross-border logistics expose us to additional risks, including potential customs clearance delays, government inspections or seizures, changes in import and export regulations, and disruptions due to geopolitical tensions, public health emergencies, or natural disasters. For example, shipments of our products or raw materials may be held at port or denied entry by local authorities due to documentation issues or evolving regulatory interpretations. In addition, rising freight costs, shortage of international cargo capacity, and labor disruptions in key transit hubs may further affect our delivery schedules and cost structure. As a result, the business, financial condition and results of operations of us and the consolidated VIE may be materially and adversely affected.

Failure of us, or the suppliers or manufacturers of our products, to manage inventory at optimal levels could adversely affect the business, financial condition and results of operations of us and the consolidated VIE.

We are required to manage a large volume of inventory effectively for the business of us and the consolidated VIE. We determine our level of inventory based on our experience and estimation of demand. Our forecast for demands, however, may not accurately reflect the actual market demands, which depends on a number of factors including, without limitation, launches of new products, changes in product life cycles and pricing, as well as the volatile economic environment in China and globally. Further, in response to these regulatory developments in 2022, all of our sales of products to the distributors have been transacted via the National Transaction Platform since October 1, 2022 for our operations in China, and therefore the demand forecasts model that we previously depended on to manage our inventory had been rendered inapplicable, which, in turn, led to inventory management pressure. In addition, under certain specified circumstances and to the extent the applicable qualified distributors elect to do so, we are contractually obligated to accept or request our products returned to us by the qualified distributors, which creates additional uncertainty over and further complicates our inventory management. Also, in the event that we launch a new product with new components or raw material, it may be difficult to establish supplier relationships, determine appropriate raw material and product selection, and accurately forecast market demand for such product. We cannot assure you that we will be able to maintain proper inventory levels for the business of us and the consolidated VIE at all times, and any such failure may have a material and adverse effect on the business, financial condition and results of operations of us and the consolidated VIE.

Excess inventory level may result in inventory write-downs, expiration of products or an increase in inventory holding costs and a potential negative effect on our liquidity. If we fail to manage our inventory effectively, we may be subject to a heightened risk of inventory obsolescence, a decline in inventory values, and significant inventory write-downs or write-offs. In addition, we may be required to lower sale prices in order to reduce inventory level, which may lead to lower gross margins. High inventory levels may also require us to commit substantial capital resources, preventing us from using that capital for other important purposes. Additionally, the unusable raw materials may bring about more disputes between the suppliers and us and higher litigation risks and costs. For example, they may seek monetary compensation from us for their inventory write-downs or require the unsalable or overstocked raw material or inventory be bought back by us. There can be no assurance that such disputes could be resolved in a timely or cost-effective manner, or at all. If we fail to address such litigation and reputation risks, our results of operations, financial condition and our reputation may be materially and adversely affected. Any of the above may materially and adversely affect our results of operations and financial condition.

Conversely, if we underestimate distributor demand, or if our suppliers or contract manufacturers fail to provide products to us in a timely manner, we may experience inventory shortages, which may, in turn, require us to manufacture our products at higher costs, result in unfulfilled user orders, leading to a negative impact on our financial condition and our relationships with distributors.

The distributors largely determine the inventory levels of the retail outlets they operate based on their estimation, and such inventory levels might not correspond to actual market demands and could lead to under-stocking or over-stocking in the retail outlets they operate. Therefore, we cannot assure you that there will not be under-stocking or over-stocking in these stores. Under-stocking can lead to missed sales opportunities, while over-stocking could result in inventory depreciation and decreased shelf space for stocks that are in higher demands. These results could adversely affect our business, financial condition and results of operations.

Our investments in scientific research may not generate results as anticipated.

To better serve adult smokers, we are dedicated to the scientific research of e-vapor products and endeavor to achieve advances in scientific research in harm reduction principles and methods. We operate laboratories to conduct our scientific research, focusing on the assessment and research of e-liquid and health risks associated with vaping. However, as scientific research is subject to significant uncertainties, there can be no assurance that our investments in such efforts will make material progress or improve our profitability in a timely and cost-effective manner, or at all. We may not be able to generate sufficient revenue from our scientific research efforts to offset the costs and expenses incurred, which may cause adverse effect to our financial condition and results of operations.

We face competition from players in e-vapor industry and may fail to compete effectively.

The e-vapor industry in China and globally is intensely competitive. We face a variety of competitive challenges with respect to sourcing raw materials and products efficiently, pricing our products competitively, anticipating and quickly responding to changes in user preference, maintaining favorable brand recognition and providing quality services, finding manufacturing, warehousing and logistics solutions of good quality, and other potential challenges. In addition, our suppliers and other business partners may cease their cooperation with us, build up their own e-vapor brand and compete with us. We may also be subject to competition from established overseas and local e-vapor product brands. As we continue to expand into overseas markets, we face additional challenges such as complying with diverse local regulatory regimes, adapting to consumer preferences in different jurisdictions, managing relationships with foreign distributors and retailers, and competing with local and international brands that may have stronger brand recognition or better-established sales networks in their respective markets. If we cannot properly address these competitive challenges, the business and prospects of us and the consolidated VIE would be materially and adversely affected.

Some of our current and potential competitors in China and global market may have greater financial, marketing, ordering quantities, portfolios of products and intellectual properties and other resources. Certain competitors may be able to secure raw materials and products from suppliers and manufacturers on more favorable terms, devote greater resources to marketing and promotional campaigns, adopt more aggressive pricing or inventory policies, and devote substantially more resources to product development and technology. Our competitors may also be allotted more manufacturing capacity or be able to obtain more product approvals than ours. We may also in the future face competition from innovative tobacco products developed and introduced to the China market with attractive features, which will increase the level of competition and may cause us to lose market share. Increased competition may adversely affect our results of operations, market share and brand recognition, or force us to incur losses. There can be no assurance that we will be able to successfully compete against current and future competitors, and competitive pressures may have a material adverse effect on the business, prospects, financial condition and results of operations of us and the consolidated VIE.

We may not be successful in implementing our future business plans and strategies, and if we are unable to execute them effectively and efficiently, the business, financial condition, results of operations and growth prospects of us and the consolidated VIE may be materially and adversely affected.

The business of us and the consolidated VIE has become increasingly complex in terms of both product portfolio and scale. Any future expansion may increase the complexity of the operations of us and the consolidated VIE and place a significant strain on our managerial, operational, financial and human resources. Our current and planned personnel, systems, procedures and control measures may not be adequate to support our future operations. We cannot assure you that we will be able to effectively manage our growth or to implement all these systems, procedures and control measures successfully. If we are unable to manage our growth effectively, the business and prospects of us and the consolidated VIE may be materially and adversely affected.

Further, in response to the regulatory developments in 2022, we have adapted our business, including the product offerings, to the new and currently effective laws, regulations, and policies applicable to China's e-vapor industry and us. Considering the limited operating period under the new regulatory regime since October 1, 2022, we may face unexperienced risks and uncertainties. For example, our new products may not be accepted by users as we expect, and we cannot assure you that we are able to successfully address such risks and uncertainties.

We are also exploring a number of new initiatives, strategies and operating plans designed to enhance the business of us and the consolidated VIE. For example, we have started expanding to international markets and we also have various new initiatives operating in our offline stores. These initiatives may prove unsuccessful. Implementing these initiatives will require investments that may result in costs without generating any revenues and may therefore negatively affect our profitability. We may not be able to successfully complete these growth initiatives, strategies and operating plans and may not realize all of the benefits that we expect to achieve. If, for any reason, the benefits we realize are less than our estimates, or the implementation of these growth initiatives, strategies and operating plans adversely affect the operations of us and the consolidated VIE, or it costs more or takes longer to effectuate them than we expect, or we fail to obtain requisite approvals or filings in due course, or if our assumptions prove inaccurate, the business, financial condition and results of operations of us and the consolidated VIE may be materially and adversely affected.

We are subject to risks associated with export and international logistics, which could adversely affect our business and operations.

As we continue to expand our global footprint, a growing portion of our products is exported from China to various international markets. We rely on stable and predictable cross-border logistics infrastructure and customs clearance procedures to ensure timely delivery of our products. However, we face a number of risks inherent in export operations, including, but not limited to, limited shipping capacity, port congestion, shortage of containers or vessels, disruptions in international freight routes, and volatility in shipping costs.

In addition, our products may be delayed, detained or rejected by customs authorities due to heightened inspections, changes in documentation requirements, or evolving regulatory standards in the destination country. In certain jurisdictions, products may be seized or subject to governmental hold orders due to alleged non-compliance or classification issues. If products are held up in transit, locked in bonded warehouses, or subject to delays in customs clearance, we may experience supply chain disruptions, increased storage costs, or reputational damage.

Furthermore, geopolitical tensions, trade protectionism, labor strikes, natural disasters, or global public health emergencies may exacerbate these risks and create additional uncertainties in our international logistics operations. Any of these events could result in shipment delays, customer dissatisfaction, order cancellations, or increased operational costs, which in turn could materially and adversely affect our business, financial condition and results of operations.

Misconduct, including illegal, fraudulent or collusive activities, by our employees, suppliers and manufacturers, may harm our brand and reputation and adversely affect the business and results of operations of us and the consolidated VIE.

Misconduct, including illegal, fraudulent or collusive activities, unauthorized business conducts and behaviors, or misuse of corporate authorization by our employees, suppliers and manufacturers and other business partners could subject us to liability and negative publicity. Our employees, suppliers and manufacturers and other business partners may conduct fraudulent activities, such as accepting payments from or making payments to any persons in order to bypass our internal system and to complete shadow transactions and/or transactions outside our currently compliant distribution channels, or applying for fake reimbursement. They may conduct activities in violation of unfair competition laws and pricing laws, which may expose us to unfair competition allegations and risks. We cannot assure you that such incidents will not occur in the future. It is not always possible to identify and deter such misconduct, and the precautions we take to detect and prevent these activities may not be effective. Such misconduct could damage our brand and reputation, which could adversely affect the business and results of operations the business of us and the consolidated VIE.

PRC Advertising Law, E-Cigarettes Administrative Measures and other relevant rules have imposed restrictions on e-cigarette advertisements. If we fail to fully comply with these and other relevant laws and regulations, rules and measures applicable to our advertising activities, the business and results of operations the business of us and the consolidated VIE may be adversely affected.

PRC advertising laws, rules and regulations require advertisers, advertising operators and advertising distributors to ensure that the content of the advertisements they prepare or distribute is fair and accurate and is in full compliance with applicable laws. Further, E-Cigarettes Administrative Measures stipulate that relevant regulations for tobacco advertisements also apply to e-cigarettes, which prohibit publishing e-cigarette advertisements through mass media, on public premises, public transportation vehicles or outdoors, or on the Internet. Using the advertisements for other products or services to publicize the names, trademarks, packages, decorations or other similar contents of e-cigarette products should also be prohibited. E-Cigarettes Administrative Measures also prohibit exhibitions, expositions, or forums for the purpose of introducing or promoting e-cigarettes. Certain provinces and cities in the PRC also prohibit the advertisement of combustible tobacco products and e-vapor products. In addition, according to the Guiding Opinions on Further Regulating Celebrities' Endorsement Activities in Advertising, celebrities are prohibited to endorse any tobacco and tobacco products (including e-cigarettes). The existing laws and regulations prohibiting any exhibition and celebrities' endorsements on e-cigarette products adversely affected our ability to conduct effective advertising activities, distribute promotion materials to our members and community and promote RELX merchants and co-branded products for our operations in China. The existing and evolving laws and regulations have reduced, and may further reduce, our brand awareness and mindshare. As a result, our revenues, financial condition and prospects may be materially and adversely affected.

Furthermore, violation of these laws, rules or regulations may result in penalties, including fines, confiscation of advertising fees and orders to cease dissemination of the advertisements, revocation of business license, and potential unfair competition liability. In circumstances involving serious violations, the PRC government may suspend or revoke a violator's business license. Even though we are not permitted to conduct comprehensive marketing activities, especially not online marketing in accordance with the E-Cigarettes Administrative Measures and the October 2019 Announcement, we may still conduct selling activities to the extent permitted. Failure to comply with these requirements may lead to penalties and fines for any noncompliance, which may render our efforts and costs incurred futile. As a result, the business and results of operations of us and the consolidated VIE may be adversely affected.

We are subject to governmental regulations and other legal obligations related to privacy, information security, and data protection, and any security breaches, and our actual or perceived failure to comply with our legal obligations could harm our brand and business.

We generate, collect, store and process a large amount of personal, transactional, statistical and behavioral data, including certain personal and other sensitive data from our users. We face inherent risks in handling large volumes of data and in securing and protecting such data. In particular, we face a number of data-related challenges related to the business operations of us and the consolidated VIE, including:

- protecting the data in and hosted on our system and cloud servers, including against attacks on our system and cloud servers by external parties or fraudulent behavior by our employees;
- 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, disclosure or security of personal information, including any requests from regulatory and government authorities relating to such data.

Although we have taken steps to protect such data, our security measures could be breached. As of the date of this annual report, we have not experienced any material breach of our cybersecurity system or measures. We are subject to routine inspections and examinations by PRC governmental authorities and other jurisdictions in relation to our privacy protection and data security from time to time and may be requested to take certain remedial measures to rectify any deficiencies identified. As techniques used to sabotage or obtain unauthorized access to systems change frequently and generally are not recognized until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any accidental or willful security breaches or other unauthorized access to our system and cloud servers could cause confidential information to be accessed, stolen and used for illegal or unauthorized purposes. Security breaches or unauthorized access to confidential information could also expose us to liability related to the loss of the information, time-consuming and expensive litigation and negative publicity. If security measures are breached because of third-party action, employee error, malfeasance or otherwise, or if design flaws in our technology infrastructure are exposed and exploited, our relationships with users, distributors, manufacturers or suppliers could be severely damaged, we could incur significant liability, and the business and operations of us and the consolidated VIE could be adversely affected.

In addition, PRC government authorities have enacted a series of laws and regulations regarding the protection of personal information, under which telecommunication business operators, internet service providers and other value chain operators are required to comply with the principles of legality, justification and necessity, to clearly indicate the purposes, methods and scope of any information collection and usage, to obtain the consent of users, and to keep collected personal information confidential, as well as to establish a user information protection system with appropriate remedial measures. These laws and regulations are continuously evolving and can be subject to significant change. See “—Risks Relating to Doing Business in China—The business of us and the consolidated VIE is subject to complex and evolving PRC laws and regulations regarding data privacy and cybersecurity. Failure to protect confidential information of our users, business partners and network against security breaches could damage our reputation and brand and substantially harm the business and results of operations of us and the consolidated VIE.”

However, there is uncertainty as to the interpretation and application of such laws and regulations, which may be interpreted and applied in a manner inconsistent with our current policies and practices or require changes to the features of our system. We cannot assure you that our existing information protection system and technical measures will be considered sufficient under applicable laws and regulations. If we are unable to address any information protection concerns, or to comply with the then applicable laws and regulations, we may incur additional costs and liability and our reputation, business and operations may be adversely affected.

We have obtained consent from our users to use their information within the scope of authorization, and we have taken technical measures to ensure the security of such information and prevent the information from being divulged, damaged or lost. However, since the regulations, rules and measures regarding the protection of personal information are relatively new and are continuously evolving, there are uncertainties as to the interpretation and application of these laws and regulations, and it is possible that our data protection practices are or will be inconsistent with regulatory requirements. We have been, and may in the future be, subject to investigations and inspections by government authorities regarding our compliance with laws and regulations on information protection and data privacy, and we cannot assure you that our practices will always fully comply with all applicable rules and regulatory requirements. Any violation of the provisions and requirements under such laws, regulations, rules and measures may subject us to warnings, fines, confiscation of illegal gains, revocation of licenses, suspension of business, shutting down of websites or even criminal liabilities. Complying with such requirements could cause us to incur substantial expenses or to alter or change our practice in a manner that could harm the business of us and the consolidated VIE. Any systems failure or security breach or lapse that results in the unauthorized release of our user data could harm our reputation and brand and, consequently, the business of us and the consolidated VIE, in addition to exposing us to potential legal liability.

Our intellectual property rights are critical to our success. Infringement of our intellectual property rights by any third party or loss of our intellectual property rights may materially and adversely affect the business, financial condition and results of operations of us and the consolidated VIE.

We rely on a combination of trademark, patent, copyright and trade secret protection laws in China and other jurisdictions, as well as confidentiality procedures and contractual provisions, to protect our intellectual property rights. We also enter into confidentiality agreements with our employees and any third parties who may access our proprietary information, and we rigorously control access to our proprietary technology and information.

Intellectual property protection may not be sufficient in China or other countries. Confidentiality agreements may be breached by counterparties, and there may not be adequate remedies available to us for any such breach. Accordingly, we may not be able to effectively protect our intellectual property rights or to enforce our contractual rights in China or elsewhere. For example, we have identified cases where counterfeit and compatible products associated with our brand infringed our intellectual property rights. However, policing any unauthorized use of our intellectual property is difficult, time-consuming, and costly, and the steps we have taken may be inadequate to prevent the misappropriation of our intellectual property. In the event that we resort to litigation to enforce our intellectual property rights, such litigation could result in substantial costs and a diversion of our managerial and financial resources. We can provide no assurance that we will prevail in such litigation. Furthermore, we may be subject to the risks of losing our intellectual property rights or the intellectual property rights licensed from other third-parties due to several reasons. Certain intellectual property rights, such as patents, are subject to a limited period of time. Upon the expiry of such period of time, others may freely use such intellectual properties without any license or charges, which may impose competitive harm to us and in turn adversely affect the business and prospects of us and the consolidated VIE. The intellectual property rights that we currently have may also be revoked, invalidated or deprived by regulatory authorities as a result of intellectual property claims or challenges successfully raised by third parties. We may also rely on certain intellectual property rights licensed from other third parties. There can be no guarantee that we will be able to maintain such licenses at all times or renew such licenses upon expiry. Moreover, our trade secrets may be leaked or otherwise become available to, or be independently discovered by, our competitors. Any failure in maintaining, protecting or enforcing our intellectual property rights could have a material adverse effect on the business, financial condition and results of operations of us and the consolidated VIE.

We may be subject to intellectual property infringement claims from third parties, which may be expensive to defend and may disrupt the business and operations of us and the consolidated VIE.

We cannot be certain that the operations of us and the consolidated VIE or any aspects of the business of us and the consolidated VIE do not or will not infringe upon or otherwise violate patents, copyrights or other intellectual property rights held by third parties. We may, and from time to time in the future be, subject to legal proceedings and claims relating to the intellectual property rights of others. In addition, there may be other third-party intellectual property that is infringed by our products and services or other aspects of the business of us and the consolidated VIE. There could also be existing patents of which we are not aware that we may inadvertently infringe. Our existing intellectual property rights may also infringe intellectual property rights of other third parties and our existing intellectual property rights may be revoked, invalidated or deprived if other third parties successfully raise challenges or claims against us. We cannot assure you that holders of patents purportedly relating to some aspect of our technology or business, if any such holders exist, would not seek to enforce such patents against us in China or any other jurisdictions. For example, we currently use certain design patents, which constitute immaterial components of our products, from third parties. If we fail to maintain the license of such design patents for our use or fail to identify alternative patents in a timely manner, we may be subject to intellectual property infringement claims from such third parties. Further, the application and interpretation of China's patent laws and the procedures and standards for granting patents in China are still evolving and are uncertain, and we cannot assure you that PRC courts or regulatory authorities would agree with our analysis. If we are found to have violated the intellectual property rights of others, we may be subject to liability for our infringement activities or may be prohibited from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives of our own. In addition, we may incur significant expenses, and may be forced to divert management's time and other resources from the business and operations of us and the consolidated VIE to defend against these third-party infringement claims, regardless of their merits.

Accidents, injuries or other harm suffered by visitors to the offline stores operated by ourselves may adversely affect our reputation, subject us to liability and cause us to incur substantial expenses.

We could be held liable for accidents that occur at the offline stores operated by ourselves. In the event of personal injuries, fires or other accidents suffered by visitors or others working at or visiting the offline stores operated by ourselves, our stores may be perceived to be unsafe, which may discourage potential visitors from going to the offline stores operated by ourselves. Although we have not encountered any instances of serious injuries to the visitors to the offline stores operated by ourselves, we cannot assure you that there will not be any in the future.

We could also face claims alleging that we should be liable for accidents or injuries caused by our employees or contractors due to negligence in supervision. Any material liability claim against us or any of our employees or contractors could adversely affect our reputation, create unfavorable publicity, cause us to incur substantial expenses and divert the time and attention of our management.

Our success and ability to operate efficiently are dependent on our key management personnel, and loss of service of our key management personnel or any failure to attract and retain necessary talents may materially and adversely affect the business, financial condition and results of operations of us and the consolidated VIE.

Our future success is significantly dependent upon the continued service of our key management personnel and other key employees, who have contributed significantly to our current achievements. There can be no assurance that we are able to retain all of our current key management personnel. For instance, in response to the evolving regulatory requirements in China, we have adapted our business to the new and currently effective laws, regulations, and policies applicable to China's e-vapor industry and us, and some of our employees left our company after we adjusted our business in 2022, 2023 and 2024, which may negatively impact our business execution and research and development capabilities. Disputes may arise among our key management personnel and such disputes may result in the departure of such personnel. If we lose the services of any member of management or other key personnel due to any reason, the business and growth prospects of us and the consolidated VIE may be severely disrupted and we may not be able to locate suitable or qualified replacements and may incur additional expenses to recruit and train new staff. Competition for talents in emerging countries is intense, and the availability of suitable and qualified candidates in emerging countries is limited. Competition for these individuals could cause us to offer higher compensation and other benefits to attract and retain them. In addition, we may be subject to negative publicity or gossip surrounding the stability and changes in our key management composition.

Even if we were to offer higher compensation and other benefits such as share-based incentives, there is no assurance that these individuals will choose to join or continue to work for us. Any failure to attract or retain key management personnel could severely disrupt the business and growth of us and the consolidated VIE, and our corporate culture. In addition, if any dispute arises regarding the agreements between our current or former key employees and us, we may have to incur substantial costs and expenses in order to enforce the agreements in China and other jurisdictions or we may be unable to enforce them at all. We also commit significant time and other resources to training our employees, which increases their value to competitors if they subsequently leave us for our competitors.

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

The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, adopted rules requiring most public companies to include a management report on such company's internal control over financial reporting in its annual report, which contains the management's assessment of the effectiveness of the company's internal control over financial reporting. In addition, when a company meets the SEC's criteria, an independent registered public accounting firm must report on the effectiveness of the company's internal control over financial reporting.

Our management and independent registered public accounting firm have concluded that our internal control over financial reporting as of December 31, 2024 was effective. However, there is no assurance that we or our auditor will not identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses and render our internal control over financial reporting ineffective for any future periods. If we fail to maintain the adequacy of our internal control over financial reporting, as these standards are modified, supplemented or amended from time to time, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. However, if we fail to maintain effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which could cause investors to lose confidence in our reported financial information. This could in turn limit our access to capital markets, harm our results of operations, and lead to a negative impact on the trading price of our ADSs. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list, regulatory investigations and civil or criminal sanctions.

Future investments in and acquisitions of complementary assets, technologies and businesses may fail, and may result in equity and earnings dilution and significant diversion of management attention.

We may invest in or acquire assets, technologies and businesses that are complementary to our existing business. This may include opportunities to expand our distribution network and strengthen our technology capabilities and product offerings. Our investments or acquisitions may not yield the results we expect. In addition, investments and acquisitions could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, significant amortization expenses related to intangible assets, significant diversion of management attention and exposure to potential unknown liabilities of the acquired business. Moreover, the cost of identifying and consummating investments and acquisitions, and integrating the acquired businesses into ours, may be significant, and the integration of acquired businesses may be disruptive to our existing business operations. In the event that our investments and acquisitions are not successful, our results of operations and financial condition may be materially and adversely affected.

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

We may make investments from time to time in technologies, facilities, equipment, hardware, software and other projects to remain competitive. Due to the unpredictable nature of the capital markets and our industry, there can be no assurance that we will be able to raise additional capital on terms favorable to us, or at all, if and when required, especially if we experience disappointing results of operations. If adequate capital is not available to us as required, our ability to fund the operations of us and the consolidated VIE, take advantage of unanticipated opportunities, develop or enhance our infrastructure or respond to competitive pressures could be significantly limited. If we do raise additional funds through the issuance of equity or convertible debt securities, the ownership interests of our shareholders could be significantly diluted. These newly issued securities may have rights, preferences or privileges senior to those of existing shareholders.

We may be subject to legal or other proceedings in the ordinary course of the business of us and the consolidated VIE. If the outcomes of these proceedings are adverse to us, they could have a material adverse effect on the business, financial condition and results of operations of us and the consolidated VIE.

During the ordinary course of the business operations of us and the consolidated VIE, we have been and may be in the future involved in legal disputes or regulatory and other proceedings relating to, including but not limited to, contractual disputes, product liability claims and employees' claims. Especially, there might be employees' claims as some of them left our company after we adjusted our business in 2022, 2023 and 2024 in response to the evolving regulatory requirements in China. For contractual disputes, we cannot assure you that the venue and governing law agreed in relevant contracts are always favorable to us. Any such legal disputes or proceedings may subject us to substantial liabilities and may have a material and adverse effect on our reputation, business, financial condition and results of operations. Among those proceedings, some of them may be relating to our industry position in e-vapor market or by complaints from third parties. Especially, our industry position in e-vapor market may draw heightened scrutiny from the regulatory authorities or cause close attention to be paid to the business operation of us and the consolidated VIE. In addition, if we were to be involved in anti-monopoly and competition laws and regulations related scrutiny or action, governmental agencies and regulators may take certain actions, which may subject us to significant fines or penalties and restrictions imposed on our options. Due to the uncertainty of legislation and local implementation of anti-monopoly and competition laws and regulations in the PRC, we cannot assure you that we will not be subject to any investigations, claims or complaints of alleged violations of these laws and regulations.

If we become involved in material or protracted legal proceedings or other legal disputes in the future, we may incur substantial legal expenses and our management may need to devote significant time and attention to handle such proceedings and disputes, thereby diverting their attention from the business operations of us and the consolidated VIE. In addition, the outcome of such proceedings or disputes may be uncertain and could result in settlement or outcomes which may adversely affect the business, financial condition and results of operations of us and the consolidated VIE.

We have granted and may continue to grant share options and other share-based awards in the future, which may result in increased share-based compensation expenses.

We adopted equity incentive plans and we granted share-based compensation awards under such plans to our employees, directors and consultants to incentivize their performance and align their interests with ours. We have adopted our 2021 Plan and assume all outstanding share incentive awards granted under the equity incentive plans of Relx Inc. For further detailed information, please refer to “Item 6. Directors, Senior Management and Employees-Compensation-Share Incentive Plans.” We recorded share-based compensation expenses of RMB166.2 million, RMB362.9 million, and RMB369.7 million (US\$50.6 million) for the years ended December 31, 2022, 2023 and 2024, respectively. We believe the granting of share-based compensation is of significant importance to our ability to attract and retain key personnel and employees, and we will continue to grant share-based compensation to employees in the future. As a result, our expenses associated with share-based compensation may increase in the future, which may have an adverse effect on our results of operations.

Failure to comply with PRC labor laws and make adequate contributions to various employee benefits plans as required by PRC regulations may subject us to penalties.

Companies operating in China are required to participate in various government-sponsored employee benefit plans, including certain social insurance, housing funds and other welfare-oriented payment obligations, and contribute to the plans in amounts equal to certain percentages of salaries, including bonuses and allowances, of employees up to a maximum amount specified by the local government from time to time at locations where our employees are based. The requirements of employee benefit plans have not been implemented consistently by the local governments in China given the different levels of economic development in different locations. If we are determined by local authorities to fail to make adequate contributions to any employee benefits as required by relevant PRC regulations, we may face late fees or fines in relation to the underpaid employee benefits. In addition, our provision for these liabilities may not be adequate, particularly in light of the recent tightening regulations. As a result, our financial condition and results of operations may be materially and adversely affected.

If we are not able to control our labor costs in an effective way, the business, results of operations and financial condition of us and the consolidated VIE may be adversely affected.

Our labor costs are primarily incurred in China. The economy of China has been experiencing significant growth, leading to inflation and increased labor costs, particularly in the large cities, such as Shenzhen and Beijing. In addition, we are required by PRC laws and regulations to pay various statutory employee benefits, including pensions, housing fund, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to designated government agencies for the benefit of our employees. We expect that our labor costs in China, including wages and employee benefits, will continue to grow as the business of us and the consolidated VIE grows in scale. Significant additional government-imposed increases in the cities of China where we have operations may affect our profitability and results of operations.

A severe or prolonged downturn in the global or China’s economy could materially and adversely affect the business and financial condition the business of us and the consolidated VIE.

The global macroeconomic environment was facing challenges. The conflict between Russia and Ukraine and the conflict between South and North Korea have caused, and continues to intensify, significant geopolitical tensions across the world. The resulting sanctions are expected to have significant impacts on the economic conditions of the targeted countries and may disrupt global markets. It is unclear whether these challenges and uncertainties will be contained or resolved and what effects they may have on the global political and economic conditions in the long term. There is considerable uncertainty over the long-term effects of the monetary and fiscal policies adopted by the central banks and financial authorities of some of the world’s leading economies, including the United States and China. In addition, there have been concerns about the relationship between China and the United States resulting from the current trade tension between the two countries. Any further escalation in trade tensions between China and the U.S. or a trade war, or the perception that such escalation or trade war could occur, may have negative impact on the economies of not only the two countries concerned, but the global economy as a whole.

Economic conditions in China and the international markets where we operate 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 and globally. Any prolonged slowdown in the global or Chinese economy may have a negative impact on the business, results of operations and financial condition the business of us and the consolidated VIE, and continued turbulence in the international markets may adversely affect our ability to access the capital markets to meet liquidity needs. Our users and business partners may reduce or delay spending with us, while we may have difficulty expanding our user base and cooperative network fast enough, or at all, or to offset the impact of decreased spending by our existing users and business partners.

We have limited insurance coverage of the operations of us and the consolidated VIE, which may expose us to significant costs and business disruption.

The insurance industry in China and other emerging countries is still in an early stage of development, and insurance companies in China and other emerging countries currently offer limited business-related insurance products. We do not maintain business interruption insurance or general third-party liability insurance. We consider this practice to be reasonable in light of the nature of the business of us and the consolidated VIE and the insurance products that are available in China and other emerging countries, which is in line with the practices of other companies in the same industry of similar size in China and other emerging countries. Any uninsured risks may result in substantial costs and the diversion of resources, which could adversely affect our results of operations and financial condition.

Risks Relating to Our Corporate Structure

If the PRC government deems that our contractual arrangements with the consolidated variable interest entity 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 in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.

Foreign ownership in entities that provide value-added telecommunication services is subject to restrictions under current PRC laws and regulations, unless certain exceptions are available. Specifically, foreign ownership of a value-added telecommunication service provider may not exceed 50%, except for the investment in the e-commerce operation business, a domestic multi-party communication business, an information storage and re-transmission business and a call center business.

According to the E-cigarette Industrial Policies and Measures (for Trial Implementation) and the Special Administrative Measures (Negative List) for Foreign Investment Access (2024 Version), foreign investors are prohibited from investing in the wholesale or retailing business of e-cigarette products, and foreign investment in the production of e-cigarette products is subject to regulatory approval.

We are a Cayman Islands company and our PRC subsidiaries are considered foreign-invested enterprises. Accordingly, our PRC subsidiaries are not eligible to provide value-added telecommunication services or other internet-related business that are subject to foreign ownership restriction under PRC laws and may not be eligible to conduct the business of production, sales and distribution of e-vapor products. To ensure compliance with the PRC laws and regulations, we conducted our foreign investment-restricted business in China through the consolidated VIE and its subsidiaries, which currently hold the value-added telecommunication business license. Our WFOE has entered into a series of contractual arrangements with the consolidated VIE and its shareholders, respectively, which enable us to (i) exercise effective control over the consolidated VIE, (ii) receive substantially all of the economic benefits of the consolidated VIE, (iii) have the pledge right over the equity interests in the consolidated VIE as the pledgee; and (iv) have an exclusive option to purchase all or part of the equity interests in the consolidated VIE when and to the extent permitted by PRC law. As a result of these contractual arrangements, we have control over and are the primary beneficiary of the consolidated VIE and hence consolidate their financial results under U.S. GAAP. See “Item 4. Information on the Company—C. Organizational Structure” for further details.

In the opinion of our PRC legal counsel, Han Kun Law Offices, subject to the disclosure in this annual report, (i) the ownership structures of our WFOE and the consolidated VIE in China are not in violation of explicit provisions of applicable PRC laws and regulations currently in effect; and (ii) the contractual arrangements between our WFOE, the consolidated VIE and its shareholders governed by PRC law are not in violation of provisions of applicable PRC laws or regulations currently in effect, and valid and binding upon each party to such arrangements and enforceable against each party thereto in accordance with their terms and applicable PRC laws and regulations currently in effect. However, we have been further advised by our PRC legal counsel that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. Thus, the PRC governmental authorities may take a view contrary to the opinion of our PRC legal counsel. It is uncertain whether any new PRC laws or regulations relating to variable interest entity structure will be adopted or if adopted, what they would provide. If we are or the consolidated VIE is found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals to operate the business of us and the consolidated VIE, the relevant PRC governmental authorities would have broad discretion to take action in dealing with such violations or failures, including:

- revoking the business licenses and/or operating licenses of such entities;
- imposing fines on us;
- confiscating any of our income that they deem to be obtained through illegal operations;
- discontinuing or placing restrictions or onerous conditions on the operations of the consolidated VIE;
- placing restrictions on our right to collect revenues;
- shutting down our servers or blocking our app/websites;
- requiring us to restructure our ownership structure or operations;
- requiring the nullification of the contractual arrangements between our WFOE, the consolidated VIE and its shareholders;
- restricting or prohibiting our use of the proceeds from the offering or listing or other of our capital raising activities to fund the business and operations of the consolidated VIE; or
- taking other regulatory or enforcement actions that could be harmful to our business.

Any of these events could cause significant disruption to the business operations of us and the consolidated VIE and severely damage our reputation, which would in turn have a material adverse effect on our financial condition and results of operations. If occurrences of any of these events results in our inability to direct the activities of the consolidated VIE in China that most significantly impact their economic performance and/or our failure to receive the economic benefits and residual returns from the consolidated VIE, and we are unable to restructure our ownership structure and operations in a satisfactory manner, we may not be able to consolidate the financial results of the consolidated VIE in our consolidated financial statements in accordance with U.S. GAAP.

On February 17, 2023, the CSRC released the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies (the “Trial Measures”) and five supporting guidelines, which came into effect on March 31, 2023. At the press conference held for the Trial Measures on the same day, officials from the CSRC clarified that, as for companies seeking overseas listing with contractual arrangements, the CSRC will solicit opinions from relevant regulatory authorities and complete the filing of the overseas listing of such companies if they duly meet the compliance requirements, and support the development and growth of these companies by enabling them to utilize two markets and two kinds of resources. If we fail to complete the filing with the CSRC in a timely manner or at all, for any future offerings, listing or any other capital raising activities, which are subject to the filings under the Trial Measures, due to the contractual arrangements between our WFOE, the consolidated VIE and its shareholders, our ability to raise or utilize funds could be materially and adversely affected, and we may even need to unwind our contractual arrangements with the consolidated VIE and its shareholders or restructure our business operations to rectify the failure to complete the filings. However, given that the Trial Measures were promulgated in early 2023 and may continue to evolve, their interpretation, application, and enforcement and how they will affect our operations and our future financing are subject to further clarification and interpretation.

We rely on contractual arrangements with the consolidated VIE and its shareholders to direct activities of the consolidated VIE, 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 the consolidated VIE and its shareholders to conduct the operations of us and the consolidated VIE in China. These contractual arrangements, however, may not be as effective as direct ownership in providing us with control over the consolidated VIE. For example, the consolidated VIE and its shareholders could breach their contractual arrangements with us by, among other things, failing to conduct the operations of the consolidated VIE in an acceptable manner or taking other actions that are detrimental to our interests.

If we had direct ownership of the consolidated VIE in China, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of the consolidated VIE, which in turn could implement changes, subject to any applicable fiduciary obligations, at the management and operational level. However, under the current contractual arrangements, we rely on the performance by the consolidated VIE and its shareholders of their obligations under the contracts to exercise control over the consolidated VIE. If any dispute relating to these contracts remains unresolved, we will have to enforce our rights under these contracts through the operations of PRC law and arbitration, litigation and other legal proceedings and therefore will be subject to uncertainties as to the outcome of any such legal proceedings. See “—Any failure by the consolidated VIE or its shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on the business of us and the consolidated VIE.”

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

If the consolidated VIE or its shareholders fail to perform their respective obligations under the contractual arrangements, we may have to incur substantial costs and expend additional resources to enforce such arrangements. We may also have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and contractual remedies, which we cannot assure you will be sufficient or effective under PRC law. For example, if the shareholders of the consolidated VIE were to refuse to transfer their equity interests in the consolidated VIE to us or our designee when 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. As a result, we cannot guarantee that we could successfully enforce these contractual arrangements in a timely manner, or at all. See “—Risks Relating to Doing Business in China—Failure to respond to changes in the regulatory environment in China could materially and adversely affect us.” Meanwhile, there are very few precedents and little formal guidance as to how contractual arrangements in the context of a consolidated variable interest entity should be interpreted or enforced under PRC law. There remain significant uncertainties regarding the ultimate outcome of such arbitration if legal action becomes necessary. In addition, under PRC law, rulings by arbitrators are final, parties cannot appeal the arbitration results in courts, and if the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would require additional expenses and delay. In the event we are unable to enforce these contractual arrangements, or if we suffer significant delay or other obstacles in the process of enforcing these contractual arrangements, we may not be able to exert effective control over the consolidated VIE, and our ability to conduct the business we currently conduct through the contractual arrangements may be negatively affected.

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

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

Currently, we do not have any arrangements to address potential conflicts of interest between these shareholders and our company, except that we may invoke the right under the equity pledge agreements with the shareholders of the VIE to enforce the equity pledge in the case of the shareholders' breach of the contractual arrangements. For individuals who are also our directors and officers, we rely on them to abide by the laws of the Cayman Islands, which provide that directors and officers owe a fiduciary duty to the company that requires them to act in good faith and in what they believe to be the best interests of the company and not to use their position for personal gains. The shareholders of the consolidated VIE have executed powers of attorney to appoint our WFOE or a person designated by one of our WFOE to vote on their behalf and exercise voting rights as shareholders of the consolidated VIE. If we cannot resolve any conflict of interest or dispute between us and the shareholders of the consolidated VIE, we would have to rely on legal proceedings, which could result in disruption of the business of us and the consolidated VIE and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

The shareholders of the consolidated VIE may be involved in personal disputes with third parties or other incidents that may have an adverse effect on their respective equity interests in the consolidated VIE and the validity or enforceability of our contractual arrangements with the consolidated VIE and its shareholders. For example, in the event that any of the shareholders of the consolidated VIE divorces her or his spouse, the spouse may claim that the equity interest of the VIE held by such shareholder is part of their community property and should be divided between such shareholder and the spouse. If such claim is supported by the court, the relevant equity interest may be obtained by the shareholder's spouse or another third party who is not subject to obligations under our contractual arrangements, which could result in a loss of effective control over the VIE by us. Similarly, if any of the equity interests of the consolidated VIE is inherited by a third party with whom the current contractual arrangements are not binding, we could lose our control over the VIE or have to maintain such control by incurring unpredictable costs, which could cause significant disruption to part of the business and operations of us and the consolidated VIE and harm our financial condition and results of operations.

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

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

We may lose the ability to use and benefit from assets held by the consolidated VIE that are material or supplementary to the operation of the business of us and the consolidated VIE if the consolidated VIE goes bankrupt or becomes subject to dissolution or liquidation proceedings.

As part of our contractual arrangements with the consolidated VIE, the consolidated VIE may currently and in the future hold certain assets that are material or supplementary to the operation of the business of us and the consolidated VIE. If the consolidated VIE goes bankrupt and all or part of its assets become subject to liens or rights of creditors, we may be unable to continue some or all of our business activities we currently conduct through the contractual arrangement, which could materially and adversely affect the business, financial condition and results of operations of us and the consolidated VIE. Under the contractual arrangements, the consolidated VIE may not, in any manner, sell, transfer, mortgage or dispose of their assets or legal or beneficial interests in the business without our prior consent. If the consolidated VIE undergoes voluntary or involuntary liquidation proceedings, unrelated creditors may claim rights to some or all of these assets, thereby hindering our ability to operate part of the business of us and the consolidated VIE, which could materially and adversely affect the business, financial condition and results of operations of us and the consolidated VIE.

The interpretation and implementation of the Foreign Investment Law may be subject to changes from time to time, and it remains to be seen how it may impact the viability of our current corporate structure, corporate governance and operations.

The value-added telecommunications services conducted through the consolidated VIE and its subsidiaries are subject to foreign investment restrictions set forth in the 2024 Negative List issued by the MOFCOM, and the NDRC, effective November 2024. The business of production, sales and distribution of e-vapor products conducted through the consolidated VIE and its subsidiaries are also subject to foreign investment restrictions or regulatory approval under the 2024 Negative List and the E-cigarette Industrial Policies and Measures (for Trial Implementation) issued by the State Tobacco Monopoly Administration on April 25, 2022, which came into effect on the same day.

On March 15, 2019, the National People's Congress promulgated the Foreign Investment Law, or the Foreign Investment Law (2019), which became effective on January 1, 2020 and replaced the Sino-Foreign Equity Joint Venture Enterprise Law, the Sino-Foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-Owned Enterprise Law to become the legal foundation for foreign investment in the PRC. Under the Foreign Investment Law (2019), "foreign investment" refers to the investment activities directly or indirectly conducted by foreign individuals, enterprises or other entities in China, and it further stipulates forms of foreign investment, as below:

- foreign investors set up foreign invested enterprises in China severally or jointly with other investors;
- foreign investors acquire shares, equity, properties or other similar interests in any domestic enterprise;
- foreign investors invest in new projects in China severally or jointly with other investors; and
- foreign investors invest through any other means stipulated in laws, administrative regulations, or provisions of the State Council.

The Foreign Investment Law does not explicitly classify contractual arrangements as a form of foreign investment, and as of the date of this document, no relevant laws, administrative regulations or provisions of the State Council have incorporated contractual arrangements as a form of foreign investment in the field of the businesses operated by the consolidated VIE and its subsidiaries.

In the opinion of our PRC legal counsel, Han Kun Law Offices, subject to the disclosure in this annual report, (i) the ownership structures of our WFOE and the consolidated VIE in China are not in violation of provisions of applicable PRC laws and regulations currently in effect; and (ii) the contractual arrangements between our WFOE, the consolidated VIE and its shareholders governed by PRC law are not in violation of provisions of applicable PRC laws or regulations currently in effect, and valid and binding upon each party to such arrangements and enforceable against each party thereto in accordance with their terms and applicable PRC laws and regulations currently in effect. However, we have been further advised by our PRC legal counsel that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. Thus, the PRC governmental authorities may take a view contrary to the opinion of our PRC legal counsel. It is uncertain whether any new PRC laws or regulations relating to variable interest entity structure will be adopted or if adopted, what they would provide. For instance, though the Foreign Investment Law does not explicitly classify contractual arrangements as a form of foreign investment, there is no assurance that foreign investment via contractual arrangements would not be interpreted as a type of indirect foreign investment activities in the future. In addition, the definition of foreign investment contains a catch-all provision which includes investments made by foreign investors through any other means stipulated in laws, administrative regulations or provisions of 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. If further actions are required to be taken under future laws, administrative regulations or provisions of the State Council, we may face substantial uncertainties as to whether we can complete such actions. Failure to do so could materially and adversely affect our current corporate structure, corporate governance and operations.

Risks Relating to Doing Business in China

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

A significant portion of the business operations of us and the consolidated VIE are conducted in China. Accordingly, the business, financial condition, results of operations and prospects of us and the consolidated VIE may be influenced to a significant degree by political, economic and social conditions in China generally and by continued economic growth in China as a whole.

China's 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. In addition, the PRC 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 the business of us and the consolidated VIE face potential regulatory challenges from China. The PRC government also exercises significant control over the PRC economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies.

While China's 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. Some of the government 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. Any stimulus measures designed to boost the Chinese economy may contribute to higher inflation, which could adversely affect our results of operations and financial condition.

Failure to respond to changes in the regulatory environment in China could materially and adversely affect us.

The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions under the civil law system may be cited for reference, but have limited precedential value. The overall effect of legislation over the past three decades has significantly enhanced the protections afforded to various forms of foreign investments in China. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are subject to further implementation and clarification and enforcement of these laws, regulations and rules may be subject to changes. These uncertainties may affect our judgment on the relevance of legal requirements and our ability to enforce our contractual rights or tort claims. Besides, the PRC is geographically large and divided into various provinces and municipalities and, as such, different laws, rules, regulations and policies may have different and varying applications and interpretations in different parts of the PRC. Legislation or regulations, particularly in local applications, may be rapidly evolving. In addition, the regulatory uncertainties may be exploited through unmerited or frivolous legal actions or threats in attempts to extract payments or benefits from us. Furthermore, the PRC legal system is based in part on government policies and internal rules, which are continuously evolving. As a result, we may not be aware of our violation of any of these policies and rules until sometime after the violation. In addition, any administrative, legal or arbitral proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention.

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

We conduct our business in China primarily through our PRC subsidiaries and the consolidated variable interest entity. The operations of us and the consolidated VIE in China are governed by PRC laws and regulations. The PRC government has significant oversight over the conduct of the business of us and the consolidated VIE, and it may influence the operations of us and the consolidated VIE, which could result in a material adverse change in the operation of us and the consolidated VIE, 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 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 the operations of us and the consolidated VIE could cause the value of our securities to significantly decline. Therefore, investors of our company and the business of us and the consolidated VIE face potential uncertainty from actions taken by the PRC government affecting the business of us and the consolidated VIE.

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

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

Our ADSs may be prohibited from trading in the United States under the HFCAA in the future if the PCAOB is unable to inspect or investigate completely auditors headquartered in mainland China and Hong Kong. The delisting of the ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment.

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

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

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

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

We are a Cayman Islands holding company and rely on dividends and other distributions on equity from our PRC subsidiaries for our cash requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and service any debt we may incur. Current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of their accumulated after-tax profits upon satisfaction of relevant statutory conditions and procedures, if any, determined in accordance with Chinese accounting standards and regulations. In addition, each of our PRC subsidiaries is required to set aside at least 10% of its after-tax profits each year, if any, to fund certain reserve funds until the total amount set aside reaches 50% of its registered capital. Additionally, if our PRC subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends or make other distributions to us. Furthermore, the PRC tax authorities may require our subsidiaries to adjust their taxable income under the contractual arrangements they currently have in place with the consolidated VIE in a manner that would materially and adversely affect their ability to pay dividends and other distributions to us.

Any limitation on the ability of our PRC subsidiaries to distribute dividends or other payments to their respective shareholders could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to the businesses of us and the consolidated VIE, pay dividends or otherwise fund and conduct the business of us and the consolidated VIE.

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

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

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

Any funds we transfer to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, as well as any loans we provide to the consolidated VIE, are subject to approval by or registration with relevant governmental authorities in China. According to the relevant PRC regulations on FIEs in China, capital contributions to our PRC subsidiaries are subject to the registration with SAMR or its local counterpart and registration with a local bank authorized by the State Administration of Foreign Exchange, or the SAFE. In addition, (i) any foreign loan procured by our PRC subsidiaries is required to be registered with the SAFE or its local branches and (ii) any of our PRC subsidiaries may not procure loans which exceed the difference between its total investment amount and registered capital or, as an alternative, only procure loans subject to the calculation approach and limitation as provided by the People's Bank of China. Additionally, any medium or long-term loans to be provided by us to the consolidated VIE must be registered with the NDRC and the SAFE or its local branches. We may not be able to obtain these government approvals or complete such registrations in a timely manner, or at all, with respect to future capital contributions or foreign loans by us to our PRC subsidiaries or loans by us to the consolidated VIE. If we fail to receive such approvals or complete such registration or filing, our ability to use the proceeds of our initial public offering to capitalize our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand the business of us and the consolidated VIE.

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 Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive our revenues primarily in Renminbi. Under our current corporate structure, our Cayman Islands holding company primarily relies on dividend payments from our PRC subsidiaries to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval of the SAFE by complying with certain procedural requirements. Specifically, under the existing foreign exchange restrictions, without prior approval of the SAFE, cash generated from the operations of our PRC subsidiaries in China may be used to pay dividends to our company. However, approval from or registration with appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. As a result, we need to obtain SAFE approval to use cash generated from the operations of our PRC subsidiaries and VIE 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. The PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

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

A number of PRC laws and regulations have established procedures and requirements that could make merger and acquisition activities in China by foreign investors more time consuming and complex. In addition to the Anti-monopoly Law itself, these include 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, the Rules of the Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated in 2011, and the Measures for the Security Review of Foreign Investment promulgated by the NDRC and the MOFCOM in December 2020 and came into force on January 18, 2021. These laws and regulations impose requirements in some instances that the PRC Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. In addition, pursuant to relevant anti-monopoly laws and regulations, the SAMR should be notified in advance of any concentration of undertaking if certain thresholds are triggered. In light of the uncertainties relating to the interpretation, implementation and enforcement of the anti-monopoly laws and regulations of the PRC, we cannot assure you that the anti-monopoly law enforcement agency will not deem our future acquisitions or investments to have triggered the filing requirement for anti-monopoly review. Moreover, 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 NDRC and the PRC Ministry of Commerce, and prohibit any attempt to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement. In the future, we may grow the business of us and the consolidated VIE by acquiring complementary businesses. Complying with the requirements of the relevant regulations to complete such transactions could be time consuming, and any required approval processes, including clearance from the SAMR and approval from the PRC Ministry of Commerce, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand the business of us and the consolidated VIE or maintain our market share.

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

In July 2014, the SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment Through Special Purpose Vehicles, or SAFE Circular 37, which requires PRC residents (including PRC individuals and PRC corporate entities) to register with the SAFE or its local branches in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests. SAFE Circular 37 is applicable to our shareholders who are PRC residents and may be applicable to any offshore acquisitions that we make in the future. In addition, such PRC residents must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions. According to the Circular on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment, which became effective on June 1, 2015, applications for foreign exchange registration of inbound foreign direct investments and outbound overseas direct investments, including those required under SAFE Circular 37, will be filed with qualified banks instead of the SAFE. The term "control" under SAFE Circular 37 is broadly defined as the operation rights, beneficiary rights or decision-making rights acquired by PRC residents in the offshore special purpose vehicles, or SPVs, by means of acquisition, trust, proxy, voting rights, repurchase, convertible bonds or other arrangements. If any PRC shareholder of such SPVs fails to make the required registration or to update the previously filed registration, the subsidiary of such SPVs in China may be prohibited from distributing their profits or the proceeds from any capital reduction, share transfer or liquidation to the SPVs, and the SPVs may also be prohibited from making additional capital contributions into their subsidiary in China.

We have notified all individuals or entities who directly hold shares in our Cayman Islands holding company and are known to us as PRC residents to complete or update the foreign exchange registrations. However, we may not be informed of the identities of all the PRC individuals or entities holding direct or indirect interest in our company, nor can we compel our beneficial owners to comply with the SAFE registration requirements. As a result, we cannot assure you that all of our shareholders or beneficial owners who are PRC residents 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 obtain or update the foreign exchange registrations of our PRC subsidiaries, could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our PRC subsidiaries' ability to make distributions or pay dividends to us or affect our ownership structure, which could adversely affect the business and prospects of us and the consolidated VIE.

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

In February 2012, the SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company, replacing earlier rules promulgated in 2007. Pursuant to these rules, PRC citizens and non-PRC citizens who reside in China for a continuous period of not less than one year who participate in any stock incentive plan of an overseas publicly listed company, subject to a few exceptions, are required to register with the SAFE through a domestic qualified agent, which could be the PRC subsidiaries of such overseas-listed company, and complete certain other procedures. See "Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulations on Foreign Exchange and Dividend Distribution—Regulations on Foreign Exchange Registration of Overseas Investment by PRC Residents." We and our senior management and other employees who are PRC citizens or who reside in the PRC for a continuous period of not less than one year and who have been or will be granted incentive shares or options are subject to these regulations. Failure to complete the SAFE registrations may subject us or them to fines and legal sanctions. We also face regulatory uncertainties that could restrict our ability to adopt additional incentive plans for our directors, senior management and employees under PRC law.

If we are classified as a PRC resident enterprise for PRC enterprise income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders and 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 the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term "de facto management body" as the body that exercises full and substantial control and overall management over the business, productions, personnel, accounts and properties of an enterprise. In 2009, the State Administration of Taxation, or the SAT, issued a circular, known as SAT Circular 82, which provides certain specific criteria for determining whether the "de facto management body" of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect the SAT's general position on how the "de facto management body" 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 we are a PRC resident enterprise for enterprise income tax purposes, we will be subject to PRC enterprise income on our worldwide income at the rate of 25% and we will 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, gains realized on the sale or other disposition of our ADSs or Class A ordinary shares may be subject to PRC tax, at a rate of 10% in the case of non-PRC enterprises or 20% in the case of non-PRC individuals (in each case, subject to the clauses of any applicable tax treaty), if such gains are deemed to be from the PRC. It is unclear whether non-PRC shareholders of our company would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. Any such tax may reduce the returns on your investment in the ADSs.

We face uncertainty with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies, which may have a material adverse effect on our financial condition and results of operations.

On February 3, 2015, the SAT issued the Public Notice Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises, or SAT Bulletin 7. SAT Bulletin 7 extends its tax jurisdiction to transactions involving the transfer of taxable assets through offshore transfer of a foreign intermediate holding company. In addition, SAT Bulletin 7 provides certain criteria on how to assess reasonable commercial purposes and has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market. SAT Bulletin 7 also brings challenges to both foreign transferor and transferee (or other person who is obligated to pay for the transfer) of taxable assets. On October 17, 2017, the SAT issued the Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source, or SAT Bulletin 37, which came into effect on December 1, 2017. SAT Bulletin 37 further clarifies the practice and procedure of the withholding of non-resident enterprise income tax.

Where a non-resident enterprise transfers taxable assets indirectly by disposing of the equity interests of an overseas holding company, which is an Indirect Transfer, the non-resident enterprise as either transferor or transferee, or the PRC entity that directly owns the taxable assets, may report such Indirect Transfer to the relevant tax authority. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise.

We face uncertainties as to the reporting and other implications of certain past and future transactions where PRC taxable assets are involved, such as offshore restructuring, sale of the shares in our offshore subsidiaries and investments. For transfer of shares in our company by investors who are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in the filing under SAT Bulletin 7 and/or SAT Bulletin 37. As a result, we may be required to expend valuable resources to comply with SAT Bulletin 7 and/or SAT Bulletin 37, or to establish that we and our non-PRC resident investors should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

The business of us and the consolidated VIE is subject to complex and evolving PRC laws and regulations regarding data privacy and cybersecurity. Failure to protect confidential information of our users, business partners and network against security breaches could damage our reputation and brand and substantially harm the business and results of operations of us and the consolidated VIE.

We collect information from our customers to enhance their shopping experience and for our promotional and marketing activities. Maintaining complete security for the storage and transmission of confidential information on our platform is essential to maintaining our operating efficiency and customer confidence as well as complying with the applicable laws and standards.

We have adopted security policies and measures, including encryption technology, to protect our proprietary data and customer information. However, advances in technology, the expertise of hackers, improper use or sharing of data, new discoveries in the field of cryptography or other events or developments could result in a compromise or breach of the technology that we use to protect confidential information. We may not be able to prevent third parties, especially hackers or other individuals or entities engaging in similar activities, from illegally obtaining such confidential or private information we hold as a result of our customers’ visits to our websites. Such individuals or entities obtaining our customers’ confidential or private information may further engage in various other illegal activities using such information. In addition, we have limited control or influence over the security policies or measures adopted by business partners. Any negative publicity on our websites’ safety or privacy protection mechanisms and policies, and any claims asserted against us or fines imposed upon us as a result of actual or perceived failures, could have a material and adverse effect on our public image, reputation, financial condition and results of operations. As of the date of this annual report, we have not experienced any material breach of our cybersecurity system or measures. We are subject to routine inspections and examinations by PRC governmental authorities in relation to our privacy protection and data security from time to time and may be requested to take certain remedial measures to rectify any deficiencies identified. We cannot assure you that no material deficiencies will be identified in the future. If we give third parties greater access to our technology platform in the future, it may become more challenging for us to ensure the security of our systems. Any compromise of our information security or the information security measures of third-party online payment service providers or other business partners could have a material and adverse effect on our reputation, business, prospects, financial condition and results of operations. Practices regarding the collection, use, storage, transmission and security of personal information by companies operating over the internet and mobile platforms are under increased public scrutiny.

As the regulations regarding data privacy and cybersecurity are quickly evolving in China, we may become subject to new laws and regulations applying to the solicitation, collection, processing or use of personal or consumer information that could affect how we store, process and share data with our customers.

On November 7, 2016, the Standing Committee of the National People’s Congress promulgated the PRC Cyber Security Law, which took effect on June 1, 2017. The Cyber Security Law requires, among others, that network operators take security measures to protect the network from unauthorized interference, damage and unauthorized access and prevent data from being divulged, stolen or tampered with. Network operators are also required to collect and use personal information in compliance with the principles of legitimacy, properness and necessity, and strictly within the scope of authorization by the subject of personal information unless otherwise prescribed by laws or regulations. The Civil Code promulgated in 2020 and took effect in January 2021 also provides specific provisions regarding the protection of personal information.

On June 10, 2021, the Standing Committee of the National People’s Congress promulgated the PRC Data Security Law, which took effect in September 2021. The Data Security Law, among others, provides for a security review procedure for the data activities that may affect national security. The Data Security Law also stipulates that the relevant authorities will formulate the catalogues for important data and strengthen the protection of important data, and state core data, i.e., data having a bearing on national security, the lifelines of national economy, people’s key livelihood and major public interests, should be subject to stricter management system. See “Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulation Related to Internet Security and Privacy Protection.” The exact scope of important data and state core data is subject to further clarification and interpretation. If any data that we are in possession of constitutes important data or state core data, we may be required to adopt stricter measures for protection and management of such data.

On December 28, 2021, thirteen PRC government authorities, including the CAC, jointly promulgated the Measures for Cybersecurity Review, or the Cybersecurity Review Measures, which became effective on February 15, 2022 and repealed and superseded the former Measures for Cybersecurity Review promulgated in April 2020. Pursuant to the Cybersecurity Review Measures, critical information infrastructure operators purchasing network products and services and platform operators carrying out data processing activities, which affect or may affect national security, should be subject to cybersecurity review. The Cybersecurity Review Measures further provide that network platform operators with personal information of over one million users are subject to cybersecurity review before listing abroad. The cybersecurity review will evaluate, among others, the risk of critical information infrastructure, core data, important data or a large amount of personal information being influenced, controlled or maliciously used by foreign governments after such company goes public, and the risk on cyber information security. On September 24, 2024, the CAC released the Regulations on the Network Data Security. The Regulations on the Network Data Security provide that data processors refer to individuals or organizations that autonomously determine the purpose and the manner of processing data. In accordance with the Regulations on the Network Data Security, data processors are required to apply for a cybersecurity review according to relevant regulations for conducting activities that affect or may affect national security. However, there have been no clarifications from the authorities as of the date of this annual report as to the standards for determining such activities that “affects or may affect national security.” Since the interpretation, application and enforcement of the Cybersecurity Review Measures and the Regulations on the Network Data Security are subject to further clarification and implementation, the Cybersecurity Review Measures and the Regulations on the Network Data Security remain unclear on whether the relevant requirements will be applicable to companies that have been listed in the United States and Hong Kong, such as us. We cannot predict the impact of the Cybersecurity Review Measures and the Regulations on the Network Data Security, if any, at this stage, and we will closely monitor and assess any development in the rule-making process and future regulatory changes. If the relevant laws and regulations mandate clearance of cybersecurity review and other specific actions to be completed by China-based companies listed on a U.S. stock exchange, such as us, we face uncertainties as to whether such clearance can be timely obtained, or at all. As of the date of this annual report, we have not been involved in any formal investigations on cybersecurity review made by the CAC on such basis. However, if we are not able to comply with the cybersecurity and network data security requirements in a timely manner, or at all, we may be subject to government enforcement actions and investigations, fines, penalties, or suspension of our non-compliant operations, among other sanctions, which could materially and adversely affect the business and results of operations of us and the consolidated VIE. In addition to the cybersecurity review, the Regulations on the Network Data Security require that data processors processing “important data” should conduct an annual data security assessment, and submit the assessment report of the preceding year to the provincial cybersecurity department. Since the Regulations on the Network Data Security is relatively new, and its interpretation, application and enforcement are subject to further clarification and implementation, we are not sure if we may be subject to review when conducting data processing activities and annual data security assessment and may face challenges in addressing its requirements and making necessary changes to our internal policies and practices in data processing.

On August 20, 2021, the Standing Committee of the National People’s Congress of China 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. Our websites only collect basic user personal information that is necessary to provide the corresponding services. We do not collect any sensitive personal information or other excessive personal information that is not related to the corresponding services. We update our privacy policies from time to time to meet the latest regulatory requirements of the CAC and other authorities and adopt technical measures to protect data and ensure cybersecurity in a systematic way. Nonetheless, the Personal Information Protection Law raises the protection requirements for processing personal information, and many specific requirements of the Personal Information Protection 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. See “Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulation Related to Internet Security and Privacy Protection.”

Given that the above mentioned newly promulgated laws, regulations and policies were recently promulgated or issued, their interpretation, application and enforcement are subject to further clarification and implementation. Although we only gain access to user information that is necessary for, and relevant to, the services provided, the data we obtain and use may include information that is deemed as “personal information,” “network data” or “important data” under the PRC Cyber Security Law, the Civil Code and related data privacy and protection laws and regulations. As such, we have adopted a series of measures to ensure that we comply with relevant laws and regulations in the collection, use, disclosure, sharing, storage, and security of user information and other data.

We generally comply with industry standards and are subject to the terms of our own privacy policies. Compliance with any additional laws could be expensive, and may place restrictions on the conduct of the business of us and the consolidated VIE and the manner in which we interact with our customers. We have been, and may in the future be, subject to investigations and inspections by government authorities regarding our compliance with laws and regulations on information protection and data privacy, and we cannot assure you that our practices will always fully comply with all applicable rules and regulatory requirements. Any failure to comply with applicable regulations could also result in regulatory enforcement actions against us, and misuse of or failure to secure personal information could also result in violation of data privacy laws and regulations, proceedings against us by governmental authorities or other authorities, damage to our reputation and credibility and could have a negative impact on revenues and profits.

Significant capital and other resources may be required to protect against information security breaches or to alleviate problems caused by such breaches or to comply with our privacy policies or privacy-related legal obligations. The resources required may increase over time as the methods used by hackers and others engaged in online criminal activities are increasingly sophisticated and constantly evolving. Any failure or perceived failure by us to prevent information security breaches or to comply with privacy policies or privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other customer data, could cause our customers to lose trust in us and could expose us to legal claims.

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 this annual report based on foreign laws.

We are a company incorporated under the laws of the Cayman Islands, we conduct a significant portion of the operations of us and the consolidated VIE in China, and a significant portion of our assets are located in China. In addition, all our senior management reside within China for a significant portion of the time and most of them are PRC nationals. 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. Even if you are successful in bringing an action of this kind, interim remedies or enforcement orders granted by overseas courts, such as those in Hong Kong and the Cayman Islands, are subject to further recognition and enforcement by PRC courts according to the applicable laws and regulations.

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

Shareholder claims or regulatory investigation 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 litigations 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 United 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. Moreover, on February 24, 2023, the CSRC, the PRC Ministry of Finance, National Administration of State Secrets Protection and National Archives Administration of China jointly issued the Provisions on Strengthening Confidentiality and Archives Management of Overseas Securities Issuance and Listing by Domestic Enterprises (the “Confidentiality and Archives Management Provisions”), which came into effect on March 31, 2023. The Confidentiality and Archives Management Provisions require, among others, that PRC domestic enterprises seeking to offer and list securities in overseas markets, either directly or indirectly, shall establish the confidentiality and archives system, and shall complete approval and filing procedures with competent authorities, if such PRC domestic enterprises or their overseas listing entities provide or publicly disclose documents or materials involving state secrets and work secrets of PRC government agencies to relevant securities companies, securities service institutions, overseas regulatory agencies and other entities and individuals. It further stipulates that providing or publicly disclosing documents and materials which may adversely affect national security or public interests, and accounting files or copies of important preservation value to the state and society shall be subject to corresponding procedures in accordance with relevant laws and regulations. In addition, the Data Security Law and the Personal Information Protection Law provide that no entity or individual within the territory of the PRC should 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. See also “—Risks Relating to Our ADSs—You may face difficulties in protecting your interests, and your ability to protect your rights through U.S. courts may be limited, because we are incorporated under Cayman Islands law” for risks associated with investing in us as a Cayman Islands company.

Failure to obtain or maintain any of the preferential tax treatments and government subsidies or imposition of any additional taxes and surcharges could adversely affect our financial condition and results of operations.

Under the PRC Enterprise Income Tax Law and its implementation rules, the statutory enterprise income tax rate is 25%, but certain “software enterprise” and “high and new technology enterprises” qualify for a preferential enterprise income tax rates subject to certain qualification criteria. A “high and new technology enterprise,” which is reassessed every three years, is entitled to favorable income tax rate of 15%. In December 2020, Shenzhen Wuxin Technology Co., Ltd., or Shenzhen Wuxin, obtained qualification as a “high and new technology enterprise”. However, if it fails to maintain its qualified status, experiences any increase in the enterprise income tax rate, or faces any discontinuation, retroactive or future reduction or refund of any of the preferential tax treatments currently enjoyed, the business, financial condition and results of operations of us and the consolidated VIE could be materially and adversely affected. In addition, Ningbo Wuxin Information Technology Co., Ltd., or Ningbo Wuxin, received subsidies from certain PRC local governments for operating business in their jurisdictions.

However, substantial uncertainties remain as to the tax regime that may be applicable to us or the e-vapor industry in the future, including, but not limited, to the following.

- Under the regulatory framework applicable to the e-vapor industry, Shenzhen Wuxin may no longer be qualified as a “high and new technology enterprise” as an e-vapor brand in China. Therefore, we may no longer be eligible for the preferential income tax rate of 15% or be entitled to claim super-deduction of certain qualified research and development expenses when determining the taxable income.
- Pursuant to the E-cigarette Tax Announcement, E-cigarette manufacturers, such as ourselves, become subject to excise tax at the rate of 36% on the production or import of e-cigarettes. See “Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulations on Tax” for more details.

- Furthermore, we may no longer be entitled to subsidies granted by the local government.

If additional tax or increased tax rates become applicable to our e-vapor products or us in the future, the business, results of operation and financial condition of us and the consolidated VIE would be materially and adversely affected. See also “-Our business is subject to a large number of laws across many jurisdictions, many of which are evolving.” Further, in the ordinary course of the business of us and the consolidated VIE, we are subject to complex income tax and other tax regulations, and significant judgment is required in the determination of a provision for income taxes. Although we believe our tax provisions are reasonable, if the PRC tax authorities successfully challenge our position and we are required to pay tax, interest and penalties in excess of our tax provisions, our financial condition and results of operations would be materially and adversely affected.

The tension in international trade and rising political tension, particularly between U.S. and China, may adversely impact the business, financial condition, and results of operations the business of us and the consolidated VIE.

Although cross-border business may not be an area of our focus, if we plan to expand the business of us and the consolidated VIE internationally in the future, any unfavorable government policies on international trade, such as capital controls or tariffs, may affect the demand for our products and services, impact our competitive position, or prevent us from being able to conduct business in certain countries. If any new tariffs, legislation, or regulations are implemented, or if existing trade agreements are renegotiated, such changes could adversely affect the business, financial condition, and results of operations of us and the consolidated VIE. Recently, there have been heightened tensions in international economic relations, such as the one between the United States and China. In particular, in April 2025, the U.S. government imposed a new tariff on certain products imported from China, and China responded with reciprocal tariffs on goods imported from the United States. Although the direct impact of the current international trade tension, and any escalation of such tension, on the global e-vapor industry is uncertain, the negative impact on general, economic, political and social conditions may adversely impact the business, financial condition and results of operations of us and the consolidated VIE. As of December 31, 2024, we do not have any operations in the United States and does not plan to have business expansion in the United States in the near term.

In addition, political tensions between the United States and China have escalated due to, among other things, trade disputes, sanctions imposed by the U.S. administration. Rising political tensions could reduce levels of trades, investments, technological exchanges and other economic activities between the two major economies, which would have a material adverse effect on global economic conditions and the stability of global financial markets. In addition, further deterioration in the relationship between China and the U.S. could accelerate the financial markets decoupling between the two countries. In recent years, the U.S. government has taken measures to increase regulatory scrutiny over U.S.-listed Chinese companies, including the enactment of the Holding Foreign Companies Accountable Act. If tensions continue to rise, additional regulatory or legislative actions could be taken, including more stringent disclosure requirements, restrictions on Chinese companies’ access to U.S. capital markets, or even forced delisting of Chinese ADRs from U.S. stock exchanges. These developments, if materialized, could adversely affect investor sentiment, significantly reduce the liquidity and trading volume of our securities in the U.S. market, and limit our ability to raise capital through public offerings or secondary market transactions. Any of these factors could have a material adverse effect on the business, prospects, financial condition and results of operations of us and the consolidated VIE.

Risks Relating to Our ADSs

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

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

- actual or anticipated fluctuations in our quarterly results of operations;
- variations in our revenues, earnings, or cash flows;
- fluctuations in operating metrics;
- regulatory developments affecting us or our industry;

- detrimental negative publicity about us, our competitors or our industry;
- announcements of new products and services and expansions by us or our competitors;
- announcements of new investments, acquisitions, strategic partnerships or joint ventures by us or our competitors;
- changes in financial estimates by securities analysts;
- additions or departures of key personnel;
- release of lockup or other transfer restrictions on our outstanding equity securities or sales of additional equity securities; and
- potential litigation or regulatory investigations.

Any of these factors may result in large and sudden changes in the volume and price at which the ADSs will trade. The securities of some China-based companies that have listed their securities in the United States have experienced significant volatility since their initial public offerings in recent years, including, in some cases, substantial declines in the trading prices of their securities. The trading performances of these companies' securities after their offerings may affect the attitudes of investors towards Chinese companies listed in the United States in general, which consequently may impact the trading performance of our ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or other matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have engaged in any inappropriate activities. In particular, the global financial crisis, the ensuing economic recessions and deterioration in the credit market in many countries have contributed and may continue to contribute to extreme volatility in the global stock markets. These broad market and industry fluctuations may adversely affect the market price of our ADSs. Volatility or a lack of positive performance in our ADS price may also adversely affect our ability to retain key employees, most of whom have been granted options or other equity incentives.

In the past, shareholders of public companies have often brought securities class action suits against companies following periods of instability in the market price of their securities. We and certain of our current officers and directors have been named as defendants in a putative securities class action captioned *Garnett v. RLX Technology Inc., et al.* (Case No. 1:21-cv-05125) filed on June 9, 2021 in the United States District Court for the Southern District of New York. On November 8, 2021, lead plaintiffs filed the amended, operative complaint in this case alleging, in sum and substance, that our IPO registration and prospectus ("Offering Documents") were false or misleading, in violation of Sections 11, 12(a)(2), and 15 of the Securities Act of 1933, in that the Offering Documents allegedly failed adequately to warn investors, among other things, that e-vapor products would soon be subject to the same stringent regulations as tobacco products. Plaintiffs purport to bring this action on behalf of a class of similarly situated investors and seek monetary damages on behalf of the class. In response, we and other defendants filed a motion to dismiss in December 2021. In February 2022, the lead plaintiffs and lead plaintiff counsel filed an opposition brief against our and other defendants' motion to dismiss. In March 2022, we and other defendants further filed a reply brief in further support of our motion to dismiss, and briefing on the motion to dismiss was completed. On September 30, 2022, the court granted the company's motion to dismiss all claims. The court held that Plaintiffs failed to plead that the company misrepresented its financials or the prospect of more stringent regulation of e-cigarettes in China. On October 28, 2022, plaintiffs filed a notice of appeal to appeal the dismissal of the complaint and filed their appellants' brief on February 10, 2023, before the U.S. Court of Appeals for the Second Circuit. In November 2023, the U.S. Court of Appeals for the Second Circuit affirmed the District Court's dismissal of the complaint with prejudice.

Though we have planned to defend vigorously in the class action, we cannot ascertain the final result of the pending class action. Our involvement in the class action, whatever the final result may be, could divert a significant amount of our management's attention and other resources from the business and operations of us and the consolidated VIE, which could harm our results of operations and require us to incur significant expenses to defend the suit. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. We are currently unable to estimate the potential loss, if any, associated with the resolution of the lawsuit. If a claim is successfully made against us, we may be required to pay significant damages or settlement, which could have a material adverse effect on our financial condition and results of operations.

Our dual-class share structure with different voting rights 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 share 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 ten 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. Any number of Class B ordinary shares held by a holder thereof will be automatically and immediately converted into an equal number of Class A ordinary shares upon the occurrence of (i) any direct or indirect sale, transfer, assignment or disposition of such number of Class B ordinary shares by the holder thereof or the direct or indirect transfer or assignment of the voting power attached to such number of Class B ordinary shares through voting proxy or otherwise to any person that is not Ms. Ying (Kate) Wang or an entity controlled by her, or (ii) the direct or indirect sale, transfer, assignment or disposition of a majority of the issued and outstanding voting securities of, or the direct or indirect transfer or assignment of the voting power attached to such voting securities through voting proxy or otherwise, or the direct or indirect sale, transfer, assignment or disposition of all or substantially all of the assets of, a holder of Class B ordinary shares that is an entity to any person that is not Ms. Ying (Kate) Wang or an entity controlled by her. As of March 31, 2025, Ms. Ying (Kate) Wang beneficially owns 71,840,780 Class A ordinary shares of the company through BJ BJ Limited, 308,714,990 Class B ordinary shares of the company through Leo Valley Holding Limited, and is entitled to the voting rights of 434,351,790 Class A ordinary shares of the company pursuant the Acting-In-Concert Undertakings, representing 51.9% of the company's total issued and outstanding ordinary shares and 82.6% of the aggregate voting power of the company.

As a result of the dual-class share structure and the concentration of ownership, holders of our Class B ordinary shares have considerable influence over matters such as decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. They may take actions that are not in the best interest of us or our other shareholders. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could have the effect of depriving our other shareholders of the opportunity to receive a premium for their shares as part of a sale of our company and may reduce the price of our ADSs. 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.

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

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

We are a "controlled company" within the meaning of the NYSE Listed Company Manual.

We are a "controlled company" as defined under the NYSE Listed Company Manual. As of March 31, 2025, Ms. Ying (Kate) Wang beneficially owns 71,840,780 Class A ordinary shares of the company through BJ BJ Limited, 308,714,990 Class B ordinary shares of the company through Leo Valley Holding Limited, and is entitled to the voting rights of 434,351,790 Class A ordinary shares of the company pursuant the Acting-In-Concert Undertakings, representing 51.9% of the company's total issued and outstanding ordinary shares and 82.6% of the aggregate voting power of the company. For so long as we remain a controlled company under that definition, we are permitted to elect to rely, and will 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, we rely on the exemption with respect to the requirement that a majority of the board of directors consist of 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.

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

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

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

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

RLX Technology Inc. historically has paid cash dividends and you must rely on price appreciation of our ADSs for return on your investment.

RLX Technology Inc. historically has paid cash dividends. Future cash dividends, if any, will be declared at the discretion of our board of directors, subject to certain requirements of Cayman Islands law, and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors as our board of directors may deem relevant. Therefore, you should not rely on an investment in our ADSs as a source for any future dividend income.

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

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

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

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

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

Our currently effective memorandum and articles of association and the deposit agreement provide that the United States District Court for the Southern District of New York (or, if the United States District Court for the Southern District of New York lacks subject matter jurisdiction over a particular dispute, the state courts in New York County, New York) is the exclusive judicial forum within the U.S. for the resolution of any complaint asserting a cause of action arising out of or relating in any way to the federal securities laws of the United States, and any suit, action or proceeding arising out of or relating in any way to the ADSs or the deposit agreement, which could limit the ability of holders of our Class A ordinary shares, the ADSs or other securities to obtain a favorable judicial forum for disputes with us, our directors and officers, the depository, and potentially others.

Our currently effective memorandum and articles of association provide that the United States District Court for the Southern District of New York (or, if the United States District Court for the Southern District of New York lacks subject matter jurisdiction over a particular dispute, the state courts in New York County, New York) is the exclusive forum within the United States for the resolution of any complaint asserting a cause of action arising out of or relating in any way to the federal securities laws of the United States, regardless of whether such legal suit, action, or proceeding also involves parties other than our company. The deposit agreement provides that the United States District Court for the Southern District of New York (or, if the United States District Court for the Southern District of New York lacks subject matter jurisdiction over a particular dispute, the state courts in New York County, New York) should have exclusive jurisdiction over any suit, action or proceeding against or involving us or the depository, arising out of or relating in any way to the deposit agreement or the transactions contemplated thereby or by virtue of owning the ADSs. The enforceability of similar federal court choice of forum provisions in other companies' organizational documents has been challenged in legal proceedings in the United States, and it is possible that a court could find this type of provision to be inapplicable or unenforceable. If a court were to find the federal choice of forum provision contained in our currently effective memorandum and articles of association or the deposit agreement to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions. If upheld, the forum selection clause in our currently effective memorandum and articles of association, as well as the forum selection provision in the deposit agreement, may limit a security-holder's ability to bring a claim against us, our directors and officers, the depository, and potentially others in his or her preferred judicial forum, and this limitation may discourage such lawsuits. Holders of our shares or the ADSs will not be deemed to have waived our compliance with the federal securities laws and the regulations promulgated thereunder pursuant to the exclusive forum provision in the currently effective memorandum and articles of association and deposit agreement.

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

Your ADSs are transferable on the books of the depository. However, the depository 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 depository may close its books from time to time for a number of reasons, including in connection with corporate action events, in emergencies, and on weekends and public holidays. The depository may refuse to deliver, transfer or register transfers of the ADSs generally when our share register or the books of the depository are closed, or at any time if we or the depository thinks it is advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

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

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

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

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

Shareholders of Cayman Islands exempted companies like us have no general rights under Cayman Islands law to inspect corporate records (other than the memorandum and articles of association, special resolutions, and the register of mortgages and charges) 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 management, members of our board of directors or controlling shareholders than they would as public shareholders of a company incorporated in the United States.

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

We are an exempted Cayman Islands company and substantially all of our assets are located outside of the United States. Significant portion 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, such judgements against our assets or the assets of our directors and officers are subject to further recognition and enforcement proceedings under the laws of the Cayman Islands and China.

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 vote the underlying Class A ordinary shares.

As a holder of our ADSs, you will only be able to exercise the voting rights with respect to the underlying Class A ordinary shares in accordance with the provisions of the deposit agreement. Under the deposit agreement, you must vote by giving voting instructions to the depository. Upon receipt of your voting instructions, the depository will vote the underlying Class A ordinary shares in accordance with these instructions. You will not be able to directly exercise your right to vote with respect to the underlying shares unless you withdraw the Class A ordinary shares. When a general meeting is convened, you may not receive sufficient advance notice to withdraw the shares underlying your ADSs to allow you to vote with respect to any specific matter. If we ask for your instructions, the depository will notify you of the upcoming vote and will arrange to deliver our voting materials to you. We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depository to vote your shares. In addition, the depository 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 vote and you may have no legal remedy if the shares underlying your ADSs are not voted as you requested. Furthermore, as a Cayman Islands exempted company, we are not obliged by the Companies Act (As Revised) of the Cayman Islands to call shareholders' annual general meetings.

The depository for our ADSs will give us a discretionary proxy to vote our Class A ordinary shares underlying your ADSs if you do not timely provide voting instructions to the depository in accordance with the deposit agreement, except in limited circumstances, which could adversely affect your interests.

Under the deposit agreement for the ADSs, if you do not timely provide voting instructions to the depository, the depository will give us a discretionary proxy to vote our Class A ordinary shares underlying your ADSs at shareholders' meetings unless:

- we have failed to timely provide the depository with notice of the meeting and related voting materials;
- we have instructed the depository that we do not wish a discretionary proxy to be given;
- we have informed the depository that there is substantial opposition as to a matter to be voted on at the meeting;
- we have informed the depository that a matter to be voted on at the meeting may have an adverse impact on shareholders; or
- the voting at the meeting is to be made on a show of hands.

The effect of this discretionary proxy is that if you do not timely provide voting instructions to the depository in the manner required by the deposit agreement, you cannot prevent our Class A ordinary shares underlying your ADSs from being voted, except under the circumstances described above. This may make it more difficult for shareholders to influence the management of our company. Holders of our Class A ordinary shares are not subject to this discretionary proxy.

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

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

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

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

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

As a Cayman Islands company listed on the NYSE, we are subject to the NYSE listing standards, which require listed companies to have, among other things, a majority of their board members to be independent and independent director oversight of executive compensation and nomination of directors. However, NYSE 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 NYSE listing standards. For example, we currently follow our home country practice in lieu of the requirements of NYSE Listed Company Manual Section 303A.01 to have a majority of independent directors and the requirement of NYSE Listed Company Manual Section 303A.07 to have an audit committee with at least three members.

We are permitted to elect to rely on additional home country practice to be exempted from the corporate governance requirements. If we choose to follow home country practice in the future, our shareholders may be afforded less protection than they would otherwise enjoy if we complied fully with the NYSE listing standards.

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

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

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

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

We believe that we were likely a PFIC for U.S. federal income tax purposes for 2024 and may be a PFIC for 2025, which could result in adverse U.S. federal income tax consequences to U.S. Holders of our ADSs or Class A ordinary shares.

A non-U.S. corporation, such as our company, will be classified as a PFIC for any taxable year if either (i) at least 75% of its gross income for such year consists of certain types of “passive” income, or the income test; or (ii) at least 50% of the value of its assets (generally determined on the basis of a quarterly average) during such year is attributable to assets that produce passive income or are held for the production of passive income, or the asset test. Based on the current and anticipated value of our assets, including the value of our goodwill, we believe that we were likely a PFIC for the taxable year ended December 31, 2024, and we may be a PFIC for 2025 and possibly subsequent taxable years if the value of our goodwill is determined by reference to our market capitalization.

Whether we are or will become a PFIC for any taxable year is a fact-intensive inquiry made annually that depends, in part, upon the composition of our income and assets. Fluctuations in the market price of our ADSs can affect our PFIC status because the value of our assets for the purpose 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. Based on the market price of our ADSs, we believe that we were likely a PFIC in 2024 and we may be a PFIC in 2025 and possibly subsequent taxable years if the value of our goodwill is determined by reference to our market capitalization. However, we have not obtained any valuation of our assets (including goodwill). U.S. Holders of our ADSs or Class A ordinary shares should consult their tax advisors regarding the value and characterization of our assets for purposes of the PFIC rules, which are subject to some uncertainties. Additionally, whether we are a PFIC in future years will depend on the composition of our income and assets, which may also be affected by how, and how quickly, we use our liquid assets. Moreover, it is not entirely clear how the contractual arrangements between us, the consolidated VIE, and the shareholders of the consolidated VIE will be treated for purposes of the PFIC rules, and we may be or become a PFIC for any taxable year if the consolidated VIE is not treated as owned by us for these purposes. We currently treat the consolidated VIE as being owned by us for U.S. federal income tax purposes because we control its management decisions and are entitled to substantially all of the economic benefits associated with it. However, there is no assurance that the Internal Revenue Service will agree with this position.

If we are classified as a PFIC for any taxable year during which a U.S. Holder (as defined in “Item 10. Additional Information—E. Taxation—United States Federal Income Tax Considerations”) holds our ADSs or Class A ordinary shares, certain adverse U.S. federal income tax consequences could apply to such U.S. Holder. Accordingly, U.S. Holders should consult their tax advisors regarding the potential tax consequences to them of owning our ADSs or Class A common shares if we are a PFIC.

Item 4. Information on the Company

A. History and Development of the Company

We commenced operations on January 2, 2018, when Shenzhen Wuxin Technology Co., Ltd., or Shenzhen Wuxin, was established.

Relx Inc. was established in Cayman Islands in August 2018 as the offshore holding company for the business both inside and outside China. Relx Inc. established Relx HK Limited in Hong Kong in August 2018 as its intermediary holding company. Relx HK Limited subsequently established a wholly-owned principal subsidiary in China, Beijing Yueke Technology Co., Ltd., or Beijing Yueke, in October 2018.

Relx Inc. obtained control and became the primary beneficiary of Beijing Wuxin Technology Co., Ltd., or Beijing Wuxin, which wholly owns Shenzhen Wuxin, in October 2018 by entering into a series of contractual arrangements with Beijing Wuxin and its shareholders through Beijing Yueke, in light of the PRC legal restrictions on foreign ownership of value-added telecommunication services and certain other businesses at the time.

We undertook a corporate restructuring.

On September 24, 2020, Relx Inc. established a wholly-owned subsidiary, RLX Technology Inc., in the Cayman Islands. Subsequently in October 2020, Relx Inc. transferred 100% equity interests in Relx HK Limited to RLX Technology Inc., upon completion of which Relx HK Limited became a wholly owned subsidiary of RLX Technology Inc. Relx HK Limited continues to hold the same corporate structure in China. On November 25, 2020, RLX Technology Inc. entered into agreements with Relx Inc. and Relx HK Limited, pursuant to which RLX Technology Inc. assumed from Relx HK Limited a net amount due to Relx Inc. in the aggregate principal amount of RMB600.0 million, which was originally owed by Relx HK Limited to Relx Inc. Such amount due to Relx Inc. was deemed to be settled concurrently with a share issuance of 143,681,555 ordinary shares to Relx Inc, and each of those shares was subdivided into ten ordinary shares as a result of the 10-for-1 share subdivision effected by us on January 11, 2021.

Historically, we entered into a non-competition agreement with Relx Inc. to set forth the business scope of us and Relx Inc. and the non-compete obligations between our two companies. The non-competition agreement with Relx Inc. was terminated upon negotiation between Relx Inc. and us in November 2023. In addition, all intellectual properties of Relx Inc., including trademarks and patents, were applied and registered by our subsidiaries or the consolidated VIE before the Restructuring. Therefore, we entered into an intellectual property license agreement with Relx Inc. to license these intellectual properties to Relx Inc. Such agreement became effective upon the completion of our initial public offering. For more detailed descriptions of the above-mentioned agreements with Relx Inc., see “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Agreements with Relx Inc.”

On January 11, 2021, we effected a 10-for-1 share subdivision, following which each of our issued and unissued ordinary shares was subdivided into ten ordinary shares.

On January 22, 2021, our ADSs commenced trading on the NYSE under the symbol “RLX.” We raised from our initial public offering and from exercising the over-allotment option in full by the underwriters approximately US\$1,553.0 million in net proceeds after deducting underwriting commissions and the offering expenses payable by us.

On April 16, 2021, Relx Inc. completed a distribution of our ordinary shares held by it to the then existing shareholders of Relx Inc. in proportion to Relx Inc.’s then shareholding structure, or the Share Distribution. Prior to the Share Distribution, Relx Inc. beneficially owned all of our issued and outstanding Class B ordinary shares, which constituted approximately 91.5% of our total issued and outstanding ordinary shares and 99.1% of the aggregate voting power of total issued and outstanding ordinary shares, and was deemed as our parent company. Immediately after the completion of the Share Distribution, (i) Ms. Ying (Kate) Wang beneficially owned 224,935,770 Class A ordinary shares of our company through BJ BJ Limited and 618,171,790 Class B ordinary shares of our company through Relx Holdings Limited, representing 53.7% of the total issued and outstanding ordinary shares and 89.8% of the aggregate voting power of our company; and (ii) each existing shareholder of Relx Inc. other than Relx Holdings Limited beneficially owned only Class A ordinary shares.

Simultaneously with the Share Distribution effected, our 2021 Plan assumed all outstanding share incentive awards issued under the 2018 Equity Incentive Plan and 2019 Equity Incentive Plan of Relx Inc., or the Relx Plans. As of March 31, 2025, 196,735,770 ordinary shares of our company were for the purpose of administering share incentive awards under the 2021 Plan.

In 2022, there were further changes with respect to the shareholding structure of Relx Holdings Limited. Moreover, in 2022, 2023 and 2024, Ms. Ying (Kate) Wang entered into Acting-In-Concert Undertakings with certain shareholders of our company. Consequently, as of March 31, 2025, Ms. Ying (Kate) Wang beneficially owns 71,840,780 Class A ordinary shares of our company through BJ BJ Limited, 308,714,990 Class B ordinary shares of our company through Leo Valley Holding Limited, and is entitled to the voting rights of 434,351,790 Class A ordinary shares of our company pursuant to the Acting-In-Concert Undertakings, representing 51.9% of our company’s total issued and outstanding ordinary shares and 82.6% of the aggregate voting power of our company.

We conducted business acquisitions to facilitate international expansion.

In December 2023, we entered into two share purchase agreements with two target companies and their respective shareholders, with a total consideration of over US\$24 million. Each of the two target companies is a market leader in the e-vapor industry in its home country, located in Southeast Asia and North Asia, respectively. These transactions facilitated our international expansion in these regions and strengthened our capabilities in local distribution, branding and operational execution.

In 2024, we successfully expanded into three new markets in the Asia Pacific region, marking a significant milestone in our international growth strategy and reinforcing our presence in key global markets.

In March 2025, we entered into an investment agreement involving a company based in Europe, further enhancing our footprint in the European market and supporting our long-term internationalization strategy. The investment remains conditional upon regulatory approvals and the satisfaction of certain closing conditions, which have not been met as of the date of this annual report. Upon completion of the investment, we expect to consolidate the financial results of the target into the consolidated financial statements.

Corporate Information

Our principal executive offices are located at 35/F, Pearl International Financial Center, No. 9 Jian'an First Road, Financial Street, Third District, Bao'an District, Shenzhen, Guangdong Province 518101, People's Republic of China. Our telephone number at this address is +86 755 8696 7619. Our registered office in the Cayman Islands is located at the offices of Maples Corporate Services Limited at PO Box 309, Uglund House, Grand Cayman, KY1-1104, Cayman Islands.

The 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 <https://ir.relxtech.com>. The information contained on our website is not a part of this annual report.

B. Business Overview

We are a leading global branded e-vapor company. We deeply engage in the key activities in the e-vapor industry globally, from scientific research, technology and product development, supply chain management, to distribution of products.

We leverage our strong in-house technology and product development capabilities and in-depth insights into adult smokers' needs to develop superior e-vapor products. Since our inception, we have launched series of closed-system rechargeable e-vapor products and disposable e-vapor products with various value-added features. To holistically improve adult smokers' experience with our products, we have implemented a multi-layered development framework that encompasses accessories, interactions, applications, phase-transitions and infrastructure. Under this framework, we have developed many industry-leading technologies that strengthen various aspects of our products' quality and performance.

We have designed and implemented rigorous and standardized systems of quality assurance and control that cover the key steps of supply chain management to provide high-quality products to adult smokers in a consistent manner. We strictly uphold our extensive internal standards for various aspects of our products, and conduct thorough quality assurance and control practices throughout the entire production cycle. We have also adopted an integrated approach to managing our third-party manufacturers and suppliers and monitoring the quality of a variety of production resources. We had developed and adopted an integrated offline distribution model in China by distributing our e-vapor products to the qualified distributors with wholesale license (namely provincial Tobacco Commercial Enterprises in China) via the National Transaction Platform in compliance with the E-Cigarettes Administrative Measures, the Administrative Rules on Transaction of E-cigarettes, and other applicable laws. The qualified distributors would supply our products to the qualified retailers with retail license via the National Transaction Platform, who then sell our products to users across China. We also operate offline stores in China by ourselves, which source e-vapor products solely from the qualified distributors with wholesale license (namely provincial Tobacco Commercial Enterprises in China) and offer a variety of branded e-vapor products.

We relentlessly pursue our strategy to expand international presence by collaborating with established international partners, acquiring well-known brands, or setting up joint ventures in international markets. For example, we began to conduct our North Asia Business through SS North Asia Holding Limited, a well-known e-vapor company in North Asia which offers e-vapor products. In 2024, we successfully expanded into three more markets located in Asia-Pacific, marking a significant milestone in our international growth strategy and reinforcing our presence in key global markets. Our offshore entity also plays a critical role in supporting our international operations, serving as a hub for cross-border business development and regional market coordination.

We are committed to building and strengthening our trusted brand by consistently upholding and practicing our ethical principles. Through our *Guardian Program*, we promote the prevention of underage use of our products through a number of key initiatives, including the technology-driven *Sunflower System*, in concerted efforts with distributors and other partners. We also actively support a variety of other causes through our social responsibility initiatives relating to anti-counterfeiting, environmental protection and charity. Our brand's association with responsibility is well-recognized among our users as well as the distributors and other stakeholders of the e-vapor industry.

We are dedicated to scientific research and endeavor to utilize scientific advances to inform our technology and product development. We have established the *RELX Physiochemistry Lab*, which focuses on the assessment and research of e-liquid and aerosol, the *RELX Sensory Analysis Lab*, which focuses on the evaluation of sensory appeal of e-liquid, and the *RELX Bioscience Lab* to pursue valuable scientific advances in further understanding and minimizing the health risks associated with e-vapor products.

Environmental, Social and Governance (ESG) has become an integral part of the daily operations of all our businesses. We have established an ESG Committee to develop sustainability strategies to improve our ESG performance and to ensure the implementation of relevant initiatives. We publish our ESG report on an annual basis, highlighting our efforts in product responsibility, responsible marketing, sustainable supply chain, green production and other key initiatives. Our efforts in ESG have been well-recognized by global rating agencies, with our MSCI ESG rating, for example, upgraded to “AA” in 2024, from “A” in 2022 and from “CCC” in 2021, placing us in the top tier of our global e-vapor peers.

Our Product Portfolio

In China market, we have launched series of rechargeable closed-system e-vapor products with various value-added features since our inception in 2018. Our rechargeable e-vapor products consist of a replaceable, snap-in cartridge containing the e-liquid and atomizer, and a device containing the battery and charging portal. We have developed a variety of cartridges, offering various alternatives for adult smokers. In 2024, we introduced the “Feiliu” series, our first compliant disposable product line since the implementation of national standards. As of the date of this annual report, our product portfolio offered in China primarily contains rechargeable e-vapor products (comprising six product lines: Qingyu, Phantom, Phantom Pro, Zeus, Leili, and Daqian) and disposable e-vapor products (Feiliu and Feiliu Mega).

Domestic Products



In international markets, Our product portfolio management framework employs strategic market segmentation to align innovative solutions with evolving regulatory environments, cultivating sustainable growth through three core product categories: closed-system rechargeable products, open-system products, and closed-system disposable products. This framework enables precision resource deployment against differentiated market needs.

International Products

Open System & E-liquid



International Products

Disposable



International Products

Pod System



Closed-system rechargeable products are engineered for sustained user engagement. It prioritizes lifecycle value and convenience through standardized interfaces and replenishment economics, delivering consistent value retention.

Open system products strategically calibrate modular innovation with compliance scalability, catering to market demands for customizable experiences.

Disposable products enable rapid regional footprint expansion via regional consumption analytics, optimizing portfolio agility in dynamic regulatory landscapes.

Our Technology and Product Development and Scientific Research

Our advanced research and development capability is the bedrock of our continuous efforts to better serve adult smokers through our technological innovations and product development and our rigorous pursuit of scientific advances in the understanding of e-vapor products.

Technology and product development

Committed to providing superior e-vapor products, we relentlessly innovate to develop cutting-edge technologies and thoughtful product features. We endeavor to understand and serve adult smokers' needs by maintaining a continual dialogue with them, tracking their diverse and evolving preferences through surveys, sampling activities and other forms of interactions. Leveraging the large and growing user base, we are able to efficiently and continuously deepen our insight and upgrade our technologies and refine our product features accordingly. Our technology and product development team members have in-depth academic and practical backgrounds in a range of related fields, including industrial design, material science, chemistry, physics, fluid mechanics and electrical engineering.

To holistically improve adult smokers' experience with our products, we have implemented a multi-layered development framework to guide our technology and product development. This framework involves five development layers surrounding our e-vapor products, namely, accessories, interactions, applications, phase-transitions and infrastructure.

- *Accessories.* We have developed a wide range of accessories for our e-vapor products to provide a more convenient and easy-to-use experience and more added value for adult smokers.

- *Interactions.* We emphasize the smartness of the e-vapor products, and have introduced various smart features to better help adult smokers manage their usage through their day-to-day interactions with our products.
- *Applications.* We seek to continually improve our e-vapor products' hardware applications, including the structural composition of both cartridges and devices, bringing a reliable user experience to adult smokers. In particular, we have applied various proprietary hardware innovations to our products, including ergonomic design, advanced microchips, customized microcircuit and engineering of cartridge structure. In the engineering of the cartridge structure, we primarily focus on (i) application of materials, (ii) quality standards, (iii) airflow structure, (iv) leakage-proof design and (v) ergonomics of the cartridge's beak. These efforts not only help ensure the consistency of our cartridges' performance, but also improve the characteristics of the aerosol.
- *Phase-Transitions.* Analyzing and optimizing the physiochemical processes underlying the phase transitions from e-liquid to aerosol is a holistic and systematic engineering endeavor. To empower such endeavor, we have developed the *Essential Elements Solution*, a proprietary solution designed to encompass a series of patented technologies and know-how related to phase transitions. We are also dedicated to developing premium e-liquid formulation to refine the phase-transitions' mechanisms of our products, focusing on key areas including (i) optimal ratio between e-liquid ingredients, (ii) lowering nicotine intake while maintaining superior user experience, (iii) reliability and stability of ingredients and (iv) taste and mouthfeel of produced aerosol. We rigorously assess the quality of our e-liquid and the characteristics of aerosol through high-precision physiochemical measurements, as well as internal tests by our dedicated evaluators and external tests by way of product sampling.
- *Infrastructure.* To provide a solid foundation for our continuous innovations, we have made significant investments and efforts in the development of our fundamental technological infrastructure, focusing on a range of areas including product models, structures and materials.

Scientific research

We are dedicated to the scientific research of e-vapor products and endeavor to utilize scientific advances to inform our technology and product development. We operate three laboratories located in Shenzhen, China to conduct our scientific research. The *RELX Physiochemistry Lab* was established in April 2019 to focus on the assessment and research of e-liquid and has been accredited by the China National Accreditation Service For Conformity Assessment. We launched the *RELX Bioscience Lab* in August 2020, to study and mitigate the health risks associated with e-vapor products. We launched the *RELX Sensory Analysis Lab* in June 2021, to evaluate the sensory appeal of e-liquid.

Our Product Distribution

We sell our products to the qualified distributors in China with wholesale license (namely provincial Tobacco Commercial Enterprises in China) via the National Transaction Platform in compliance with the E-Cigarettes Administrative Measures, the Administrative Rules on Transaction of E-cigarettes, and other applicable laws. The qualified distributors would supply our products to the qualified retailers with retail license via the National Transaction Platform, who then sell our products to users across China.

As part of our international expansion strategy, we make efforts to develop distribution channels in markets outside China. In such international markets, we sell our products through our own local channels, third-party distribution channels and distribution channels co-managed with third parties. We also rely on our offshore entity to sell our products to overseas markets. We frequently refined our Route-to-Market strategy by optimizing our distribution channels based on the specific characteristics of each market.

Customer Service

We are committed to providing high-quality services to adult smokers. We have established a comprehensive service platform operated by a dedicated team of service professionals to address inquiries and needs from adult smokers in a timely manner.

Supply Chain Management

We have adapted our supply chain management to the new and currently effective laws, regulations, and policies applicable to global e-vapor industry and us. Our suppliers and manufacturers in China had obtained the requisite licenses and authorization under the E-Cigarettes Administrative Measures.

Raw Materials and Components

Our key raw materials and components primarily include e-liquid solutions, packaging, batteries, integrated circuit components and metal cases. We apply stringent standards in selecting our suppliers, considering a variety of factors, including their service standards, quality, capacity, supply chain capabilities and price. We typically place purchase orders with our suppliers on an as-needed basis based on rolling forecasts and estimates of our management pursuant to our framework agreements with them. Such framework agreements typically have a one-year term, renewable automatically upon expiration, and may be terminated by either party with advance notice.

Due to the requirements under the new regulatory regime since 2022, we scaled our production of e-liquid solutions at an e-liquid plant owned and operated by a subsidiary of the consolidated VIE, which obtained the Tobacco Monopoly License for Manufacturing Enterprise to manufacture e-liquid. The e-liquid plant is in Shenzhen, China, and have a gross area of 2,285 square meters. We have a dedicated team of production and quality assurance and control professionals in managerial and supervisory positions working on-site.

Production

A significant portion of our products are currently produced at an exclusive production plant in China that we operate in cooperation with a third-party partner. In addition, we outsource production of our products to a growing number of third-party manufacturers, particularly for our overseas business. We have adopted such a hybrid approach to achieve an optimal balance between production stability, flexibility in production planning, and efficiency in resource allocation across different markets.

The exclusive production plant is in Shenzhen, China, and has a gross area of over 23,575 square meters. We have a dedicated team of supply chain management and quality assurance and control professionals in managerial and supervisory positions working on-site. We have engaged the third-party operational partner to execute the production and assembly processes according to our requirements and standards for the exclusive production of our products, and to help with the outsourcing of the workforce. The exclusive production plant has received major certifications from domestic and international organizations recognizing the quality of our production and supply chain management.

We also outsource production of our products to a number of selected third-party manufacturers. We have entered into framework manufacturing and supply agreements with certain third-party manufacturers, while we collaborate with others only on a purchase order basis. We are highly selective in choosing third-party manufacturers, assessing many criteria including supply chain capabilities, pricing, quality and quantity. We require them to apply production and quality assurance and control standards that are consistent with those imposed for the exclusive production plant. Our dedicated personnel regularly inspect our third-party manufacturers' quality assurance and control practices. To further ensure quality consistency, we procure certain key raw materials and components for third-party manufacturers to assemble. For other raw materials and components, we set forth relevant requirements and request third-party manufacturers to procure them accordingly. To protect our proprietary know-how and intellectual property rights, we only provide third-party manufacturers our products' specifications and the corresponding standard operating procedures for production and quality assurance and control practices.

Quality Assurance and Control

To provide high-quality products to adult smokers in a consistent manner, we have designed and implemented rigorous and standardized systems of quality assurance and control that cover the key steps of supply chain management to provide high-quality products to adult smokers in a consistent manner.

Comprehensive and Strict Standards. We hold ourselves to comprehensive and strict quality assurance and control standards. In particular, we have implemented an extensive set of strict internal standards that thoroughly encompass all key aspects of our products' quality assurance and control, including battery safety, e-liquid composition and safety, and aerosol specifications, among others. In devising our internal standards, we referenced the stringent standards under the Tobacco Products Directive adopted by the European Union, as well as certain standards applied in the food industry.

Full-Cycle Assurance and Control. We conduct thorough quality assurance and control practices throughout the entire production cycle of our products. To ensure that raw materials and components meet our requirements before commencing assembly processes, we conduct regular inspections and examinations of them on-site at our suppliers' production plants, as well as at the exclusive production plant upon their delivery. Furthermore, our dedicated in-house quality assurance and control professionals regularly monitor the assembly processes to make sure they are on par with our strict procedural requirements. Once the assembly processes are completed, we also carry out rigorous inspection and screening of the finished products both before and after packaging. In addition, we also conduct product inspections at various key logistics waypoints, including our warehouse and locations of the qualified distributors and retail outlets, to ensure the quality of our products remains consistent throughout the value chain.

Integrated Third Party Management. We have adopted an integrated approach to managing our third-party operational partner, manufacturers and suppliers, rigorously monitoring the quality of a variety of production resources ranging from raw materials and components, production tooling to assembly lines in a holistic manner. We have accordingly adopted a multi-faceted framework for the qualification and evaluation of our third-party operational partner, manufacturers and suppliers. Our dedicated, cross-functional team continually audits their quality assurance and control practices and ranks them on a monthly basis, factoring the nature and importance of the different production resources and processes their performance involves.

Corporate Social Responsibility

We regularly engage in corporate social responsibility initiatives to support a range of causes, including prevention of underage use, anti-counterfeiting, environmental protection and charity, among others.

Prevention of underage use

Since inception, we have been steadfast in our opposition to the sale of e-vapor products to minors and their use in their presence. As part of our commitment to protecting minors, we have implemented the "Guardian Program" to establish a comprehensive protection mechanism for minors throughout the distribution chain. Adhering strictly to regulations set by authorities and laws aimed at preventing the sale of e-cigarettes to minors, we prioritize safeguarding minors through various measures, including displaying clear warning signs on our products and packaging and refraining from using any marketing materials that could attract minors.

Guardian Program: This initiative ensures that there are protective measures in place along the distribution chain to prevent minors from accessing e-vapor products. We work closely with our partners to enforce these protection mechanisms.

Sunflower System: Launched in 2019 and upgraded to version 3.0 in September 2021, this intelligent protection system incorporates user verification through advanced recognition function." By utilizing advanced technology and big data, the system can efficiently detect and address any attempts by minors to purchase e-vapor products.

Anti-counterfeiting

We have zero tolerance for counterfeit products, which could jeopardize adult smokers' health and interest. To that end, we have launched the *Golden Shield Program* to combat sales of counterfeit products in cooperation with the public, media and local authorities.

Environmental protection

As the popularity of vapers grows, the disposal of used cartridges has become a major concern for both e-vapor companies and users. To solve the problem and create additional economic value, we launched China's first cartridge recycling program in September 2021, covering 297 cities as of December 31, 2024. Users can pick up special recycling bags in certain retail outlets in China to collect used cartridges and return them to in-store recycling bins.

Charity

We are committed to giving back to and contributing to our society through various charitable initiatives. For example, we have cooperated with renowned non-governmental and community organizations to launch fundraising and charitable events to help address various social issues, including improving agricultural production infrastructure in impoverished regions and related efforts to help alleviate the negative impact the pandemic has brought to local communities in China.

Intellectual Property

We highly value our intellectual property rights, which are fundamental to our success and competitiveness. We rely on a combination of copyright and trademark law, trade secret protection and confidentiality agreements with employees to protect our intellectual property rights. We have also adopted a comprehensive set of internal rules for intellectual property management. These guidelines set the obligations of our employees and create a reporting mechanism in connection with our intellectual property protection. As of December 31, 2024, we hold or otherwise have legal rights to use 435 patents, 989 trademarks, 41 software copyrights, 84 artwork copyrights and 199 domain names in China and overseas.

Competition

The e-vapor market is dynamic in China and globally. We anticipate that the market for our products will continue to evolve, with effective technological innovation strategies, improving industry standards, and further refined needs of adult smokers calling for increasingly advanced choices. We must continually design, develop and introduce new products with value-added features and value propositions to stay competitive. We believe the principal competitive factors in our market are:

- brand value and recognition;
- technologies and product innovation;
- quality assurance and control of products; and
- time to market and customer service.

We believe that we are well-positioned to effectively compete on the factors listed above. However, some of our current or future competitors in China and international markets may have greater financial, technical or distribution resources than we do. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—We face competition from players in e-vapor industry and may fail to compete effectively.”

Insurance

We maintain product liability insurance and cargo insurance to cover related product and logistics risks. Consistent with customary industry practice in China, we do not maintain business interruption insurance or key-man life insurance.

Government Regulations

This section sets forth a summary of the most significant rules and regulations that affect our business activities.

Regulations Related to Foreign Investment in China

The establishment, operation and management of companies in China are governed by the PRC Company Law, as amended in 2004, 2005, 2013, 2018 and 2023, respectively. The PRC Company Law applies to both PRC domestic companies and foreign-invested companies. The direct or indirect investment activities of a foreign investor are governed by the PRC Foreign Investment Law and its implementation rules. The PRC Foreign Investment Law was promulgated by the National People's Congress on March 15, 2019 and took effect on January 1, 2020, replacing the PRC Equity Joint Venture Law, the PRC Cooperative Joint Venture Law and the PRC Wholly Foreign-owned Enterprise Law. The Foreign Investment Law adopts the administrative system of pre-entry national treatment along with a negative list for foreign investments, and establishes the basic framework for access to, and the promotion, protection and administration of, foreign investments in view of investment protection and fair competition.

Pursuant to the Foreign Investment Law, "foreign investments" refers to any direct or indirect investment activities conducted by any foreign individual, enterprise, or organization (collectively referred to as "foreign investors") in the PRC, which includes any of the following circumstances: (i) foreign investors establishing foreign-invested enterprises, or FIEs, in the PRC solely or jointly with other investors; (ii) foreign investors acquiring shares, equity interests, property portions or other similar rights and interests thereof within the PRC; (iii) foreign investors investing in new projects in the PRC solely or jointly with other investors; and (iv) other forms of investments as defined by laws, regulations, or as otherwise stipulated by the State Council. According to the Foreign Investment Law, the State Council should promulgate or approve a list of special administrative measures for market access of foreign investments, or the Negative List. The Foreign Investment Law grants national treatment to foreign-invested entities, except for those foreign-invested entities that operate in industries deemed to be either "restricted" or "prohibited" in the Negative List. The Foreign Investment Law provides that foreign investors are not permitted to invest in the "prohibited" industries, and are required to meet certain requirements as stipulated under the Negative List for investing in "restricted" industries.

In addition, the Foreign Investment Law also provides several protective rules and principles for foreign investors and their investments in the PRC, including, among others, that (i) local governments should abide by their commitments to the foreign investors; (ii) FIEs are allowed to issue stocks and corporate bonds; except for special circumstances, in which case statutory procedures should be followed and fair and reasonable compensation should be made in a timely manner; expropriation or requisition of the investment of foreign investors is prohibited; (iii) mandatory technology transfer is prohibited; and (iv) capital contributions, profits, capital gains, proceeds out of asset disposal, licensing fees of intellectual property rights, indemnity or compensation legally obtained, or proceeds received upon settlement by foreign investors within the PRC, may be freely remitted inward and outward in RMB or a foreign currency. Also, foreign investors or FIEs should assume legal liabilities for failing to report investment information in accordance with the requirements. Furthermore, the Foreign Investment Law provides that FIEs established prior to the effectiveness of the Foreign Investment Law may maintain their legal form and structure of corporate governance within five years after January 1, 2020.

On December 26, 2019, the State Council further issued the Regulations on Implementing the PRC Foreign Investment Law, or the Implementation Regulations, which came into effect on January 1, 2020, and replaced the Regulations on Implementing the PRC Equity Joint Venture Law, Provisional Regulations on the Duration of PRC Equity Joint Venture Law, the Regulations on Implementing the PRC Cooperative Joint Venture Law, and the Regulations on Implementing the PRC Wholly Foreign-owned Enterprise Law. The Implementation Regulations restate certain principles of the Foreign Investment Law and further provide that, among others, (i) if an FIE established prior to the effective date of the Foreign Investment Law fails to adjust its legal form or governance structure to comply with the provisions of the Companies Law of the PRC or the Partnership Enterprises Law of the PRC, as applicable, and complete amendment registration before January 1, 2025, the enterprise registration authority will not process other registration matters of the FIE and may make public such non-compliance thereafter; and (ii) the provisions regarding equity interest transfer and distribution of profits and remaining assets as stipulated in the contracts among the joint venture parties of an FIE established before the effective date of the Foreign Investment Law may, after adjustment of the legal form and governing structure of such FIE, remain binding upon the parties during the joint venture term of the enterprise.

On September 6, 2024, the NDRC and the MOFCOM promulgated the 2024 Negative List, which came into effect on November 1, 2024. In addition, the NDRC and the MOFCOM promulgated the Encouraged Industry Catalogue for Foreign Investment (2022 version), or the 2022 Encouraged Industry Catalogue, which came into effect on January 1, 2023. Industries not listed in the 2024 Negative List and 2022 Encouraged Industry Catalogue are generally open for foreign investments unless specifically restricted by other PRC laws. The establishment of wholly foreign-owned enterprises is generally allowed in encouraged and permitted industries. Some restricted industries are limited to equity or contractual joint ventures, while in some cases Chinese partners are required to hold the majority equity interests in such joint ventures. In addition, foreign investment in projects in a restricted category is subject to government approvals. Foreign investors are not allowed to invest in industries in the prohibited category.

Pursuant to the Provisional Administrative Measures on Establishment and Modifications (Filing) for Foreign Invested Enterprises promulgated by the MOFCOM on October 8, 2016 and amended in 2017 and 2018, establishment of and changes to FIEs not subject to approvals under the special entry management measures should be filed with the relevant commerce authorities. However, as the PRC Foreign Investment Law has taken effect, the MOFCOM and the State Administration for Market Regulation, or the SAMR, jointly approved the Foreign Investment Information Report Measures on December 19, 2019, which went into effect on January 1, 2020. According to the Foreign Investment Information Report Measures, which repealed the Provisional Administrative Measures on Establishment and Modifications (Filing) for Foreign Invested Enterprises, foreign investors or FIEs should report their investment-related information to the competent local counterparts of the MOFCOM through the Enterprise Registration System and National Enterprise Credit Information Notification System.

On December 19, 2020, the NDRC and the MOFCOM promulgated the Foreign Investment Security Review Measures, which took effect on January 18, 2021. Under the Foreign Investment Security Review Measures, investments in military, national defense-related areas or in locations in proximity to military facilities, or investments that would result in acquiring the actual control of assets in certain key sectors are required to obtain approval from designated governmental authorities in advance. Although the term “actual control” and “investment through other means” are not clearly defined under the Foreign Investment Security Review Measures, it is possible that control through contractual arrangement may be regarded as a form of actual control and therefore requires approval from the competent governmental authority. As the interpretations and implementations of the Foreign Investment Security Review Measures are subject to further clarification and enforcement, there are substantial uncertainties as to whether our contractual arrangements may be deemed as a method of foreign investment in the future.

Regulations Related to Our Products

On March 11, 2022, the State Tobacco Monopoly Administration issued the Administrative Measures for E-Cigarettes, or the E-Cigarettes Administrative Measures, which came into effect on May 1, 2022. The E-Cigarettes Administrative Measures primarily aim at strengthening the management of e-cigarettes and regulating the e-cigarette market order, and stipulate, among others, the definition, licensing system, distribution management, technical review and quality control, transport, import and export, advertising and promotion of e-cigarettes. On April 8, 2022, the SAMR and the Standardization Administration of the PRC issued the National Standards for E-Cigarettes, or the National Standards, which came into effect on October 1, 2022. The National Standards stipulate the technical terminology in relation to e-cigarettes and definitions thereof, clarify the standards for product design and raw materials of e-cigarettes and technical requirements for e-cigarette devices, e-atomization materials and e-cigarette emissions, and prescribe rules for instructions and labels of e-cigarette products. From April, 2022 to the date of this annual report, the State Tobacco Monopoly Administration issued a set of implementing rules and guiding opinions regarding e-cigarette industrial policies, e-cigarette products technical review, e-cigarette product traceability system, approval and administration of licenses for e-cigarette manufacturing enterprises, e-cigarette wholesale enterprises and e-cigarette retail outlets, layout of e-cigarette wholesale enterprises and e-cigarette retail outlets, e-cigarette product quality supervision and random inspection, e-cigarette product identification and testing, e-cigarette product packaging, warning signs on e-cigarette product package, the logistics and transactions of e-cigarette products, the establishment, division, merger or dissolution of e-cigarette manufacturing enterprises, fixed asset investment of e-cigarettes, foreign investment in e-cigarettes, and import and export trade, foreign economic and technical cooperation of e-cigarettes. In addition, effective laws and regulations which specifically govern the distribution of e-cigarettes in the PRC also include certain announcements prohibiting the sale of e-cigarettes, including e-vapor products, to juveniles and sale through the internet, as well as the smoking control rules of some cities regarding using e-cigarettes as a form of smoking. Furthermore, we are also subject to general PRC business licensing requirements and the business operations of us and the consolidated VIE are subject to laws and regulations that are generally applicable to electronic products, such as laws and regulations relating to product quality and consumer rights.

E-Cigarettes Administrative Measures

The E-Cigarettes Administrative Measures primarily aim at strengthening the management of e-cigarettes and regulating the e-cigarette market order, including:

- (i) *Definition of E-cigarettes and Flavor Ban.* E-cigarettes that are under regulation of E-Cigarettes Administrative Measures include cartridges containing e-atomization material, e-cigarette devices, and other products that are sold in combination with cartridge and e-cigarette device. In addition, E-Cigarettes Administrative Measures ban flavored e-cigarettes other than those with tobacco flavor.

- (ii) *E-cigarette Licensing System.* E-cigarette manufacturing enterprises, enterprises holding e-cigarette brands and e-cigarette OEM enterprises (collectively referred to as “e-cigarette manufacturing enterprises”) are required to apply with the department of tobacco monopoly administration under the State Council for a Tobacco Monopoly License for Manufacturing Enterprise. Any e-cigarette retailer, including any entity or individual who engages in the retail business of e-cigarettes, must apply with the competent department of tobacco monopoly administration for a Tobacco Monopoly License for Retail Business or approval of modification of its registered business scope. Any enterprise that has obtained the Tobacco Monopoly License for Wholesale Enterprises must apply with the department of tobacco monopoly administration under the State Council for approval of modification of its registered business scope prior to engagement in the wholesale business of e-cigarette products.
- (iii) *Distribution Management.* E-cigarettes, e-atomization material, and e-cigarette nicotine, among others, can only be transacted via the national e-cigarette transaction and management platform, or the National Transaction Platform, which should be established by the department of tobacco monopoly administration under the State Council, and e-cigarette manufacturing enterprises should sell e-cigarettes to e-cigarette wholesale enterprises via the National Transaction Platform in China. As for e-cigarette retailers, they should purchase e-cigarette products from local e-cigarette wholesale enterprises and avoid conducting any exclusive operation regarding any marketed e-cigarette products. E-cigarette retailers are required to be located on a rational basis. Furthermore, E-Cigarettes Administrative Measures expressly prohibit sale of e-cigarette products to juveniles, sale of e-cigarette products through networks other than the National Transaction Platform, and sale of e-cigarette products by means of any self-service sales method, such as vending machines.
- (iv) *Technical Review and Quality Control.* Each e-cigarette product must pass the technical review, which should be conducted by professional institutions certified by the department of tobacco monopoly administration under the State Council or authorized otherwise by applicable laws and regulations, before being launched for sales. In addition, any marketed e-cigarette product will be further subject to regular and random inspection or examination by competent department of tobacco monopoly administration. E-cigarette products should comply with the mandatory national standard for e-cigarettes. It is the e-cigarette manufacturing enterprises’ responsibility to establish product quality assurance systems.
- (v) *Transport, Import and Export.* Transport of e-cigarette products, e-atomization material and e-cigarette nicotine should be subject to the administration of competent department of tobacco monopoly administration. The quantity of e-cigarette products, e-atomization material and e-cigarette nicotine transmitted or carried off-site should not exceed the limits prescribed by the relevant competent government authority under the State Council. E-cigarettes exclusively for export and not for domestic sale must comply with regulations and standards of the destination country or region. Import of e-cigarette products, e-atomization material and e-cigarette nicotine have to be approved by the department of tobacco monopoly administration under the State Council.
- (vi) *Advertising and Promotion.* The E-Cigarettes Administrative Measures stipulate that the relevant regulations on tobacco advertisements should apply to e-cigarettes, thus publishing e-cigarette advertisements via mass media, on public premises, public transportation vehicles or outdoor, or by means of the Internet are prohibited. Using advertisements for other products or services to publicize the names, trademarks, packages, decorations or other similar content of e-cigarette products are also prohibited. The E-Cigarettes Administrative Measures also prohibit exhibitions, expositions, or forums for the purpose of introducing or promoting e-cigarette products.
- (vii) *Other Regulatory Requirements.* Tobacco leaves, re-cured tobacco leaves, tobacco sheets and other tobacco monopoly products used for manufacturing e-cigarettes should be purchased from relevant enterprises that have been authorized by competent department of tobacco monopoly administration. The plan for the purchase and sale of tobacco leaves, re-cured tobacco leaves, tobacco sheets and other tobacco monopoly products should be issued by the department of tobacco monopoly administration under the State Council.

If any individual, legal person or other organization fails to comply with the above-mentioned regulatory requirements and other stipulations in the E-Cigarettes Administrative Measures, competent department of tobacco monopoly administration may take actions accordingly, including conducting regulatory interviews, discontinuing or restricting its transaction qualifications on the National Transaction Platform, ordering it to suspend operation and make rectifications, and revoking its business and operating licenses.

National Standards

On April 8, 2022, the SAMR and the Standardization Administration of the PRC issued the National Standards for E-Cigarettes, or the National Standards, which came into effect on October 1, 2022. The National Standards stipulate the technical terminology in relation to e-cigarettes and definitions thereof, clarify the standards for product design and raw materials of e-cigarettes and technical requirements for e-cigarette devices, e-atomization materials and e-cigarette emissions, and prescribe rules for instructions and labels of e-cigarette products, among others. According to the National Standards, e-liquid must contain nicotine, the concentration of nicotine in the aerosol should not be higher than 20 mg/g, and the total amount of nicotine should not be higher than 200 mg. Certain components of e-cigarettes should comply with the relevant national standards. For example, the general safety design of the electronic cigarette device should comply with the requirements of certain national standard regarding the household and similar electronic appliances, and the heavy metals contained in the e-atomization material should comply with the requirements of certain national food safety standard regarding the limit test of heavy metals in food additives.

Implementing Rules and Guiding Opinions Regarding E-cigarettes

From April, 2022 to the date of this annual report, the State Tobacco Monopoly Administration issued a set of implementing rules and guiding opinions regarding e-cigarette industrial policies, e-cigarette products technical review, e-cigarette product traceability system, approval and administration of licenses for e-cigarette manufacturing enterprises, e-cigarette wholesale enterprises and e-cigarette retail outlets, layout of e-cigarette wholesale enterprises and e-cigarette retail outlets, e-cigarette product quality supervision and random inspection, e-cigarette product identification and testing, e-cigarette product packaging, warning signs on e-cigarette product package, the logistics and transactions of e-cigarette products, the establishment, division, merger or dissolution of e-cigarette manufacturing enterprises, fixed asset investment of e-cigarettes, foreign investment in e-cigarettes, and import and export trade, foreign economic and technical cooperation of e-cigarettes as follows:

- (i) *The Several Policies and Measures in Relation to Promoting the Legalization and Standardization of the E-cigarette Industry (for Trial Implementation), and Implementing Rules on the Pre-examination for Domestic and Overseas Initial Public Offerings and Listing of E-cigarette Related Enterprises.* The Several Policies and Measures in Relation to Promoting the Legalization and Standardization of the E-cigarette Industry (for Trial Implementation), or the E-cigarette Industrial Policies and Measures (for Trial Implementation), primarily aim at regulating the order of e-cigarette industry, protecting people's health and safety, and strengthening smoking control. The E-cigarette Industrial Policies and Measures (for Trial Implementation) emphasize on optimizing the layout of the e-vapor industry, strengthening the supply and demand management of e-cigarettes, implementing management requirements regarding investment and financing of the e-cigarette industry, developing a fair competition market system, and enhancing the product quality and safety management. According to the E-cigarette Industrial Policies and Measures (for Trial Implementation), the overall amount of e-cigarette products for domestic sale should be subject to the administration of the competent department of tobacco monopoly administration. The department of tobacco monopoly administration under the State Council should determine the annual domestic sales target of e-cigarette product based on various factors, including among others, the smoking control, market demand, economic development, demographic change, and market status, while the department of tobacco monopoly administration on the municipal level should organize local e-cigarette wholesale enterprises to operate according to the applicable municipal annual domestic sales target of e-cigarette products. Investment in e-vapor industry should be in strict compliance with the relevant industrial policies. For example, foreign investors are prohibited from investing in the wholesale or retailing business of e-cigarette products, and foreign investment in the production of e-cigarette products is subject to regulatory approval. The application of a domestic or overseas offering and listing by an e-cigarette related enterprise should be examined and approved by the department of tobacco monopoly administration under the State Council. The E-cigarette Industrial Policies and Measures (for Trial Implementation) prohibit on price fraud and the price for the same specification of e-cigarette product should be unified on the national level. Moreover, the pricing of e-cigarette products should be market-based.
 - a. The Implementing Rules on the Pre-examination for Domestic and Overseas Initial Public Offerings and Listing of E-cigarette-related Enterprises, or the Pre-examination Rules, which, among others, stipulates the regulatory principles, application procedures and documents for the pre-examination for E-cigarette-related enterprises seeking domestic or overseas listings. According to the Pre-examination Rules, e-cigarette-related enterprises shall not proceed with the listing procedures unless they have completed the pre-examination and obtained approval from the tobacco monopoly administration under the State Council in advance.

- (ii) *Implementing Rules on E-cigarette Product Technical Review.* The Implementing Rules on E-cigarette Products Technical Review, or the Technical Review Rules, clarify the legal force of the e-cigarette product technical review, the function of the relevant administration authority, and the requirements, main process and working methods for the technical review. According to the Technical Review Rules, the technical review of e-cigarette products should be conducted by professional institutions organized by the department of tobacco monopoly administration under the State Council from certain aspects, including, among others, the integrity and legitimacy of product descriptions, formulations and raw material reports, the validity and applicability of the relevant inspection and testing reports, the scientific objectivity, reliability and sufficiency of product safety assessment, the demonstration, legitimacy, feasibility and controllability of product quality and safety assurance, and the conformity of product flavor. Any applicant for e-cigarette product technical review shall submit its application to the department of tobacco monopoly administration under the State Council at the provincial level where such applicant is domiciled via the management system for technical review of e-cigarette products (or the “Technical Review Management System”).
- (iii) *Administrative Rules on E-cigarette Product Traceability, and Notice on Matters relating to the Labeling of the Traceability QR Codes of E-cigarette Products.* According to the Administrative Rules on E-cigarette Product Traceability, or the E-cigarette Product Traceability Rules, the e-cigarette manufacturing enterprises should apply for a QR code for each e-cigarette product that is launched for sales via the E-cigarette Product Traceability Platform, which should be established by the department of tobacco monopoly administration under the State Council. The e-cigarette manufacturing enterprises and the e-cigarette wholesale enterprises should also establish and improve their supporting system and necessary facilities for the implementation of e-cigarette product traceability, including, among others, marking a QR code on the package of each e-cigarette product, associating each e-cigarette with its QR code, and uploading the production, transaction and transmission information via the E-cigarette Product Traceability Platform. The Notice on Matters relating to the Labeling of the Traceability QR Codes of E-cigarette Products further specifies the technical standard, appearance design, label requirements of the QR code.
- (iv) *Guiding Opinions on Approval of the Tobacco Monopoly License for Manufacturing Enterprises to E-cigarette Manufacturing Enterprises, and Administrative Rules on the Tobacco Monopoly License for E-cigarette Manufacturing Enterprises or E-cigarette Wholesale Enterprises.* The Guiding Opinions on Approval of the Tobacco Monopoly License for Manufacturing Enterprises to E-cigarette Manufacturing Enterprises, or the Manufacturing Enterprises License Opinions and the Administrative Rules on the Tobacco Monopoly License for E-cigarette Manufacturing Enterprises or E-cigarette Wholesale Enterprises, stipulate the fundamental principle, main process and working methods and restricted circumstances for approval of the Tobacco Monopoly License for Manufacturing Enterprises, the requirements for e-cigarette manufacturing enterprises to apply for the Tobacco Monopoly License for Manufacturing Enterprises, the requirements for e-cigarette wholesale enterprises to apply for the Tobacco Monopoly License for Wholesale Enterprises, and certain categories of the Tobacco Monopoly License for Manufacturing Enterprises and Tobacco Monopoly License for Wholesale Enterprises. According to the above-mentioned regulations, the application for the Tobacco Monopoly License for Manufacturing Enterprises and Tobacco Monopoly License for Wholesale Enterprises should be accepted by the provincial tobacco monopoly administration at the place where the applicant is domiciled, and approved by the State Tobacco Monopoly Administration.
- (v) *Guiding Opinions on E-cigarette Wholesale Enterprises Layout.* According to the Guiding Opinions on E-cigarette Wholesale Enterprises Layout, or the Wholesale Enterprises Layout Opinions, the e-cigarette wholesale enterprises should operate locally and be strictly regulated. Besides, the layout of e-cigarette wholesale enterprises should be market-oriented and be subject to a holistic assessment on relevant consumers, local economic level, transportation, and other conditions. The Wholesale Enterprises Layout Opinions also stipulate the general requirements and the restricted circumstances for e-cigarette wholesale enterprises to apply for the Tobacco Monopoly License for Wholesale Enterprises. According to the Wholesale Enterprises Layout Opinions, the application for the Tobacco Monopoly License for Wholesale Enterprises should be accepted by the provincial tobacco monopoly administration at the place where the applicant is domiciled, and approved by the State Tobacco Monopoly Administration.

- (vi) *Guiding Opinions on E-cigarette Retail Outlets Layout and License Administration*. The Guiding Opinions on E-cigarette Retail Outlets Layout and License Administration, or the Retail Outlets Layout and License Opinions, stipulate the fundamental principal, main process, working methods and restricted circumstances for the approval of the Tobacco Monopoly License for Retail Business and the requirements for e-cigarette retail outlets to apply for the Tobacco Monopoly License for Retail Business. According to the Retail Outlets Layout and License Opinion, every e-cigarette retail outlet should apply for a Tobacco Monopoly License for Retail Business. The total number of e-cigarette retail outlets should be determined and adjusted based on the market demand and capacity, and the economic and social development level. The layout of e-cigarette retail outlets should be determined and adjusted by the provincial tobacco monopoly administrative department and be independent from that of cigarette retail outlets. In response to the Retail Outlets Layout and License Opinions, all of the provincial tobacco monopoly administrative departments (1) have issued provincial rules regarding the layout of local e-cigarette retail outlets, and (2) except for the tobacco monopoly administrative department in Shandong Province, have set a cap for the total number of their local e-cigarette retail outlets. Specifically, some municipal tobacco monopoly administrative departments, such as Dalian and Shenzhen, have further separately issued their own municipal rules regarding the layout of local e-cigarette retail outlets.
- (vii) *Implementation Rules on the E-cigarette Product Quality Supervision and Random Inspection, Implementation Rules on the E-cigarette Product Identification and Testing, Implementation Rules on the E-cigarette Product Packaging, and Regulations on the Warning Signs of E-cigarettes*. Implementation Rules on the E-cigarette Product Quality Supervision and Random Inspection, clarify, among others, the application scope and working scheme of the quality supervision and random inspection, the requirements for the inspection agencies, the solutions to objections to the inspection results, and the processing of the supervision and inspection results. Implementation Rules on the E-cigarette Product Identification and Testing, clarify, among others, the application scope and principle of the e-cigarette product identification and test, the requirements for the identification and testing agencies, the solutions to objections to the identification and testing results, and determination of counterfeit and genuine electronic cigarettes. Implementation Rules on the E-cigarette Product Packaging, clarify the basic unit of measurement for e-cigarette products, the minimum packaging unit, the number of products contained in the packaging unit on multiple levels, and the information required to be labeled on the package of e-cigarette products. The regulations on the Warning Signs of E-cigarettes clarifies that, the required warning signs shall be labeled on the package of e-cigarette products in a specified way, and it is prohibited to use misleading and inductive language in the selling package, inner package, logo and product instructions of the e-cigarettes.
- (viii) *Administrative Rules on Logistics of E-cigarettes, Announcement on the Limited Delivery of E-cigarette Products, E-cigarette Atomizer and E-cigarette Nicotine, and Announcement on the Off-site Limited Carrying of E-cigarette Products, E-cigarette Atomizer and E-cigarette Nicotine*. The Administrative Rules on Logistics of E-cigarettes requires that all the e-cigarette manufacturing enterprises, e-atomization manufacturing enterprises, e-cigarette nicotine manufacturing enterprises, e-cigarette nicotine raw material sale enterprises, e-cigarette wholesale enterprises (including e-cigarette import enterprises) and relevant service providers shall establish relatively fixed logistics nodes, strictly regulate warehousing, sorting, transportation, distribution of e-cigarette products, and collect, maintain, upload the data regarding the transport of e-cigarette products via the relevant information platform. Furthermore, the Announcement on the Limited Delivery of E-cigarette Products, E-cigarette Atomizer and E-cigarette Nicotine, and the Announcement on the Off-site Limited Carrying of E-cigarette Products, E-cigarette Atomizer and E-cigarette Nicotine stipulate the specified amount limits of e-cigarette delivery and off-site carrying one day.
- (ix) *Administrative Rules on Transaction of E-cigarettes*. The Administrative Rules on Transaction of E-cigarettes, or the E-cigarettes Transaction Rules, stipulates, among others, the transaction types, commodity management, contract and order management, and member management of the National Transaction Platform. According to the E-cigarettes Transaction Rules, e-cigarette-related enterprises shall register with the National Transaction Platform, conduct the e-cigarettes transactions, file the e-cigarette product information, publicize the price adjustment information, sign contracts, settle the payment via the National Transaction Platform. In addition, the e-cigarette import enterprises and e-cigarette manufacturing enterprises should file with the National Transaction Platform before importing or within 30 days after the export declaration of any e-cigarette, e-atomization material, and e-cigarette nicotine.

- (x) *Administrative Rules on Establishment, Division, Merger or Dissolution of E-cigarette Manufacturing Enterprises*. The Administrative Rules on Establishment, Division, Merger or Dissolution of E-cigarette Manufacturing Enterprises, stipulates the requirements, procedures, and regulatory authorities for the establishment, division, merger or dissolution of e-cigarette manufacturing enterprises. The application for the establishment of e-cigarette manufacturing enterprises should be accepted, examined, and pre-approved by the provincial tobacco monopoly administration at the place where the applicant is domiciled, and approved by the tobacco monopoly administration under the State Council. While the application for the division, merger or dissolution of e-cigarette manufacturing enterprises should be accepted and approved by the tobacco monopoly administration under the State Council.
- (xi) The State Tobacco Monopoly Administration (STMA) issued the new E-Cigarette Fixed Asset Investment Management Rules on July 30, 2024, repealing the 2022 version, with stricter controls including mandatory pre-approval for e-cigarette-related fixed asset investments, minimum capital requirements for new manufacturing projects, and potential production caps to curb industry overcapacity. The rules reinforce China's broader e-cigarette regulations, emphasizing compliance through inspections, with penalties ranging from fines to license revocation for violations, effectively raising barriers to entry and requiring existing firms to reassess investment plans. Businesses must review the full STMA guidelines to ensure adherence to these tightened restrictions.
- (xii) *Administrative Rules on the Examination and Approval of the Establishment of Foreign-invested E-cigarette-related Manufacturing Enterprises*. The Administrative Rules on the Examination and Approval of the Establishment of Foreign-invested E-cigarette-related Manufacturing Enterprises, or the Foreign-invested E-cigarette-related Manufacturing Enterprises Rules, stipulates the application conditions, required materials, application procedures for the establishment of foreign-invested e-cigarette manufacturing enterprises. According to the Foreign-invested E-cigarette-related Manufacturing Enterprises Rules, foreign investor who invests in the establishment of e-cigarette manufacturing enterprises should obtain the approval from the State Tobacco Monopoly Administration before its application for Tobacco Monopoly License for Manufacturing Enterprises. If the foreign investor invests in a non-foreign-funded enterprise who has obtained the Tobacco Monopoly License for Manufacturing Enterprises, the enterprise shall reapply a new Tobacco Monopoly License for Manufacturing Enterprises after the investment.
- (xiii) *Administrative Rules on the Import and Export Trade and Foreign Economic and Technical Cooperation of E-cigarettes, Guidelines on Promoting the Construction of Product Quality Assurance System for Export of E-cigarette*. The Administrative Rules on the Import and Export Trade and Foreign Economic and Technical Cooperation of E-cigarettes, stipulates the import and export trade, foreign investment, technical cooperation and cross-border service trade of e-cigarettes, according to which, imported e-cigarette products should be traded through the National Transaction Platform and comply with the regulations related to technical review, commodity inspection, e-cigarette package, e-cigarette product traceability system. Furthermore, the imported e-cigarette products and raw materials should not exceed the imported demand set by the State Tobacco Monopoly Administration and e-cigarette manufacturing enterprises should produce e-cigarette products and raw materials for export within the approved license scope and export production scale. For overseas orders in excess of the approved export production scale, enterprises are entitled to organize the relevant production and sales after fulfilling the filing procedures on the National Transaction Platform in accordance with the relevant provisions of the State Tobacco Monopoly Administration. Exported e-cigarette products should comply with the laws, regulations and standards of the destination country or region, if the destination country or region does not have relevant laws, regulations and standards, then such exported e-cigarette products shall comply with relevant requirements of China. In addition, export of e-cigarette products should strictly follow the export package standard and logistics requirements, including that the packaging of the exported e-cigarette products should be labeled with the license number of the Tobacco Monopoly License for Manufacturing Enterprises (with commissioned products being labeled with the license number of the commissioned enterprise), and the exported e-cigarette products should be directly transported from the warehouses of the manufacturer to the place designated by the General Administration of Customs of the People's Republic of China or its local branches, or if necessary to transfer such exported e-cigarette products to other warehouses within PRC, consignor should submit the relevant information to the local branch of the State Tobacco Monopoly Administration where the warehouse is located, and consignee is obligated to report the inventory quantity on a monthly basis. Export of e-cigarette products should also file with the Technical Review Management System before exporting, file with the National Transaction Platform within 30 days after the export declaration. Enterprises engaging in the import and export of e-cigarettes should submit the import and export data of previous year to the State Tobacco Monopoly Administration before the end of March each year. Furthermore, foreign investors are prohibited from e-cigarette wholesale and retail, and overseas service providers are prohibited from engaging in the wholesale, retail, import and export of e-cigarettes within China.

- (xiv) The Guidelines on Promoting the Construction of Product Quality Assurance System for Export of E-cigarette further specifies the requirements of the product quality standard, process flow, production resources, system construction, product packaging, logistics, transportation, export declaration and filing of the e-cigarette export.

Tobacco Monopoly Law and its Implementation Regulation

The Tobacco Monopoly Law of the PRC, or the Tobacco Monopoly Law, adopted by the Standing Committee of the National People's Congress on June 29, 1991 and last amended on April 24, 2015, and the Implementation Regulation of the Tobacco Monopoly Law issued by the State Council on July 3, 1997 and last amended on July 20, 2023, stipulated a tobacco monopoly license system for tobacco monopoly commodities. Pursuant to the Tobacco Monopoly Law and its Implementation Regulation, the state exercised monopoly administration in accordance with law over the production and sale of tobacco monopoly commodities; "tobacco monopoly commodities" refers to cigarettes, cigars, cut tobacco, redried leaf tobacco, leaf tobacco, cigarette paper, filter rods, cigarette tow and special tobacco machines. Cigarettes, cigars, cut tobacco and redried leaf tobacco are generally referred to as "tobacco products" under the Tobacco Monopoly Law. Further, the regulation for next-generation tobacco products including e-cigarettes should make reference to the relevant regulations for cigarettes under the Implementation Regulations.

Restrictions on Tobacco Industries

On December 27, 2023, the NDRC issued the Catalogue for Guiding Industry Restructuring (2024 Version) or the Industry Restructuring Catalogue, which became effective on February 1, 2024. According to the Industry Restructuring Catalogue, the industries in PRC are classified into three categories, that is, encouraged industries, restricted industries and eliminated industries. Tobacco product (including e-cigarettes) processing projects fall into restricted industries, meaning all tobacco manufacturing enterprises are subject to certain restrictions, including being prohibited from investing in new tobacco product (including e-cigarettes) processing projects, and being required to renovate and upgrade the existing production capacity within a certain period.

Juveniles protection

On August 28, 2018, the SAMR and the State Tobacco Monopoly Administration jointly issued the Announcement on Prohibition of Selling E-Cigarettes to Juveniles, or the August 2018 Announcement, which expressly prohibits the sale of e-cigarette products to juveniles for the protection of physical and mental health. It is suggested that e-cigarette products containing the words "students" and "juveniles" should be removed from the shelves of e-commerce platforms, and relevant stores (sellers) should be relegated or closed. The e-commerce platforms should also strengthen the examination and verification of the names of e-cigarette products on the shelves, take effective measures to block relevant keywords, and refrain from displaying e-cigarette products to juveniles.

On October 30, 2019, the SAMR and the State Tobacco Monopoly Administration jointly issued the Announcement on Further Protecting Juveniles from E-Cigarettes, or the October 2019 Announcement, to further strengthen the protection of the physical and mental health of juveniles and prevent juveniles from buying e-cigarettes through the internet. The announcement urged (i) e-cigarette producers and sellers to shut down their online sales websites or online sales application programs in time and to withdraw the advertisements of e-cigarettes published on the internet, and (ii) e-commerce platform operators to close e-cigarettes online shops in time and take e-cigarette products off shelves.

On March 11, 2022, the State Tobacco Monopoly Administration issued the Administrative Measures, which came into effect on May 1, 2022. The Administrative Measures expressly prohibit the sale of e-cigarette products to juveniles. According to the Administrative Measures, the location of e-cigarette retailers is subject to certain requirements of rational distribution while e-cigarette stores should not be set up around primary and secondary schools, special education schools, secondary vocational schools, specialized schools, and kindergartens.

On September 28, 2022, the State Tobacco Monopoly Administration issued the Notice on Matters Related to Strengthen the Supervision of E-Cigarettes, to reaffirm the prohibition of selling or advertising e-cigarettes to the juveniles.

Smoking control

On August 28, 2005, the Standing Committee of the National People's Congress decided to ratify the Framework Convention on Tobacco Control, which was adopted at the 56th conference of WHO on May 21, 2003, and simultaneously declared that according to Article 16 of Paragraph 5 of the Framework Convention on Tobacco Control of WHO, any automatic cigarette vending machine is prohibited from being used within the territory of the PRC. Pursuant to the Framework Convention on Tobacco Control of WHO, each party should adopt and apply effective legislative, administrative and/or other measures within its national jurisdiction to prevent exposure to tobacco smoke in public places like indoor workplaces, public transportation and indoor public places, among others. In response to the Framework Convention on Tobacco Control of WHO, many cities have issued smoking control rules to prohibit smoking in public places, while the smoking control rules of some cities (such as Shenyang, Hainan, Shenzhen, Hangzhou, Nanning, Qinhuangdao, Wuhan, Zhangjiakou, Chongqing and Xi'an) have specified that using e-cigarettes is a form of smoking, and thus it is banned to use e-cigarettes in public places in such cities.

Product quality

Products made in the PRC are subject to the Product Quality Law of the PRC, or the Product Quality Law, which was adopted by the Standing Committee of the National People's Congress on February 22, 1993 and amended in 2000, 2009 and 2018. Applicable to all production and marketing activities in the PRC, the Product Quality Law was formulated to strengthen the administration of rules pertaining to product quality, as well as to clarify the rules on product liability, protect consumers and maintain social and economic order. Products offered for sale must meet the relevant quality and safety standards. Manufacturers and sellers should establish a sound internal product quality control system and strictly adhere to a job responsibility system in relation to quality standards and quality liabilities, together with implementing corresponding examination and inspection measures. Enterprises must not produce or market counterfeit products in any fashion, including forging brand labels or giving false information about the manufacturer of a product. Violations of state or industrial standards for health, safety and any other related violations may result in civil liabilities and penalties, such as compensation for damages, fines, suspension or shutdown of business, as well as confiscation of products illegally produced for sale and the sales proceeds of such products. The responsible individual or enterprise will be subject to criminal liabilities for serious violations. Manufacturers whose products cause personal or property damages due to their latent defects are liable for such damages unless the manufacturer is able to prove that (i) the product has never been put into circulation; (ii) the defects causing the damage did not exist at the time when the product was circulated; or (iii) the state of scientific or technological knowledge at the time when the product was circulated was not such that it allowed the defect to be discovered. The seller will be liable to compensate for any personal or property damages (other than the defective product itself) caused by the defective products it sold if such defect is attributable to the seller. A person who is harmed or whose property is damaged by the defective product may claim such loss against the manufacturer or the seller.

Under the Standardization Law of the PRC (2017 Amendment) and the Regulations for the Implementation of the Standardization Law of the PRC, products must conform to certain technical requirements set out by governments and certain institutions. Compulsory standards must be implemented. Products and services not meeting compulsory standards cannot be produced, sold, imported, or provided.

Consumer rights

The Law of the PRC on the Protection of Consumer Rights and Interests, or the Consumer Rights Protection Law, was promulgated on October 31, 1993, amended on August 27, 2009 and October 25, 2013 and became effective on March 15, 2014. According to the Consumer Rights Protection Law, unless otherwise provided by this law, a business that provides products or services is obligated to, in any of the following circumstances, bear civil liability in accordance with the Product Quality Law and other relevant laws and regulations: (i) where a defect exists in a product; (ii) where a commodity does not possess functions it is supposed to possess, and it is not declared when the product is sold; (iii) where the product standards indicated on a product or on the package of such product are not met; (iv) where the quality condition indicated by way of product description or physical sample, among others, is not met; (v) where products pronounced obsolete by formal State decrees are produced or have expired, or deteriorated commodities are sold; (vi) where a sold product is not adequate in quantity; (vii) where the service items and charges are in violation of an agreement; (viii) where demands by a consumer for repair, redoing, replacement, return, making up the quantity of a product, refund of a product purchase price or service fee or claims for compensation have been delayed deliberately or rejected without reason; or (ix) in other circumstances whereby the rights and interests of consumers, as provided by the PRC laws and regulations, are harmed.

The PRC Civil Code was promulgated on May 28, 2020 and came into force on January 1, 2021 to clarify tort liability, and to prevent and punish tortious conduct. Under this law, in the event of damage arising from a defective product, the victim may seek compensation from either the manufacturer or seller of such a product. If the defect is caused by the seller, the manufacturer is entitled to seek reimbursement from the seller upon compensation of the victim.

Regulation Related to Commercial Franchising

Pursuant to the Regulations on the Administration of Commercial Franchising, or the Franchising Regulations, which took effect on May 1, 2007, commercial franchising refers to the business activities where a franchisor, being an enterprise possessing registered trademarks, corporate logos, patents, proprietary technology, or other business resources, licenses through contracts its business resources to the franchisees, being other business operators, and the franchisees carry out business operation under a uniform business model and pay franchising fees to the franchisor pursuant to the contracts. The Franchising Regulations set forth a number of prerequisite requirements for the franchisors, including the possession of a mature business model, the capability to provide business guidance, technical support, and business training to the franchisees, and the ownership of at least two direct stores that have been in operation for at least one year in China. The Franchising Regulations also set forth a number of requirements governing the franchise agreements. For example, the franchisors and franchisees are required to enter into franchising agreements containing certain required terms, and the franchise term thereunder should be no less than three years unless otherwise agreed upon by the franchisee.

Pursuant to the Administrative Measures on the Filing of the Commercial Franchise, which took effect on February 1, 2012 and last amended on December 29, 2023, and the Franchising Regulations, within 15 days after executing the first franchise agreement, the franchisor should file with the MOFCOM or its local counterparts for record, and if there occurs any change to the franchisor's business registration, business resources, and the franchisee store network throughout China, the franchisor should apply to MOFCOM for alteration within 30 days after the occurrence of such change. Furthermore, within the first quarter of each year, the franchisor should report the execution, revocation, termination, and renewal of the franchise agreements occurring in the previous year to MOFCOM or its local counterparts.

Furthermore, the franchisor is required to implement an information disclosure system. The Administrative Measures on the Information Disclosure of Commercial Franchising, which took effect on April 1, 2012, provides a list of information that the franchisor should disclose to franchisees in writing at least 30 days prior to the execution of the franchising agreements.

Regulation Related to Value-Added Telecommunications Services

Regulation related to value-added telecommunications services

The PRC Telecommunications Regulations, promulgated on September 25, 2000 by the State Council of the PRC and most recently amended in February 2016, are the primary regulations governing telecommunications services. Under the PRC Telecommunications Regulations, a telecommunications service provider is required to procure operating licenses from the MIIT, or its provincial counterparts, prior to the commencement of its operations. Otherwise such operator might be subject to sanctions, including corrective orders and warnings from the competent administrative authority, fines and confiscation of illegal gains. In the case of serious violations, the operator's websites may be ordered to be closed.

The PRC Telecommunications Regulations categorize telecommunications services in China as either basic telecommunications services or value-added telecommunications services, and value-added telecommunications services are defined as telecommunications and information services provided through public network infrastructures. The Administrative Measures for Telecommunications Business Operating License promulgated by the MIIT in July 2017, or the Telecom License Measures, set forth more specific provisions regarding the types of licenses required to operate value-added telecommunications services, the qualifications and procedures for obtaining the licenses and the administration and supervision of these licenses. Pursuant to the Telecom License Measures, a commercial operator of value-added telecommunications services must first obtain an operating license for value-added telecommunication business, or VATS License. The Telecom License Measures also provides that an operator providing value-added services in multiple provinces is required to obtain a cross-region VATS License, whereas an operator providing value-added services in one province is required to obtain an intra-provincial VATS License. Pursuant to the Telecom License Measures, any telecommunications services operator must conduct telecommunication business pursuant to the type and within the scope of business as specified in its VATS License.

Pursuant to the Catalog of Telecommunications Services promulgated by the Ministry of Information Industry of the PRC (the predecessor of the MIIT) on February 21, 2003 and last amended by the MIIT on June 6, 2019, internet information services fall within Class 2 value-added telecommunication services. "Information services" refer to the information services provided for users via the public communication network or the internet and by the information collection, development, processing and construction of information platforms. The Administrative Measures on Internet Information Services, which was promulgated by the State Council on September 25, 2000 and last amended on December 6, 2024, sets out guidelines on the provision of internet information services. The Administrative Measures on Internet Information Services classify internet information services into commercial internet information services and non-commercial internet information services. Pursuant to the Administrative Measures on Internet Information Services, commercial internet information services refer to the provision of paid information or website production or other service activities to online users via the internet; non-commercial internet information services refer to the provision with free information that is in the public domain and openly accessible to online users via the internet. The Administrative Measures on Internet Information Services requires that a provider of commercial internet information services should obtain a VATS License for internet information services. It further requires that a provider of non-commercial internet information services should carry out record-filing procedures with the provincial level counterparts of the MIIT.

Regulation on foreign investment restrictions on value-added telecommunications services

Pursuant to the 2024 Negative List, the equity ratio of foreign investment in the value-added telecommunications enterprises is subject to the cap of 50% except for investment in an e-commerce operation business, a domestic multi-party communication business, an information storage and re-transmission business and a call center business.

Specifically, foreign direct investment in telecommunications companies in China is governed by the Administrative Regulations on Foreign-Invested Telecommunications Enterprises, which were promulgated by the State Council on December 11, 2001 and amended in 2008, 2016 and 2022. The regulations require that foreign-invested value-added telecommunications enterprises must be in the form of a Sino-foreign equity joint venture, and the ultimate capital contribution percentage by foreign investor(s) in a foreign-invested value-added telecommunications enterprise must not exceed 50%, other than certain exceptions.

In 2006, the predecessor of the MIIT issued the Circular of the Ministry of Information Industry on Strengthening the Administration of Foreign Investment in Value-added Telecommunications Business, according to which a foreign investor in the telecommunications services industry of China must apply for a telecommunications business operation license. This circular further requires that: (i) PRC domestic telecommunications business enterprises must not lease, transfer or sell a telecommunications business operation license to a foreign investor through any form of transaction or provide resources, offices and working places, facilities or other assistance to support the illegal telecommunications services operations of a foreign investor; (ii) value-added telecommunications enterprises or their shareholders must directly own the domain names and trademarks used by such enterprises in their daily operations; (iii) each value-added telecommunications enterprise must have the necessary facilities for its approved business operations and maintain such facilities in the regions covered by its license; and (iv) all providers of value-added telecommunications services are required to maintain network and internet security in accordance with the standards set forth in the relevant PRC regulations. If a license holder fails to comply with the requirements in the circular and fails to cure such non-compliance, the MIIT or its local counterparts have the discretion to take measures against such license holder, including revoking its license for the value-added telecommunications business.

Regulation Related to Internet Security and Privacy Protection

Regulations related to internet security

The Decision in Relation to Protection of Internet Security enacted by the Standing Committee of the National People's Congress on December 28, 2000, as amended in 2009, provides that, among other things, the following activities conducted through the internet, if constituting a crime under PRC laws, are subject to criminal punishment: (i) hacking into a computer or system of strategic importance; (ii) intentionally inventing and spreading destructive programs such as computer viruses to attack the computer system and the communications network, thus damaging the computer system and the communications networks; (iii) in violation of national regulations, discontinuing the computer network or the communications service without authorization; (iv) leaking state secrets; (v) spreading false commercial information; or (vi) infringing intellectual property rights through internet.

The Provisions on Technological Measures for Internet Security Protection, or the Internet Security Protection Measures, promulgated on December 13, 2005 by the Ministry of Public Security, require internet service providers and organizations to use interconnection technical measures for internet security protection, such as technical measures for preventing any matter or act that may endanger network security, including but not limited to computer viruses, invasion or attacks to the network, or destruction of the network. All internet access service providers are required to take measures to keep records of and preserve user registration information.

On November 7, 2016, the Standing Committee of the National People's Congress promulgated the Cyber Security Law, which came into effect on June 1, 2017, and applies to the construction, operation, maintenance and use of networks as well as the supervision and administration of cybersecurity in China. The Cyber Security Law defines "networks" as systems that are composed of computers or other information terminals and relevant facilities used for the purpose of collecting, storing, transmitting, exchanging and processing information in accordance with certain rules and procedures. "Network operators," who are broadly defined as owners and administrators of networks and network service providers, are subject to various security protection-related obligations, including: (i) complying with security protection obligations in accordance with tiered cybersecurity system's protection requirements, which include formulating internal security management rules and manuals, appointing cybersecurity responsible personnel, adopting technical measures to prevent computer viruses and cybersecurity endangering activities, and adopting technical measures to monitor and record network operation status and cybersecurity events; (ii) formulating cybersecurity emergency response plans, timely handling security risks, initiating emergency response plans, taking appropriate remedial measures and reporting to regulatory authorities; and (iii) providing technical assistance and support for public security and national security authorities for the protection of national security and criminal investigations in accordance with the law. Network service providers who do not comply with the Cyber Security Law may be subject to fines, suspension of their businesses, shutdown of their websites, and revocation of their business licenses.

On July 30, 2021, the State Council promulgated the Regulations on Protection of Critical Information Infrastructure, which came into effect on September 1, 2021. Pursuant to the Regulations on Protection of Critical Information Infrastructure, critical information infrastructure means any important network facilities or information systems of an important industry or field such as public communication and information service, energy, transportation, water conservation, finance, public services, e-government affairs and national defense science, 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, are responsible for formulating eligibility criteria, determining the critical information infrastructure operator in the respective industry or sector, and notifying the critical information infrastructure operators in time after such determination.

On December 28, 2021, the CAC and other twelve PRC regulatory authorities jointly revised and promulgated the Measures for Cybersecurity Review, or the Cybersecurity Review Measures, which came into effect on February 15, 2022 and replaced the Measures for Cybersecurity Review promulgated on April 13, 2020. The Cybersecurity Review Measures provide that, among others, (i) the purchase of cyber products and services by critical information infrastructure operators and the network platform operators engaging in data processing activities that affects or may affect national security are subject to a cybersecurity review by the Cybersecurity Review Office, the department which is responsible for the implementation of cybersecurity review under the CAC; (ii) network platform operators with personal information data of more than one million users are obliged to apply for a cybersecurity review by the Cybersecurity Review Office before listing abroad; and (iii) relevant governmental authorities in the PRC may initiate cybersecurity review if they determine an internet platform operator's network products or services or data processing activities affect or may affect national security.

In addition, on September 24, 2024, the CAC released the Regulations on the Network Data Security, which became effective on January 1, 2025. The Regulations on the Network Data Security set out general guidelines, protection of personal information, security of important data, security management of cross-border data transfer, obligations of internet platform operators, supervision and management, and legal liabilities. In accordance with the Regulations on the Network Data Security, data processors shall apply for a cybersecurity review for conducting activities that affect or may affect national security. However, since the Regulations on the Network Data Security is relatively new, the interpretation and implementation of the Regulations on the Network Data Security and the enforcement practice by relevant government authorities regarding the Regulations on the Network Data Security remains to be seen.

Regulations related to privacy protection

On December 29, 2011, the MIIT issued the Several Provisions on Regulating the Market Order of Internet Information Services, pursuant to which an internet information service provider may not collect any user personal information or provide any such information to third parties without the consent of a user. In addition, an internet information service provider must expressly inform the users of the method, content and purpose of the collection and processing of such user personal information, and may only collect such information necessary for the provision of its services. An internet information service provider is also required to properly maintain the user personal information, and in case of any leak or likely leak of the user personal information, the internet information service providers must take immediate remedial measures and, in severe circumstances, make an immediate report to the telecommunications regulatory authority.

Pursuant to the Decision on Strengthening the Protection of Online Information, issued by the Standing Committee of the National People's Congress in 2012, and the Order for the Protection of Telecommunication and Internet User Personal Information, issued by the MIIT in 2013, any collection and use of a user's personal information must be subject to the consent of the user, be legal, reasonable and necessary and be limited to specified purposes, methods and scopes. An internet information service provider must also keep such information strictly confidential, and is further prohibited from divulging, tampering with or destroying any such information, or selling or providing such information to other parties. An internet information service provider is required to take technical and other measures to prevent the collected personal information from any unauthorized disclosure, damage or loss. Any violation of these laws and regulations may subject the internet information service provider to warnings, fines, confiscation of illegal gains, revocation of licenses, cancelation of filings, closedown of websites or even criminal liabilities.

With respect to the security of information collected and used by mobile apps, pursuant to the Announcement of Conducting Special Supervision against the Illegal Collection and Use of Personal Information by Apps, which was issued on January 23, 2019, app operators should collect and use personal information in compliance with the Cybersecurity Law and should be responsible for the security of personal information obtained from users and take effective measures to strengthen the personal information protection. Furthermore, app operators must not force their users to make authorization by means of bundling, suspending installation or in other default forms and should not collect personal information in violation of laws, regulations or breach of user agreements. Such regulatory requirements were emphasized by the Notice on the Special Rectification of Apps Infringing upon User's Personal Rights and Interests, which was issued by MIIT on October 31, 2019. On November 28, 2019, the CAC, the MIIT, the Ministry of Public Security and the SAMR jointly issued the Methods of Identifying Illegal Acts of Apps to Collect and Use Personal Information. This regulation further illustrates certain commonly seen illegal practices of apps operators in terms of personal information protection, including "failure to publicize rules for collecting and using personal information," "failure to expressly state the purpose, manner and scope of collecting and using personal information," "collection and use of personal information without consent of users of such App," "collecting personal information irrelevant to the services provided by such app in violation of the principle of necessity," "provision of personal information to others without users' consent," "failure to provide the function of deleting or correcting personal information as required by laws" and "failure to publish information such as methods for complaints and reporting." Among others, any of the following acts of an app operator will constitute "collection and use of personal information without consent of users": (i) collecting an user's personal information or activating the permission for collecting any user's personal information without obtaining such user's consent; (ii) collecting personal information or activating the permission for collecting the personal information of any user who explicitly refuses such collection, or repeatedly seeking for user's consent such that the user's normal use of such app is disturbed; (iii) any user's personal information which has been actually collected by the app operator or the permission for collecting any user's personal information activated by the app operator is beyond the scope of personal information which such user authorizes such app operator to collect; (iv) seeking for any user's consent in a non-explicit manner; (v) modifying any user's settings for activating the permission for collecting any personal information without such user's consent; (vi) using users' personal information and any algorithms to directionally push any information, without providing the option of non-directed pushing of such information; (vii) misleading users to permit collecting their personal information or activating the permission for collecting such users' personal information by improper methods such as fraud and deception; (viii) failing to provide users with the means and methods to withdraw their permission of collecting personal information; and (ix) collecting and using personal information in violation of the rules for collecting and using personal information promulgated by such app operator.

Pursuant to the Notice of the Supreme People's Court, the Supreme People's Procuratorate and the Ministry of Public Security on Legally Punishing Criminal Activities Infringing upon the Personal Information of Citizens, issued in 2013, and the Interpretation of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues regarding Legal Application in Criminal Cases Infringing upon the Personal Information of Citizens, which was issued on May 8, 2017 and took effect on June 1, 2017, the following activities may constitute the crime of infringing upon a citizen's personal information: (i) providing a citizen's personal information to specified persons or releasing a citizen's personal information online or through other methods in violation of relevant national provisions; (ii) providing legitimately collected information relating to a citizen to others without such citizen's consent (unless the information is processed, not traceable to a specific person and not recoverable); (iii) collecting a citizen's personal information in violation of applicable rules and regulations when performing a duty or providing services; or (iv) collecting a citizen's personal information by purchasing, accepting or exchanging such information in violation of applicable rules and regulations. In addition, on May 28, 2020, the National People's Congress of the PRC approved the PRC Civil Code, which came into effect on January 1, 2021. Pursuant to the PRC Civil Code, the collection, storage, use, process, transmission, provision and disclosure of personal information should follow the principles of legitimacy, properness and necessity.

On August 20, 2021, the Standing Committee of the National People's Congress promulgated the Personal Information Protection Law, which took effect on November 1, 2021. Pursuant to the Personal Information Protection Law, the processing of personal data should have clear and reasonable purposes, be directly related to the purposes of processing, and be carried out in a way that has minimal impact on personal rights and interests; the collection of personal data should be limited to the smallest scope necessary for achieving the purpose of processing, and personal data should not be collected excessively; and the processing of personal data should follow the principles of openness and transparency, make public the rules on personal data processing and publicly disclose the purpose, methods and scope of processing. The Personal Information Protection Law further provides that personal data processors should be responsible for their personal data processing activities, and should take necessary measures to ensure the security of the personal data processed thereby. Anyone processing personal information in violation of or failing to perform any obligation of personal information protection specified in Personal Information Protection Law in the processing of personal information will be ordered to make a correction, given a warning, and confiscated of any illegal gain by the authorities performing personal information protection duties, and any application program that illegally processes personal information will be ordered to suspend or terminate its services; and if the required correction is not made, a fine of up to RMB1 million will be imposed on the violator; and any person in charge or any other individual directly liable for the violation will be fined between RMB10,000 and RMB100,000.

On June 10, 2021, the Standing Committee of the National People's Congress promulgated the Data Security Law, which took effect on September 1, 2021, to regulate data processing activities and ensure data security. The Data Security Law provides that the state should establish a data classified and categorized protection system to protect data in a classified and categorized manner, and a security review system to conduct national security review of data processing activities that affect or may affect national security. Pursuant to the Data Security Law, the data processors should comply with laws and regulations in data processing activities, establish and improve a whole-process data security management system, organize data security education and training, and take corresponding technical and other necessary measures to ensure data security. The Data Security Law also stipulates that the relevant authorities will formulate the catalogues for important data and strengthen the protection of important data, and state core data, i.e., data having a bearing on national security, the lifelines of national economy, people's key livelihood and major public interests, should be subject to stricter management system.

Regulations Related to Production Safety

Pursuant to the Work Safety Law of the PRC, or the Work Safety Law, which was promulgated on June 29, 2002 and amended in 2009, 2014 and 2021, enterprises are obliged to implement measures to ensure safety at work, including strengthening work safety management, establishing and improving work safety responsibility systems and work safety policies and rules, enhancing work safety conditions, establishing work safety standardization, and improving work safety levels, among others. The work safety standards prescribed by the Work Safety Law and other relevant laws, administrative regulations and national or industry standards must be observed. Where such conditions are not complied with, no enterprise should commence or be engaged in production and other business activities. Additionally, enterprises must offer production safety courses and training programs to their employees. Entities engaging in mining, metal smelting, building construction, road transportation, manufacturing, marketing, or storing hazardous substances must have a work safety management body or full-time work safety management personnel. Violation of this law and failure to perform duties in work safety management may lead to administrative punishments, including correction orders, qualification revocation, fines, and criminal liability if the violation constitutes a crime.

According to the Special Equipment Safety Law of the PRC promulgated by the Standing Committee of the National People's Congress on June 29, 2013 and implemented on January 1, 2014, enterprises manufacturing or using special equipment should establish and strive to improve the safety and energy-saving management system and safety and energy-saving responsibility system for special equipment. Special equipment refers to boilers, pressure vessels (including gas cylinders), pressure pipelines, elevators, lifting appliances, passenger ropeways, large amusement facilities, and special vehicles used in the factory, which involve a high degree of safety risks. An enterprise can only use special equipment if it has a production permit and has passed a quality examination; and is prohibited to use special equipment reported as useless or eliminated by the State. This law also provides that enterprises using special equipment should prepare and keep safety technology files for their special equipment.

Regulations Related to Environmental Protection

Environmental protection

According to the Environmental Protection Law of the PRC, or the Environmental Protection Law, promulgated on December 26, 1989 and amended in 2014 (the revision was implemented on January 1, 2015), enterprises, public institutions, and other business operators should prevent and reduce environmental pollution and ecological disruption, and assume liabilities for damage caused by them. These entities are also required to comply with the national environmental quality standards set out by the environmental protection administrative department of the State Council, and local environmental quality standards established by people's governments of provinces, autonomous regions, and municipalities. The State adopts certain policies and measures to encourage and support the development of environmental protection industries, and further reduction of pollutant discharge by enterprises, public institutions, and other business operators after meeting the statutory requirements for the discharge of pollutants. The Environmental Protection Law also stipulates the obligation of enterprises, public institutions, and other business operators to prevent and control pollution and damage to the environment caused by waste gas, water and residue, medical waste, dust, malodorous gasses, radioactive substances, noise, vibration, optical radiation, electromagnetic radiation, and other substances generated in their production, construction, and other activities. Any breach of the Environmental Protection Law may lead to fines, production restriction or business suspension, order of cessation or closedown, or detention by public security authority, among others.

Prevention and control of water pollution

The Water Pollution Prevention and Control Law of the PRC, promulgated on May 11, 1984 and amended in 1996, 2008 and 2017 (the latest revision was implemented on January 1, 2018), provides that each new construction, expansion, reconstruction or other related project, which directly or indirectly discharges pollutants into a water source, is subject to the state regulations on environmental protection of construction projects. Discharged water pollutants should not exceed the national or local standards for discharge of water pollutants and the indexes for control of the total discharge of major water pollutants. Each enterprise that discharges pollutants directly or indirectly into a water source must register its facility with, and submit relevant information to the local environmental protection authorities. Such information may include the categories, quantity and concentration of pollutants discharged during the ordinary course of the operations of the enterprise. Such an enterprise may also be required to submit information on its water pollution prevention and control measures to the local environmental protection authorities. In addition, the PRC government also requires that each enterprise obtain a permit for the direct or indirect discharge of pollutants into the water, and pay a pollutant discharge fee.

Prevention and control of air pollution

The Atmospheric Pollution Prevention and Control Law of the PRC, promulgated on September 5, 1987 and amended in 1995, 2000, 2015 and 2018 (the latest amendment was implemented on October 26, 2018), provides that each new construction, expansion, reconstruction or other related project that discharges atmospheric pollutants is subject to state regulations on environmental protection of construction projects. Each enterprise that discharges atmospheric pollutants must register its facilities with, and submit relevant information to the local environmental protection authorities. Such information may include the categories, quantity and concentration of pollutants during the ordinary course of the operations of the enterprise. Such an enterprise may also be required to provide certain technological information associated with atmospheric pollution to the local environmental protection authorities. In addition, the PRC government has implemented a system to collect fees from enterprises that discharge pollutants based on the categories and quantities of atmospheric pollutants discharged. The relevant environmental protection authorities have established standards for collecting fees that take into consideration the relevant atmospheric pollution regulations and the national economic and technological development level.

Prevention and control of environmental pollution by solid waste

Enterprises' production and construction are also regulated by the Law of the PRC on the Prevention and Control of Environmental Pollution Caused by Solid Wastes which was promulgated on October 30, 1995 and recently amended on April 29, 2020. Entities discharging industrial solid wastes are obliged to establish and perfect the responsibility system for the prevention and control of environmental pollution and to adopt treatment on industrial solid wastes to reduce or control environmental pollution. The PRC government has in place an industrial solid waste declaration and registration system. Enterprises and public institutions should make use of industrial solid wastes produced thereby pursuant to economic and technical conditions; for those industrial solid wastes that will not or cannot be utilized temporarily, enterprises and public institutions should, in accordance with the regulations of the environmental protection administrative department of the State Council, build facilities and sites for their safe and classified storage or carry out harmless treatment for them. It is prohibited to close down, leave idle or dismantle, without approval, facilities or places for the prevention and control of environmental pollution by industrial solid wastes.

Prevention and control of environmental noise pollution

According to the Law of the PRC on Prevention and Control of Pollution from Noise, promulgated on December 24, 2021 and became effective on June 5, 2022, enterprises producing noise should establish a responsibility system for the prevention and control of noise pollution, clarifying the responsibilities of the persons in charge and the relevant personnel. Enterprises, public institutions and other producers and business operators producing industrial noise should take effective measures to reduce vibration and noise and obtain a pollutant discharge permit or fill in a pollutant discharge registration. Entities subject to pollutant discharge licensing management should, according to the provisions, carry out self-monitoring of industrial noise, keep the original monitoring records, disclose the monitoring result to the public and be responsible for the authenticity and accuracy of the monitoring data.

Regulation Related to Anti-Monopoly

On August 30, 2007, the Standing Committee of the National People's Congress adopted the PRC Anti-Monopoly Law, or the AML, which became effective on August 1, 2008 and was last amended on June 24, 2022, and provides the regulatory framework for the PRC anti-monopoly. Under the AML, the prohibited monopolistic acts include monopolistic agreements, abuse of a dominant market position and concentration of businesses that may have the effect of eliminating or restricting competition.

Pursuant to the AML, a business operator that possesses a dominant market position is prohibited from abusing its dominant market position, including conducting the following acts: (i) selling commodities at unfairly high prices or buying commodities at unfairly low prices; (ii) without justifiable reasons, selling commodities at prices below cost; (iii) without justifiable reasons, refusing to enter into transactions with their trading counterparts; (iv) without justifiable reasons, allowing trading counterparts to make transactions exclusively with itself or with the business operators designated by it; (v) without justifiable reasons, tying commodities or imposing unreasonable trading conditions to transactions; (vi) without justifiable reasons, applying differential prices and other transaction terms among their trading counterparts who are on an equal footing; and (vii) other acts determined as abuse of dominant market position by the relevant governmental authorities.

Pursuant to the AML and relevant regulations, when a concentration of undertakings occurs and reaches any of the following thresholds, the undertakings concerned should file a prior notification with the anti-monopoly agency (i.e., the State Administration for Market Regulation): (i) the total global turnover of all operators participating in the transaction exceeded RMB10 billion in the preceding fiscal year and at least two of these operators each had a turnover of more than RMB400 million within China in the preceding fiscal year, or (ii) the total turnover within China of all the operators participating in the concentration exceeded RMB2 billion in the preceding fiscal year, and at least two of these operators each had a turnover of more than RMB400 million within China in the preceding fiscal year are triggered, and no concentration should be implemented until the anti-monopoly agency clears the anti-monopoly filing. "Concentration of undertakings" means any of the following: (i) merger of undertakings; (ii) acquisition of control over another undertaking by acquiring equity or assets; or (iii) acquisition of control over, or exercising decisive influence on, another undertaking by contract or by any other means.

In addition, pursuant to the AML and relevant regulations, entering into monopolistic agreements, which means agreements or concerted practices to eliminate or restrict competition, are prohibited, unless such agreements satisfy the specific exemptions prescribed therein, such as improving technologies or increasing the efficiency and competitiveness of small and medium-sized undertakings.

If business operators fail to comply with the AML or other relevant regulations, the anti-monopoly agency is empowered to cease the relevant activities, unwind the transactions, and confiscate illegal gains and fines.

Regulations Related to Unfair Competition

According to the Law of the People's Republic of China against Unfair Competition, or the Anti-Unfair Competition Law, promulgated by the Standing Committee of the National People's Congress on September 2, 1993 and amended on November 4, 2017 and April 23, 2019, effective from April 23, 2019, operators should not undermine their competitors by engaging in improper activities, including but not limited to, taking advantage of powers or influence to affect a transaction, market confusion, commercial bribery, misleading false publicity, infringement of trade secrets, price dumping, illegitimate premium sale and commercial libel. Any operators who violate the Anti-Unfair Competition Law by engaging in the foregoing unfair competitive activities should be ordered to cease such illegal activities, eliminate the influence of such activities or compensate for the damages caused to any party. The competent supervision and inspection authorities may also confiscate the illegal gains or impose fines on such operators.

Regulations on Pricing

In China, prices of most commodities and services are market-adjusted and a very small number of commodities and services are subject to government-guided prices or government-set prices. Pursuant to the PRC Pricing Law, which was published by the Standing Committee of the National People's Congress on December 29, 1997, and took effect on May 1, 1998, business operators must display prices clearly and in accordance with the requirements set out by the relevant authority. Further, business operators must indicate the name, origin of production, specifications and other relevant information. Business operators should not charge any price different from the displayed price or fees that are not explicitly indicated. Business operators must not engage in any specified unlawful pricing activities, such as colluding with others to manipulate the market price, using false or misleading prices to lure consumers into concluding a transaction, or conducting price discrimination against other business operators. Failure to comply with the PRC Pricing Law may subject business operators to administrative sanctions, such as warnings or corrective orders from the competent administration authority, confiscation of illegal gains, imposition of fines, suspension of business operations or revocation of business licenses under severe circumstances, as well as potential civil and criminal liabilities.

Regulations on Advertising

The Advertising Law of the PRC, or the Advertising Law, promulgated by the Standing Committee of the National People's Congress on October 27, 1994 and amended on April 24, 2015, October 26, 2018, and April 29, 2021, stipulates in detail the forms for distribution, production and content prohibited from advertising, as well as penalties and liabilities for violations. The Advertising Law sets forth certain content requirements for advertisements in China, which include prohibitions on, among other things, false or misleading content, superlative wording such as "the state-level," "the highest grade," "the best" or other similar words, socially destabilizing content or content involving obscenities, superstition, violence, discrimination or infringement of the public interest. The dissemination of tobacco advertisements via media is also prohibited as well as the display of tobacco advertisements in any waiting lounge, theater, cinema, conference hall, stadium or other public area. It is prohibited to use the advertisements or public service advertisements for other products or services to publicize the names, trademarks, packages, decorations or other similar content of tobacco products. No names, trademarks, packages, decorations or other similar content of tobacco products should be contained in the notices on relocation, change of the name or recruitment published by the producers or sellers of such tobacco products.

On October 31, 2022, the SAMR and several other regulatory authorities, issued the Guiding Opinions on Further Regulating Celebrities' Endorsement Activities in Advertising, which became effective on the same day. According to the Guiding Opinions on Further Regulating Celebrities' Endorsement Activities in Advertising, celebrities are prohibited to endorse any tobacco and tobacco products (including e-cigarettes).

On February 25, 2023, the SAMR issued the Administration Measures of Internet Advertising, or the Internet Advertising Measures, which became effective on May 1, 2023 and replace the Interim Measures for the Administration of Internet Advertising, issued by the SAMR on July 4, 2016. According to the Internet Advertising Measures, the commercial advertising activities for direct or indirect marketing goods or services in the form of text, image, audio, video, or other means through websites, web pages, internet applications, or other internet media, shall be carried out under the laws and regulations, the principle of good faith and fair competition. No entity and individual may publish any advertisement of tobacco (including e-cigarettes); by means of the internet.

Regulations on Intellectual Property

Patent

Patents in the PRC are principally protected under the Patent Law of the PRC. The Chinese patent system adopts a first-to-file principle. To be patentable, an invention or a utility model must meet three criteria: novelty, inventiveness and practicability. The duration of a patent right is either 10 years, 15 years or 20 years from the date of application, depending on the type of patent right.

Copyright

Copyright in the PRC, including copyrighted software, is principally protected under the Copyright Law of the PRC and related rules and regulations. Under the Copyright Law, the term of protection for copyrighted software is 50 years. The Regulation on the Protection of the Right to Communicate Works to the Public over Information Networks, as most recently amended on January 30, 2013, provides specific rules on fair use, statutory license, and a safe harbor for use of copyrights and copyright management technology and specifies the liabilities of various entities for violations, including copyright holders, libraries and internet service providers.

The Computer Software Copyright Registration Measures, or the Software Copyright Measures, promulgated by the National Copyright Administration on April 6, 1992 and amended in 2000 and 2002, regulates registrations of software copyrights, exclusive licensing contracts for software copyrights and assignment agreements. The National Copyright Administration, or the NCA, administers software copyright registration and the Copyright Protection Center of China is designated as the software registration authority. The Copyright Protection Center of China will grant registration certificates to the Computer Software Copyright applicants that meet the requirements of both the Software Copyright Measures and the Computer Software Protection Regulations (Revised in 2013).

Trademark

Registered trademarks are protected under the Trademark Law of the PRC and related rules and regulations. Trademarks are registered with the State Intellectual Property Office, formerly the Trademark Office of the SAMR. Where registration is sought for a trademark that is identical or similar to another trademark which has already been registered or given preliminary examination and approval for use in the same or similar category of commodities or services, the application for registration of this trademark may be rejected. Trademark registrations are effective for a renewable ten-year period, unless otherwise revoked.

Domain name

Domain names are protected under the Administrative Measures on Internet Domain Names promulgated by the MIIT on August 24, 2017 and effective as of November 1, 2017. Domain name registrations are handled through domain name service agencies established under the relevant regulations, and applicants become domain name holders upon successful registration.

Regulations on Employment and Social Welfare

Labor contract law

The PRC Labor Contract Law, which became effective on January 1, 2008 and was amended in 2012, primarily aims at regulating rights and obligations of employment relationships, including the establishment, performance, and termination of labor contracts. Pursuant to the Labor Contract Law, labor contracts must be executed in writing if labor relationships are to be or have been established between employers and employees. Employers are prohibited from forcing employees to work above certain time limits and employers must pay employees for overtime work in accordance with national regulations. In addition, employee wages must not be lower than local standards on minimum wages and must be paid to employees in a timely manner.

Social insurance

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 PRC Social Insurance Law implemented on July 1, 2011 and amended on December 29, 2018, employers are required to provide their employees in China with welfare benefits covering pension insurance, unemployment insurance, maternity insurance, work-related 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. On July 20, 2018, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council issued the Plan for Reforming the State and Local Tax Collection and Administration Systems, which stipulated that the State Administration of Taxation, or the SAT, will become solely responsible for collecting social insurance premiums.

Housing funds

In accordance with the Regulations on the Administration of Housing Funds, which was promulgated by the State Council in 1999 and amended in 2002 and 2019, employers must register at the designated administrative centers and open bank accounts for depositing employees' housing funds. Employers and employees 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.

Regulations on Foreign Exchange and Dividend Distribution

Regulations on foreign currency exchange

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations. Under PRC foreign exchange regulations, payments of current account items, such as profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. By contrast, approval from or registration with appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital account items, such as direct investments, repayment of foreign currency-denominated loans, repatriation of investments and investments in securities outside of China.

In 2012, SAFE promulgated the Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment, or Circular 59, as amended in May 2015, October 2018 and December 2019, which substantially amends and simplifies the foreign exchange procedure. Pursuant to Circular 59, the opening of various special purpose foreign exchange accounts, such as pre-establishment expenses accounts, foreign exchange capital accounts and guarantee accounts, the reinvestment of RMB proceeds derived by foreign investors in the PRC, and remittance of foreign exchange profits and dividends by an FIE to its foreign shareholders no longer require the approval or verification of SAFE, and multiple capital accounts for the same entity may be opened in different provinces, which was not possible previously. In February 2015, SAFE promulgated the Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment, or SAFE Notice 13. Instead of applying for approvals regarding foreign exchange registrations of foreign direct investment and overseas direct investment from SAFE, entities and individuals may apply for such foreign exchange registrations from qualified banks. The qualified banks, under the supervision of SAFE, may directly review the applications and conduct the registration.

In addition, the PRC governmental authorities have gradually relaxed restrictions on the settlement of the foreign exchange capitals of FIEs in recent years. In March 2015, SAFE promulgated the Circular of the SAFE on Reforming the Management Approach regarding the Settlement of Foreign Capital of Foreign-invested Enterprise, or Circular 19, which expands a pilot reform of the administration of the settlement of the foreign exchange capitals of FIEs nationwide. Circular 19 replaced both the Circular of the SAFE on Issues Relating to the Improvement of Business Operations with Respect to the Administration of Foreign Exchange Capital Payment and Settlement of Foreign-invested Enterprises, or Circular 142, and the Circular of the SAFE on Issues concerning the Pilot Reform of the Administrative Approach Regarding the Settlement of the Foreign Exchange Capitals of Foreign-invested Enterprises in Certain Areas, or Circular 36. Circular 19 allows all FIEs established in the PRC to settle their foreign exchange capital on a discretionary basis according to the actual needs of their business operation, provides the procedures for foreign invested companies to use Renminbi converted from foreign currency-denominated capital for equity investments and removes certain other restrictions that had been provided in Circular 142. However, Circular 19 continues to prohibit FIEs from, among other things, using RMB funds converted from their foreign exchange capital for expenditure beyond their business scope and providing entrusted loans or repaying loans between non-financial enterprises. SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account, or Circular 16, effective June 2016, which reiterates some of the rules set forth in Circular 19. Circular 16 provides that discretionary foreign exchange settlement applies to foreign exchange capital, foreign debt offering proceeds and remitted foreign listing proceeds, and the corresponding RMB capital converted from foreign exchange may be used to extend loans to related parties or repay inter-company loans (including advances by third parties). On October 23, 2019, SAFE further issued Circular of the State Administration of Foreign Exchange on Further Promoting the Facilitation of Cross-border Trade and Investment, or Circular 28, which took effect on the same day. Circular 28 allows non-investment FIEs to use their capital funds to make equity investments in China as long as such investments do not violate the Negative List and the target investment projects are genuine and in compliance with laws. In addition, Circular 28 stipulates that qualified enterprises in certain pilot areas may use their capital income from registered capital, foreign debt and overseas listing for the purpose of domestic payments without providing authenticity certifications to the relevant banks in advance for those domestic payments.

Regulations on dividend distribution

The principal regulations governing distribution of dividends of FIEs is the PRC Company Law. Under these laws and regulations, FIEs in China may pay dividends only out of their accumulated after-tax profits, if any, determined in accordance with China accounting standards and regulations. In addition, a PRC company, including FIEs in China, is required to allocate at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds until these reserves have reached 50% of the registered capital of the enterprises. A PRC company may, at their discretion, allocate a portion of their after-tax profits based on China accounting standards to staff welfare and bonus funds. These reserves are not distributable as cash dividends.

Regulations on foreign exchange registration of overseas investment by PRC residents

In 2014, SAFE issued the SAFE Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, replacing the SAFE Circular on Issues Concerning the Regulation of Foreign Exchange in Equity Finance and Return Investments by Domestic Residents through Offshore Special Purpose Vehicles, or SAFE Circular 75. SAFE Circular 37 regulates foreign exchange matters in relation to the use of special purpose vehicles by PRC residents or entities to seek offshore investment and financing or conduct round trip investment in China. Under SAFE Circular 37, a "special purpose vehicle" refers to an offshore entity established or controlled, directly or indirectly, by PRC residents or entities for the purpose of seeking offshore financing or making offshore investment, using legitimate onshore or offshore assets or interests, while "round trip investment" refers to direct investment in China by PRC residents or entities through special purpose vehicles, namely, establishing FIEs to obtain ownership, control rights and management rights. SAFE Circular 37 provides that, before making a contribution into a special purpose vehicle, PRC residents or entities are required to complete foreign exchange registration with SAFE or its local branch.

In 2015, SAFE promulgated SAFE Notice 13, which amended SAFE Circular 37 by requiring PRC residents or entities to register with qualified banks rather than 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. PRC residents or entities who had contributed legitimate onshore or offshore interests or assets to special purpose vehicles but had not registered as required before the implementation of SAFE Circular 37 must register their ownership interests or control in the special purpose vehicles with qualified banks. An amendment to the registration is required if there is a material change with respect to the special purpose vehicle registered, such as any change of basic information (including change of the PRC residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, and mergers or divisions. Failure to comply with the registration procedures set forth in SAFE Circular 37 and the subsequent notice, or making misrepresentations or failing to disclose the control of the FIE that is established through round-trip investment, may result in restrictions being imposed on the foreign exchange activities of the relevant FIEs, including payment of dividends and other distributions, such as proceeds from any reduction in capital, share transfer or liquidation, to its offshore parent or affiliate, and the capital inflow from the offshore parent, and may also subject relevant PRC residents or entities to penalties under PRC foreign exchange administration regulations.

Regulation related to stock incentive plans

In February 2012, SAFE promulgated the Notice on Foreign Exchange Administration of Domestic Individuals Participating in Share Incentive Plans of Offshore Listed Companies, or the Stock Option Rules, replacing the previous rules issued by SAFE in March 2007 and January 2008. Under the Stock Option Rules and other relevant rules and regulations, domestic individuals, which means PRC residents and non-PRC citizens residing in China for a continuous period of not less than one year, subject to a few exceptions, who participate in a stock incentive plan in an overseas publicly listed company 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 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 stock incentive plan on behalf of its participants. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks 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. The PRC agents must, on behalf of the PRC residents who have the right to exercise the employee share options, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents' exercise of the employee share options. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents before distribution to such PRC residents. In addition, SAFE Circular 37 provides that PRC residents who participate in a share incentive plan of an overseas unlisted special purpose company may register with SAFE or its local branches before exercising rights.

Regulations on Tax

Enterprise income tax

Under the Enterprise Income Tax Law of the PRC, or the EIT Law, which became effective on January 1, 2008 and was subsequently amended on February 24, 2017 and December 29, 2018, and its implementing rules, enterprises are classified as resident enterprises and non-resident enterprises.

Resident enterprises typically pay an enterprise income tax at the rate of 25% while non-resident enterprises without any branches in the PRC should pay an enterprise income tax in connection with their income from the PRC at the tax rate of 10%. An enterprise established outside of the PRC with its “de facto management bodies” located within the PRC is considered a “resident enterprise,” meaning that it can be treated in a manner similar to a PRC domestic enterprise for enterprise income tax purposes. The implementing rules of the EIT Law define a de facto management body as a managing body that in practice exercises “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise. Enterprises that are recognized as “High and New Technology Enterprises” in accordance with the Notice of the Ministry of Science and Technology, the Ministry of Finance and the State Administration of Taxation on Amending and Issuing the Administrative Measures for the Determination of High and New Tech Enterprises, or the Administrative Measures for the Determination of High and New Tech Enterprises, are entitled to enjoy a preferential enterprise income tax rate of 15% rather than the 25% uniform statutory tax rate. The preferential tax treatment continues as long as an enterprise can retain its “High and New Technology Enterprise” status. According to the Administrative Measures for the Determination of High and New Tech Enterprises, to be recognized as a “High and New Technology Enterprise,” an enterprise should ensure that the technologies that play a core supportive role for its main products (services) are included in the scope as provided in the High-Tech Areas with Key Support of the State. Under the High-Tech Areas with Key Support of the State, which was promulgated by the Ministry of Science and Technology and became effective on February 5, 2016, the high-tech areas with key support of the state include electronic information, biological and new medicine, aerospace, new material, high-tech services, new energy and energy conservation, resources and environment, and application of high-tech to transform traditional industries.

According to the Circular on Improving the Policy on the Pre-tax Additional Deduction for Research and Development Expenses promulgated by the Ministry of Finance, the SAT and the Ministry of Science and Technology on November 2, 2015, which became effective on January 1, 2016, except for certain industries, such as tobacco manufacturing industry, the enterprises engaged in research and development activities are entitled to claim a tax deduction amounting to 50% of certain qualified research and development expenses when determining the taxable income for that year. This tax deduction was increased from 50% to 75%, effective from 2018 according to the Notice on Raising the Proportion of Weighted Pre-tax Deduction of Research and Development Expenses promulgated by the Ministry of Finance, the SAT and the Ministry of Science and Technology in September 2018, which was further extended to December 31, 2023 according to the Announcement on Extending the Implementation Period of Certain Preferential Tax Policies promulgated by the Ministry of Finance and the SAT and effective from March 15, 2021. This tax deduction was increased from 75% to 100% in certain qualified manufacture industry according to the Circular on Improving the Pre-tax Deduction of Enterprise Research and Development Expenses Policies, or the Circular 13, promulgated by the Ministry of Finance and the SAT on March 31, 2021, which became effective from January 1, 2021. This tax deduction was further increased to 100% from January 1, 2023 for all enterprises that can enjoy the pre-tax deduction policy according to the Circular on Improving the Pre-tax Deduction of Enterprise Research and Development Expenses Policies (2023 Version) promulgated by the Ministry of Finance and the SAT on March 26, 2023, which became effective from January 1, 2023 and replacing the Circular 13. On November 27, 2020, the Ministry of Finance and the SAT promulgated the Circular on Matters Relating to the Pre-tax Deduction of Advertising Expenses and Business Promotion Expenses, which became effective on January 1, 2021. According to such circular, the advertising expenses and business promotion expenses incurred by tobacco enterprises are not allowed to be deducted for calculation of taxable income.

The EIT Law and the implementation rules provide that an income tax rate of 10% should normally be applicable to dividends payable to investors that are “non-resident enterprises,” and gains derived by such investors, which (a) do not have an establishment or place of business in the PRC or (b) have an establishment or place of business in the PRC, but the relevant income is not effectively connected with the establishment or place of business to the extent such dividends and gains are derived from sources within the PRC. Such income tax on the dividends may be reduced pursuant to a tax treaty between China and other jurisdictions. Pursuant to the 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 Income, or the Double Tax Avoidance Arrangement, and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under 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% upon receiving approval from the competent tax authority. However, based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties 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; and based on the Announcement on Relevant Issues Concerning the “Beneficial Owners” in Tax Treaties issued on February 3, 2018 by the SAT and effective from April 1, 2018, which replaces the Notice on the Interpretation and Recognition of Beneficial Owners in Tax Treaties and the Announcement on the Recognition of Beneficial Owners in Tax Treaties by the SAT, comprehensive analysis based on the stipulated factor therein and actual circumstances should be adopted when recognizing the “beneficial owner” and agents and designated wire beneficiaries are specifically excluded from being recognized as “beneficial owners.”

Value-added tax and business tax

Whereas, pursuant to the Provisional Regulations on Value-Added Tax of the PRC and its implementation regulations, unless otherwise specified by relevant laws and regulations, any entity or individual engaged in the sales of goods, provision of processing, repairs and replacement services and importation of goods into China is generally required to pay a value-added tax, or VAT, for revenues generated from sales of products, while qualified input VAT paid on taxable purchase can be offset against such output VAT.

In November 2011, the Ministry of Finance and the SAT promulgated the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax. In March 2016, the Ministry of Finance and the SAT further promulgated the Notice on Fully Promoting the Pilot Plan for Replacing Business Tax by Value-Added Tax, which became effective on May 1, 2016. Pursuant to the pilot plan and relevant notices, VAT is generally imposed in lieu of business tax in the modern service industries, including the value-added telecommunication services, on a nationwide basis. VAT of a rate of 6% applies to revenue derived from the provision of some modern services. Certain small taxpayers under PRC law are subject to reduced value-added tax at a rate of 3%. Unlike business tax, a taxpayer is allowed to offset the qualified input VAT paid on taxable purchases against the output VAT chargeable on the modern services provided.

On April 4, 2018, the Ministry of Finance and the SAT issued the Notice on Adjustment of VAT Rates, which came into effect on May 1, 2018. According to such notice, the taxable goods previously subject to VAT rates of 17% and 11% respectively become subject to lower VAT rates of 16% and 10% respectively starting from May 1, 2018. Furthermore, according to the Announcement on Relevant Policies for Deepening Value-added Tax Reform jointly promulgated by the Ministry of Finance, the SAT and the General Administration of Customs, which became effective on April 1, 2019, the taxable goods previously subject to VAT rates of 16% and 10% respectively become subject to lower VAT rates of 13% and 9% respectively starting from April 1, 2019.

Excise Tax

According to the Interim Regulations on Excise Tax of the PRC promulgated by the State Council on November 10, 2008, or the Excise Tax Interim Regulations, which came into effect on January 1, 2009, institutions and individuals that manufacture, subcontract the manufacture of or import the consumer goods as specified in the Excise Tax Interim Regulations, and other institutions or individuals determined by the State Council that sell the consumer goods as specified in the Excise Tax Interim Regulations, should pay excise tax in accordance with the Excise Tax Interim Regulations.

On October 2, 2022, the Ministry of Finance of the People's Republic of China, General Administration of Customs of the People's Republic of China, and State Taxation Administration of the People's Republic of China jointly issued the Announcement on Imposing Excise Tax on E-cigarettes (the "E-cigarette Tax Announcement"), which came effective on November 1, 2022. The E-cigarette Tax Announcement imposes excise tax on manufacturers, importers and/or distributors of e-cigarettes in China. E-cigarette manufacturers and importers are subject to excise tax at the rate of 36% on the production or import of e-cigarettes, and E-cigarette distributors are subject to excise tax at the rate of 11% on the wholesale distribution of e-cigarettes. Taxpayers exporting e-cigarettes are entitled to enjoy tax refund (exemption) policies.

On October 27, 2022, the General Administration of Customs of the People's Republic of China issued the Announcement on Matters relating to Imposing Tax on E-cigarettes, which came into effect on November 1, 2022 and was amended on November 29, 2024, further elaborating the implementing measures on collecting excise tax on the import of e-cigarettes through channel of goods.

Municipal maintenance tax

According to the Law of the PRC on Urban Maintenance and Construction Tax promulgated by the Standing Committee of the National People's Congress on August 11, 2020 and came into effect on September 1, 2021, a taxpayer of excise tax or value-added tax is required to pay a municipal maintenance tax calculated on the basis of the excise tax and value-added tax. The tax rate is 7% for a taxpayer in an urban area, 5% for a taxpayer in a county or a town, and 1% for a taxpayer not in any urban area or county or town.

The Interim Provisions on the Collection of Educational Surcharges issued on April 28, 1986 and amended in 1990, 2005 and 2011, provides that taxpayers of excise tax, value-added tax and business tax should pay educational surcharges. Educational surcharges are evaluated on the amount of value-added tax, business tax or excise tax actually paid by entities and individuals, collected at the rate of 3%, and paid simultaneously with value-added tax, business tax and excise tax. It is also stipulated that enterprises' educational surcharges are to be paid with sales income (or business income).

Stamp tax

According to the PRC Stamp Tax Law promulgated by the Standing Committee of the National People's Congress on June 10, 2021 and became effective on July 1, 2022, all units and individuals which execute taxable documents or conduct security transactions should be regarded as obligatory payers of stamp duty. The taxable documents include the contracts, property transfer documents and business account books listed in the Schedule of Stamp Duty Items and Tax Rates attached hereto. The securities transactions refer to the transfer of the stocks and depository receipts based on stocks, which are traded on the stock exchanges established according to laws or other national stock exchanges approved by the State Council.

Dividend withholding tax

The EIT Law and its implementing rules provide that since January 1, 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-resident investors that do not have an establishment or place of business in China, or that 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 China.

Pursuant to 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 met the relevant conditions and requirements under this 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 Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties issued on February 20, 2009, 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. Pursuant to the Announcement on Relevant Issues Concerning the "Beneficial Owners" in Tax Treaties, which was issued on February 3, 2018 by the SAT and became effective on April 1, 2018, when determining the applicant's status as the "beneficial owner" regarding tax treatments 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 her or his income in twelve months to residents in a 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 any tax exemption on relevant incomes or levy tax at an extremely low rate, will be taken into account, and such factors will be analyzed according to the actual circumstances of the specific cases. This announcement further provides that an applicant who intends to prove her or his status as the "beneficial owner" must submit the relevant documents to the relevant tax bureau pursuant 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 SAT Circular 7. Pursuant to SAT 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" in 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 a real commercial nature which is evidenced by their actual function and risk exposure. Pursuant to SAT Circular 7, where the payer fails to withhold any or sufficient tax, the transferor should 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. SAT Circular 7 does not apply to sale of shares transactions 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, which was amended by the Announcement of the State Administration of Taxation on Revising Certain Taxation Normative Documents issued on June 15, 2018 by the SAT. SAT Circular 37 further elaborates the relevant implement 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 SAT Circular 7. SAT 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 Relating to Overseas Listing and M&A

On August 8, 2006, six PRC governmental and regulatory agencies, including the MOFCOM and the CSRC, jointly promulgated the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (the “M&A Rules”), a regulation with respect to the mergers and acquisitions of domestic enterprises by foreign investors that became effective on September 8, 2006 and revised on June 22, 2009. Foreign investors should comply with the M&A rules when they purchase equity interests of a domestic company or subscribe for the increased capital of a domestic company, and thus changing the nature of the domestic company into a foreign-invested enterprise; or when the foreign investors establish a foreign-invested enterprise in the PRC for the purpose of purchasing the assets of a domestic company and operating the asset; or when the foreign investors purchase the asset of a domestic company, establish a foreign-invested enterprise by injecting such assets, and operate the assets. The M&A rules, among other things, purports to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, should obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange.

On July 6, 2021, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council 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.

According to the Trial Measures released on February 17, 2023, which came into effect on March 31, 2023, (1) domestic companies that seek to offer or list securities in overseas markets, either in direct or indirect means, should fulfill the filing procedure with and report relevant information to the CSRC; if a domestic company fails to complete the filing procedure or conceals any material fact or falsifies any major content in its filing documents, such domestic company may be subject to administrative penalties, such as order to rectify, warnings, fines, and its controlling shareholders, actual controllers, the person directly in charge and other directly liable persons may also be subject to administrative penalties, such as warnings and fines; (2) if the issuer meets both of the following criteria, the overseas offering and listing shall be determined as an indirect overseas offering and listing by a domestic company: (i) 50% or more of any of the issuer’s operating revenue, total profit, total assets or net assets as documented in its audited consolidated financial statements for the most recent fiscal year is accounted for by domestic companies; (ii) the main parts of the issuer’s operation activities are conducted in mainland China, or the principal operation premises are located in mainland China, or the majority of senior management staff in charge of its business operations and management are PRC citizens or have habitual residences located in mainland China; and (3) an overseas offering and listing of securities of a domestic company is prohibited under any of the following circumstances: (i) such securities offering and listing is explicitly prohibited by provisions in laws, administrative regulations and relevant state rules; (ii) the intended securities offering and listing may endanger national security as reviewed and determined by competent authorities under the State Council in accordance with law; (iii) the domestic company(ies) intending to make the securities offering and listing, or its controlling shareholder(s) and the actual controller, have committed relevant crimes such as corruption, bribery, embezzlement, misappropriation of property or undermining the order of the socialist market economy during the latest three years; (iv) the domestic company(ies) intending to make the securities offering and listing is currently under investigations for suspicion of criminal offenses or major violations of laws and regulations, and no conclusion has yet been made thereof; or (v) there are material ownership disputes over equity held by the PRC domestic company’s controlling shareholder(s) or by other shareholder(s) that are controlled by the controlling shareholder(s) and/or actual controller. Furthermore, the Trial Measures also provide that (1) where a domestic company seeks to indirectly offer and list securities in overseas markets, the issuer shall designate a major domestic operating entity, which shall, as the domestic responsible entity, fulfill the filing procedures with the CSRC; (2) an initial public offering and listing shall be filed with the CSRC within three business days after the relevant application is submitted overseas; (3) subsequent securities offerings of an issuer in the same overseas market where it has previously offered and listed securities shall be filed with the CSRC within three business days after the offering is completed; (4) subsequent securities offerings and listings of an issuer in overseas markets other than where it has offered and listed shall be filed pursuant to provisions as stipulated for initial public offerings and listings.

On February 17, 2023, the CSRC held a press conference for the release of the Trial Measures and issued the Notice on Administration for the Filing of Overseas Offering and Listing by Domestic Companies, which, among others, clarifies that (1) domestic companies that have already been listed overseas on or prior to the effective date of the Trial Measures (i.e. March 31, 2023) shall be deemed as existing issuers, or the Existing Issuers. Existing Issuers are not required to complete the filing procedures immediately, and they are required to file with the CSRC when subsequent matters such as refinancing are involved; (2) on or prior to the effective date of the Trial Measures, domestic companies that have already submitted valid applications for overseas offering and listing but have not obtained approval from overseas regulatory authorities or stock exchanges may reasonably arrange the timing for submitting their filing applications with the CSRC, and shall complete the filing before the completion of their overseas offering and listing; (3) a six-month transition period will be granted to domestic companies which, prior to the effective date of the Trial Measures, have already obtained the approval from overseas regulatory authorities or stock exchanges (such as the completion of registration in the market of the United States or the completion of hearing in the market of Hong Kong), but have not completed the indirect overseas listing; if domestic companies fail to complete the overseas listing within such six-month transition period, they shall file with the CSRC according to the requirements; and (4) the CSRC will solicit opinions from relevant regulatory authorities and complete the filing of the overseas listing of companies with contractual arrangements which duly meet the compliance requirements, and support the development and growth of these companies by enabling them to utilize two markets and two kinds of resources.

On February 24, 2023, the CSRC released the Confidentiality and Archives Management Provisions, which came into effect on March 31, 2023. The Confidentiality and Archives Management Provisions require, among others, that PRC domestic enterprises seeking to offer and list securities in overseas markets, either directly or indirectly, shall establish and improve the system of confidentiality and archives work, and shall complete approval and filing procedures with competent authorities, if such PRC domestic enterprises or their overseas listing entities provide or publicly disclose documents or materials involving state secrets and work secrets of state organs to relevant securities companies, securities service institutions, overseas regulatory agencies and other entities and individuals. It further stipulates that (1) providing or publicly disclosing documents and materials which may adversely affect national security or public interests, and accounting records or photocopies thereof to relevant securities companies, securities service institutions, overseas regulatory agencies and other entities and individuals shall be subject to corresponding procedures in accordance with relevant laws and regulations; and (2) any working papers formed in the territory of the PRC by securities companies and securities service agencies that provide domestic enterprises with securities services relating to overseas securities issuance and listing shall be stored in the territory of the PRC, the outbound transfer of which shall be subject to corresponding procedures in accordance with relevant laws and regulations.

Regulations in Other Jurisdictions

In jurisdictions other than China, regulations in relation to vaping products are subject to a complex and dynamic regulatory environment influenced by public health priorities, technology innovation and evolving regulatory responses.

For instance, in the United States, the Food and Drug Administration (FDA) assumed regulatory authority over e-cigarettes and related products under the 2016 Deeming Rule, applying many of the same standards used for traditional tobacco products. Since then, the implementation of the Pre-Market Tobacco Product Application (PMTA) process has created a significant compliance burden, and the slow pace of approvals has left many products on the market without final authorization. This has resulted in legal uncertainty and varying enforcement practices across the country. Meanwhile, in Canada, the Tobacco and Vaping Products Act governs the marketing and sale of vaping products, with strict restrictions aimed at protecting youth. Recent policy developments have focused on limiting the appeal of flavored disposable vapes and enhancing product standards, signaling increased regulatory scrutiny. The European Union maintains a relatively structured approach through the Tobacco Products Directive (TPD), which sets out uniform rules on product composition, packaging, labeling, and marketing. However, enforcement and additional restrictions vary significantly across member states, leading to a fragmented regulatory landscape. However, there is a patchwork of different rules throughout the EU as specific implementation varies across the EU member states. The United Kingdom, having transposed the TPD into domestic law prior to Brexit, takes a more pragmatic stance by integrating vaping into its national smoking cessation strategy. Public health authorities in the UK support the use of regulated vaping products as a potentially less harmful alternative for adult smokers, while still imposing restrictions on advertising and youth access.

In South Korea, the regulatory landscape is primarily governed by the National Health Promotion Act and the Tobacco Business Act. These statutes classify nicotine-containing e-cigarettes as tobacco products, subjecting them to regulations akin to traditional cigarettes. This includes restrictions on sales to individuals under 19 years of age, mandatory health warnings on packaging, and prohibitions on usage in designated non-smoking areas. Such measures ensure a predictable operating environment for businesses and protect public health.

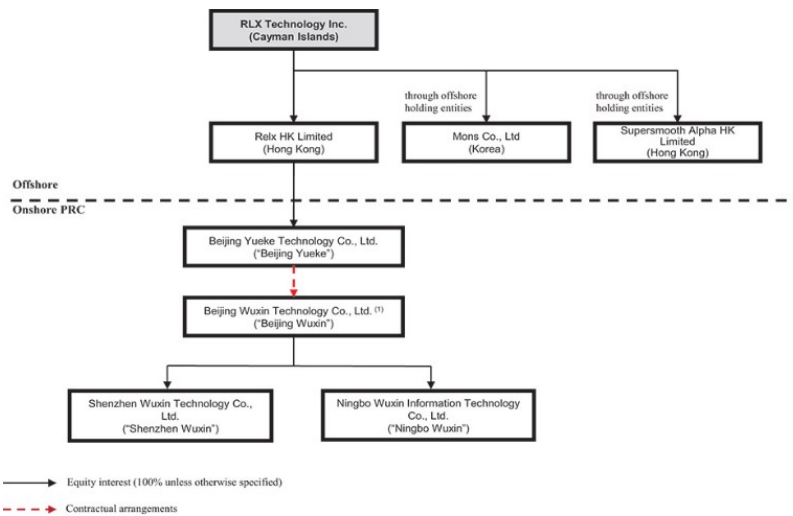
Recent initiatives to amend the Tobacco Business Act to include synthetic nicotine products further demonstrate the government's commitment to comprehensive regulation. This proactive approach not only addresses emerging product categories but also reinforces the stability of the market. As the regulatory framework continues to evolve in a transparent and structured manner, South Korea's e-cigarette industry remains well-positioned for sustained growth and innovation.

Indonesia offers a relatively stable and predictable regulatory environment for vape products. The industry is governed by a well-established legal framework, including clear excise laws, health regulations, and trade controls, which are consistently implemented across the country. Excise duties on e-cigarettes have been in place since 2018, and the Ministry of Finance, along with the Food and Drug Authority (BPOM) and Ministry of Health, continue to provide structured guidance on product standards, labeling, and packaging. While new regulations, such as those introduced under Government Regulation No. 28/2024, tighten controls on packaging and promotion, they reflect a methodical approach to public health policy rather than sudden or disruptive shifts.

The varying approaches in these jurisdictions demonstrate the diverse regulatory landscape for vaping products, each reflecting distinct perspectives on public health, consumer protection and harm reduction. As ongoing research and changing public opinions continue to develop, it is expected that these regulatory frameworks may experience further modifications in the future.

C. Organizational Structure

The following diagram illustrates our corporate structure as of the date of this annual report, including our principal subsidiaries, the variable interest entity and its principal subsidiaries:



Note:

- (1) Beijing Wuxin Technology Center (Limited Partnership) and Tianjin Wuxin Technology Partnership (Limited Partnership) each holds 86.77% and 13.23% of the equity interests in Beijing Wuxin, respectively. Ms. Ying (Kate) Wang and Mr. Bing Du each holds 93.635% and 6.365% of the partnership interests in Beijing Wuxin Technology Center (Limited Partnership), respectively. Ms. Ying (Kate) Wang and Mr. Bing Du each holds 1.00% and 99.00% of the partnership interests in Tianjin Wuxin Technology Partnership (Limited Partnership), respectively. Ms. Wang is a beneficial owner and co-founder of our company and serves as the chairperson of our board of directors and the chief executive officer of our company. Mr. Du is a beneficial owner of our company. For details of the contractual arrangements between Beijing Wuxin and Beijing Yueke, see “—Contractual Arrangements with the Consolidated Variable Interest Entity and its Shareholders.”

Contractual Arrangements with the Consolidated Variable Interest Entity and its Shareholders

We conduct part of our business in China through Beijing Wuxin, the consolidated variable interest entity in the PRC, and its subsidiaries, based on a series of contractual arrangements by and among Beijing Yueke, Beijing Wuxin and its shareholders. We refer to Beijing Yueke as our WFOE, and Beijing Wuxin as the consolidated VIE in this annual report.

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

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

Agreements that provide us with effective control over the consolidated VIE

Powers of Attorney. Pursuant to the powers of attorney, between our WFOE and the shareholders of the consolidated VIE, each of the shareholders of the consolidated VIE has executed a power of attorney to irrevocably authorize our WFOE, or any person designated by our WFOE, to act as its attorney-in-fact to exercise all of its rights as a shareholder of the consolidated VIE, including but not limited to, the right to (i) attend shareholders' meetings, (ii) exercise all shareholder rights and vote on any resolution on behalf of the shareholders that require the shareholders to vote under PRC law and the consolidated VIE's articles of association, such as the sale, transfer, pledge and disposal of all or part of a shareholder's equity interest in the consolidated VIE, and (iii) designate and appoint the consolidated VIE's legal representative, director, supervisor, chief executive officer and other senior management members on behalf of the shareholders. The powers of attorney will remain effective until such shareholder ceases to be a shareholder of the consolidated VIE.

Equity Interest Pledge Agreement. Pursuant to the share pledge agreement, among our WFOE, the consolidated VIE and the shareholders of the consolidated VIE, the shareholders of the consolidated VIE have pledged all of their respective equity interests in the consolidated VIE to our WFOE to guarantee performance of the obligations of the consolidated VIE and its shareholders under the exclusive business cooperation agreement. In the event of a breach by the consolidated VIE or any of its shareholders of contractual obligations under the exclusive business cooperation agreement, our WFOE, as pledgee, will have the right to request for enforcement of the pledge and dispose of the pledged equity interests in the consolidated VIE and will have priority in receiving the proceeds from such disposal. The shareholders of the consolidated VIE also covenant that, without the prior written consent of our WFOE, they will not transfer the pledged equity interests, create or allow any new pledge or any other encumbrance on the pledged equity interests. The equity interest pledge agreement has an initial term of 10 years, which can be extended for a further term same as the extended term of the exclusive business cooperation agreement, if applicable.

We have completed the registration of the equity interest pledge under the equity interest pledge agreement in relation to the consolidated VIE with the relevant office of the State Administration of Market Regulation in accordance with the PRC Civil Code.

Agreement that allows us to receive economic benefits from the consolidated VIE

Exclusive Business Cooperation Agreement. Pursuant to the exclusive business cooperation agreement, between our WFOE and the consolidated VIE, our WFOE has the exclusive right to provide the consolidated VIE with complete business support and technical and consulting services, including but not limited to technical services, staff training, network support, business consultations, intellectual property licenses, equipment or leasing, marketing consultancy, system integration, product research and development, and system maintenance. Without our WFOE's prior written consent, the consolidated VIE may not accept any consultations and/or services regarding the matters contemplated by this agreement provided by any third party during the term of the agreement. The consolidated VIE agrees to pay our WFOE service fees based on the workload and business value of services provided by our WFOE on a quarterly basis. Our WFOE has the exclusive ownership of all the intellectual property rights created as a result of the performance of the exclusive business cooperation agreement. To guarantee the consolidated VIE's performance of its obligations thereunder, the shareholders of the consolidated VIE have pledged all of their equity interests in the consolidated VIE to our WFOE pursuant to the equity interest pledge agreement. The exclusive business cooperation agreement has an initial term of 10 years and can be extended if confirmed in writing by our WFOE prior to the expiration. The extended term will be determined by our WFOE, and the consolidated VIE should accept such extended term unconditionally.

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

Exclusive Option Agreement. Pursuant to the exclusive option agreement, among our WFOE, the consolidated VIE and the shareholders of the consolidated VIE, each of the shareholders of the consolidated VIE has irrevocably granted our WFOE, or any person or persons designated by our WFOE, an exclusive option to purchase all or part of its equity interests in the consolidated VIE, and the consolidated VIE has agreed to such grant of options. Our WFOE may exercise such options at a price equal to the lowest price as permitted by applicable PRC laws, except that a valuation is mandatory under applicable PRC laws and regulations at the time of such option exercise. The consolidated VIE and the shareholders of the consolidated VIE covenant that, without Our WFOE's prior written consent, they will not, among other things, (i) supplement, change or amend the consolidated VIE's articles of association and bylaws, (ii) increase or decrease the consolidated VIE's registered capital or change its structure of registered capital, (iii) create any pledge or encumbrance on their equity interests in the consolidated VIE, other than those created under the equity interest pledge agreement, (iv) sell, transfer, mortgage, or dispose of their equity interests in and any assets of the consolidated VIE and any legal or beneficial interests in the business or revenue of the consolidated VIE, (v) enter into any material contracts by the consolidated VIE, except in the ordinary course of business, or (vi) merge or consolidate the consolidated VIE with any other entity. The exclusive option agreement has an initial term of 10 years, which could be extended at our WFOE's election.

Exclusive Assets Option Agreement. Pursuant to the exclusive assets option agreement, between our WFOE and the consolidated VIE, the consolidated VIE has irrevocably granted our WFOE, or any person or persons designated by our WFOE, an exclusive option to purchase all or part of the current and future intellectual properties and other assets owned by the consolidated VIE and its subsidiaries. Our WFOE may exercise such options at a price equal to the lowest price as permitted by applicable PRC laws at the time of transfer of assets. The consolidated VIE covenants that, without our WFOE's prior written consent, it will not, among other things, sell, transfer, mortgage, authorize others to use, or dispose of any assets owned by it and its subsidiaries. The exclusive assets option agreement has an initial term of 10 years, which could be extended at our WFOE's election.

In the opinion of Han Kun Law Offices, our PRC legal counsel, subject to the disclosure in this annual report:

- the ownership structures of the consolidated VIE in China and our WFOE do not and will not result in violation of applicable PRC laws and regulations currently in effect; and
- the contractual arrangements between our WFOE, the consolidated VIE and its shareholders governed by PRC law are valid and binding, and will not result in any violation of applicable PRC laws and regulations currently in effect.

However, our PRC legal counsel has also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. Accordingly, the PRC regulatory authorities may take a view that is contrary to the opinion of our PRC legal counsel. It is uncertain whether any new PRC laws or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide. If we or the consolidated VIE are found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure—If the PRC government deems that our contractual arrangements with the consolidated variable interest entity 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 in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations" and "Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—Failure to respond to changes in the regulatory environment in China could materially and adversely affect us."

D. Property, Plants and Equipment

Our principal executive offices are located in Shenzhen, China. Our offices are mainly located in China, as well as other countries. As of December 31, 2024, we leased and occupied our office space with an aggregate floor area of approximately 9,660 square meters.

Our factories and warehouses in China and other countries have an aggregate leased floor area of approximately 41,530 square meters as of December 31, 2024. We operate stores by ourselves in a number of cities in mainland China, with an aggregate leased floor area of approximately 831 square meters as of December 31, 2024. The lease terms for all of our leased properties as of December 31, 2024 range from one year to five years.

We lease our premises under 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.

We owned one land parcel in North Asia with a site area of approximately 324 square meters as of December 31, 2024 which which is primarily used as our office space.

Item 4.A. Unresolved Staff Comments

Not Applicable.

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 section entitled "Selected Consolidated Financial Data" and our consolidated financial statements and the related notes included elsewhere in this annual report. This discussion contains forward-looking statements that involve risks and uncertainties about the business and operations of us and the consolidated VIE. Our actual results and the timing of selected events may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those we describe under "Risk Factors" and elsewhere in this annual report. See special note on "Forward-Looking Information."

A. Operating Results

Key Factors Affecting Our Results of Operations

We set forth below the key factors that we believe to affect our results of operations.

Regulatory environment in China

Our results of operations are affected by the changes in existing laws, regulations and policies and the issuance of new laws, regulations, policies and standards in China applicable to us, our suppliers and manufacturers, and the distributors and retail outlets along the e-cigarettes value chain, such as the August 2018 Announcement, the October 2019 Announcement, the E-Cigarettes Administrative Measures, the National Standards, and the relevant implementing rules and guiding opinions. The E-Cigarettes Administrative Measures have imposed various licensing requirements for the key participants along the e-cigarettes value chain. The tobacco regulatory authority has established a national e-cigarette trade and management platform, which is the exclusive network for the sale of e-cigarette products in China. Further, the E-Cigarettes Administrative Measures apply the relevant tobacco advertising laws to e-cigarettes, prohibit the sale of flavored e-cigarettes other than tobacco flavored, and prohibit the sale of e-cigarettes near schools or via vending machines and the internet. Additionally, the E-cigarette Tax Announcement provides that (i) E-cigarette manufacturers and importers are subject to excise tax at the rate of 36% on the production or import of e-cigarettes, and (ii) E-cigarette distributors are subject to excise tax at the rate of 11% on the wholesale distribution of E-cigarettes. See “Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulations Related to Our Products” and “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Taxation” for more details.

Due to China’s more stringent regulation over the production, distribution and sale of e-vapor products, we have adjusted, and may further adjust the business operations of us and the consolidated VIE to fully comply with the evolving regulatory requirements in China. Such efforts to adjust or transform the business of us and the consolidated VIE have adversely affected, and may further materially and adversely affect the business, prospects, results of operations and financial performance of us and the consolidated VIE. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—Our business is subject to a large number of laws across many jurisdictions, many of which are evolving” for more details on our risks associated with the regulatory environment in China that may adversely affect our results of operations for more details.

International expansion

Our results of operations are affected by our ability to execute our international expansion, which primarily involves penetrating into new markets outside China. We plan to seek international expansion primarily by collaborating with established international partners, acquiring well-known brands, or setting up joint ventures in international markets. Our product distribution in such international markets is mainly realized through our own local channels, third-party distribution channels and distribution channels co-managed with third parties. We also rely on our offshore entity to sell our products to overseas markets. See “Item 4. Information on the Company—B. Business Overview.” Our international expansion involves certain risks. “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—We are subject to a variety of uncertainties, costs and risks during our international expansion.” In 2024, we made significant strides in our global expansion by entering three more markets located in Asia-Pacific, further solidifying our presence in key international markets.

Product distribution in China

Our sales of products in China have only been directed to the qualified distributors with wholesale license (namely provincial Tobacco Commercial Enterprises in China) via the National Transaction Platform in compliance with the E-Cigarettes Administrative Measures, the Administrative Rules on Transaction of E-cigarettes, and other applicable laws. The qualified distributors would supply our products to the qualified retailers with retail license via the National Transaction Platform, who then sell our products to users across China. See “Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulations Related to Our Products” for details of the regulatory requirements and “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—We have adapted our business, including distribution of products, to the new and currently effective regulatory framework applicable to China’s e-vapor industry and us, which have materially and adversely affected and may further materially and adversely affect our business, prospects, results of operations and financial performance” for risks associated therewith.

Product distribution in overseas markets

Our overseas sales are primarily conducted in partnership with local distributors and retailers. Typically, an overseas market operates either under an exclusive distributor arrangement or through multiple distributors. In certain markets, sub-distributors may also be engaged to enhance regional coverage. These collaborative arrangements enable us to effectively penetrate local retail channels, which are primarily classified into key accounts (e.g. convenience stores and supermarkets) and specialty vape stores.

Product offering

We derive most of our revenues from selling e-vapor products, and we believe the consistent provision of superior products is the key to our success.

In China market, we have rolled out series of rechargeable closed-system e-vapor products and a variety of cartridges, offering various alternatives for adult smokers since 2018. In response to the evolving regulatory requirements in 2022, we have adjusted our product design, specifications and other aspects of our products in accordance with the new and currently effective regulatory framework applicable to China's e-vapor industry and us. After such adjustment, all of our products sold, and the raw materials required for producing them, have satisfied the requirements of the National Standards and obtained the requisite product approvals. We also introduced our first compliant disposable product line since the implementation of national standards during 2024.

In international markets, our product portfolio management framework employs strategic market segmentation to align innovative solutions with evolving regulatory environments, cultivating sustainable growth through three core product categories: closed-system rechargeable products, open-system products, and disposable. This framework enables precision resource deployment against differentiated market needs.

Closed-system rechargeable products are engineered for sustained user engagement. It prioritizes lifecycle value and convenience through standardized interfaces and replenishment economics, delivering consistent value retention.

Open system products strategically calibrate modular innovation with compliance scalability, catering to market demands for customizable experiences.

Disposable products enable rapid regional footprint expansion via regional consumption analytics, optimizing portfolio agility in dynamic regulatory landscapes.

Our ability to continually provide our users with superior products is dependent on our technology and product development capabilities. We are committed to strengthening such capabilities by investing in the development of our know-how, expertise and talent pool.

Supply chain management

Our cost of revenue is mostly comprised of consignment manufacturing cost, material cost, depreciation of the machinery and equipment used on our production lines, rental and leasehold improvement. Our profitability is significantly dependent on our ability to control those costs as a percentage of our revenues, which in turn depends on our ability to effectively manage our supply chains and manufacturing process.

Operating efficiency

Our results of operations are further affected by our operating efficiency, as measured by our total operating expenses as a percentage of our revenues. Certain items of our operating expenses, including salaries and welfare benefits, are relatively fixed in nature. In addition, a few items of our operating expenses, including share-based compensation expenses, are relatively variable in nature.

Key Components of Results of Operations

Net revenues

For the years ended December 31, 2022, 2023 and 2024, we derived substantially all of our net revenues from sales of e-vapor products to offline distributors, who sell our e-vapor products to sub-distributors and retailers. Prior to and until September 30, 2022, we primarily sold our products to our partner distributors, who would then supply the products to retail outlets in authorized territories or channels in China. Since October 1, 2022 and currently, we sell our products to the qualified distributors in China with wholesale license (namely provincial Tobacco Commercial Enterprises in China) via the National Transaction Platform in compliance with the E-Cigarettes Administrative Measures, the Administrative Rules on Transaction of E-cigarettes, and other applicable laws. The qualified distributors would supply our products to the qualified retailers with retail license via the National Transaction Platform, who then sell our products to users across China. For international markets, we distribute our products to distributors and retailers. Typically, an overseas market operates either under an exclusive distributor arrangement or through multiple distributors. In certain markets, sub-distributors may also be engaged to enhance regional coverage. These collaborative arrangements enable us to effectively penetrate local retail channels, which are primarily classified into key accounts (e.g. convenience stores and supermarkets) and specialty vape stores.

We utilize our offline distribution and retail network as the main channel to access the massive population of global adult smokers. As a result, for the year ended December 31, 2024, we derived substantially all of our net revenues from sales of e-vapor products to offline distributors in both China and international markets, who subsequently supply these products to retailers. The following table sets forth a breakdown of our net revenues by amounts and percentages for the years presented:

	For the Year Ended December 31,						
	2022 (As adjusted) ⁽¹⁾		2023		2024		
	RMB	%	RMB	%	US\$	%	
	(in thousands, except for percentages)						
Net revenues:							
Sales to offline distributors	5,168,559	96.9	1,487,084	93.7	2,585,814	354,255	94.1
Others	164,220	3.1	99,313	6.3	162,762	22,298	5.9
Total	5,332,779	100.0	1,586,397	100.0	2,748,576	376,553	100.0

(1) The Company acquired various companies on December 13, 2023, which was accounted for as an under common control transaction in accordance with ASC 805-50. The Company retrospectively adjusted the comparative financial data in prior year.

Sales to offline distributors. We generated a substantial majority of our revenues from sales of our e-vapor products to offline distributors, who are then responsible for distribution to sub-distributors and retailers in authorized distribution areas. We recognize revenues from sales to offline distributors upon delivery of products to offline distributors' warehouses.

Cost of revenues

Our cost of revenue is primarily comprised of consignment manufacturing costs, material costs, inventory write-downs and depreciation of the machinery and equipment used on production lines, as well as related costs that are directly attributable to the production of products. Cost of products represents a substantial portion of our cost of revenues, accounting for 90.1% of our total cost of revenues for the year of 2024. We procure certain key raw materials and components and engage contract manufacturers to handle assembling, production and packaging. Cost of products includes the consignment manufacturing costs and procurement of materials, and is therefore variable in nature and closely tracks our shipment volume. We own certain key machinery and equipment used in the exclusive production plant, and the depreciation costs associated with these machinery and equipment are fixed in nature. In addition, we incur surcharges when we incur value-added tax and excise tax for the period, and such cost is, therefore, variable in nature.

Excise tax on products

The E-cigarette Tax Announcement, which came into effect on November 1, 2022, imposed excise tax on manufacturers of e-vapor products in China. We are subject to excise tax at the rate of 36% on the production of e-vapor products sold in China.

Gross margin

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

	For the Year Ended December 31,		
	2022 (As adjusted) ⁽¹⁾	2023	2024
	(RMB in thousands, except for percentages)		
Gross profit	2,305,130	387,714	726,517
Gross margin(%)	43.2	24.4	26.4

(1) The Company acquired various companies on December 13, 2023, which was accounted for as an under common control transaction in accordance with ASC 805-50. The Company retrospectively adjusted the comparative financial data in prior year.

Operating expenses

Our operating expenses consist of selling expenses, general and administrative expenses and research and development expenses. In 2024, we recorded share-based compensation expenses of RMB369.7 million (US\$50.6 million), consisting of (i) share-based compensation expenses of RMB32.6 million (US\$4.5 million) recognized in selling expenses, (ii) share-based compensation expenses of RMB348.6 million (US\$47.8 million) recognized in general and administrative expenses, and (iii) share-based compensation expenses of positive RMB11.5 million (US\$1.6 million) recognized in research and development expenses, as compared to the total share-based compensation expenses of RMB166.2 million in 2022 and RMB362.9 million in 2023. The fluctuations in share-based compensation expenses in 2024 were primarily due to the changes in the fair value of the share incentive awards that the company granted to its employees as affected by the fluctuations of the company's share price.

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

	For the Year Ended December 31,					
	2022 (As adjusted) ⁽¹⁾		2023		2024	
	RMB	%	RMB	%	RMB	US\$
	(in thousands, except for percentages)					
Operating expenses:						
Selling expenses	347,798	6.5	213,723	13.5	229,466	31,437
General and administrative expenses	576,811	10.8	498,015	31.4	515,887	70,676
Research and development expenses	317,110	6.0	172,686	10.9	88,309	12,098
Total	1,241,719	23.3	884,424	55.8	833,662	114,211

(1) The Company acquired various companies on December 13, 2023, which was accounted for as an under common control transaction in accordance with ASC 805-50. The Company retrospectively adjusted the comparative financial data in prior year.

Selling expenses. Our selling expenses primarily consist of salaries, welfare benefits, share-based compensation expenses, branding expenses, depreciation and amortization expenses and shipping expenses.

General and administrative expenses. Our general and administrative expenses primarily consist of share-based compensation expenses, salaries, welfare benefits, professional service fees and depreciation and amortization expenses.

Research and development expenses. Our research and development expenses primarily consist of salaries, welfare benefits, depreciation of equipment associated with research and development activities, share-based compensation expenses, software and technical service expenses, and consulting expenses.

Taxation

Cayman Islands

We are an exempted company incorporated in the Cayman Islands. According to Maples and Calder (Hong Kong) LLP, our Cayman Islands counsel, under the current laws of the Cayman Islands, we are not subject to tax on income or capital gain, and the Cayman Islands currently has no form of estate duty, inheritance tax or gift tax. 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 currently does not impose withholding tax on dividend payments.

Hong Kong

Our subsidiary in Hong Kong is subject to 16.5% Hong Kong profit tax for its taxable income earned. Additionally, payments of dividends by our subsidiary in Hong Kong to our company are not subject to any Hong Kong withholding tax.

South Korea

Our South Korean entities are subject to an enterprise income tax on their taxable income in South Korea with a progressive tax rate, which is 9% on the first KRW200 million, 19% for the taxable income over KRW200 million up to KRW20 billion, 21% for the taxable income over KRW20 billion up to KRW300 billion and 24% for the excess.

Our entities in South Korea are also subject to local income tax with progressive tax rates from 0.9% to 2.4% based on their taxable income.

The South Korean Enterprise Income Tax Law provides that a withholding tax rate of 20% is normally applicable to dividends paid to non-resident enterprise shareholders. A preferential withholding tax rate of 10% or 15% could be applicable for dividend paid to a Hong Kong resident company provided that certain conditions under the double tax treaty between Hong Kong and the Republic of Korea are met.

Besides, according to the South Korea's Tobacco Business Act and relevant regulations, tobacco related taxes and surcharges (such as Individual Consumption Tax, Tobacco Consumption Tax, Local Education Tax and National Health Surcharge) are imposed upon importation or manufacturing of the products containing nicotine from natural tobacco substance.

Indonesia

According to Indonesian tax laws and regulations, Indonesian entities are subject to an enterprise income tax at a rate of 22% on their taxable income, while certain entities are subject to a final enterprise income tax based on its gross revenue at the rate of 0.5%. In addition, for certain entities, there is a 2.5% provisional income tax imposed upon importation (Ortax) which could be taken as enterprise income tax credit of the entities.

Besides, there are specific tobacco related taxes such as Excise tax (Cukai), Local surcharge (SPPR), and Excise VAT (PPNHT) imposed upon importation or manufacturing of the tobacco products including E-cigarette products (e.g. Pods, Disposables, E-liquid)

Japan

According to Japanese tax laws and regulations, Japanese entities with share capital exceeding JPY 100 million are subject to an enterprise income tax at the rate of 23.2%. Japanese entities are also subject to local inhabitants tax which varies with the location and size of the company, and a local enterprise tax with a progressive standard rates up to 9.6%.

Malaysia

According to Malaysian tax laws and regulations, Malaysian entities are subject to an enterprise income tax at a rate of 24% on their taxable income, however for micro, small and medium-sized enterprise (MSMEs), the enterprise income tax rates applicable ranges from 15% to 24%.

Malaysia imposes an excise tax of 40 sen (0.4 MYR) per millilitre on electronic cigarettes (e-cigarettes) liquid or gel containing nicotine upon importation or manufacturing. Besides, a 10% excise tax is applicable on the device.

United Kingdom

According to tax laws and regulations of the United Kingdom, entities in the United Kingdom are subject to a main rate of enterprise income tax at 25% for their taxable income over GBP250,000, while a 19% rate applies to taxable income of GBP50,000 or less. For entities with augmented taxable income between GBP50,000 and GBP250,000, there is a sliding scale of tax rates applicable.

PRC

Generally, our PRC subsidiaries, VIE and VIE's subsidiaries are subject to an enterprise income tax on their taxable income in China at a statutory rate of 25%, with exceptions for certain preferential tax treatments. Under relevant PRC government policies, enterprises qualified as "high and new technology enterprise" are entitled to a preferential income tax rate of 15%. Shenzhen Wuxin is qualified as "high and new technology enterprise" in December 2020 and is entitled to enjoy a preferential income tax rate of 15% for the tax filing of fiscal years from 2020 to 2022. Such qualification has been renewed successfully in a timely manner and will remain valid until 2025. The enterprise income tax is calculated based on the entity's global income as determined under PRC tax laws and accounting standards.

According to the Circular on Improving the Policy on the Pre-tax Additional Deduction for Research and Development Expenses promulgated by the Ministry of Finance, the SAT and the Ministry of Science and Technology on November 2, 2015, which became effective on January 1, 2016, except for certain industries, such as tobacco manufacturing industry, the enterprises engaged in research and development activities are entitled to claim a tax deduction amounting to 50% of certain qualified research and development expenses when determining the taxable income for that year. This tax deduction was increased from 50% to 75%, effective from 2018 according to the Notice on Raising the Proportion of Weighted Pre-tax Deduction of Research and Development Expenses promulgated by the Ministry of Finance, the SAT and the Ministry of Science and Technology in September 2018, which was further extended to December 31, 2023 according to the Announcement on Extending the Implementation Period of Certain Preferential Tax Policies promulgated by the Ministry of Finance and the SAT and effective from March 15, 2021. This tax deduction was increased from 75% to 100% in certain qualified manufacture industry according to the Circular on Improving the Pre-tax Deduction of Enterprise Research and Development Expenses Policies, or the Circular 13, promulgated by the Ministry of Finance and the SAT on March 31, 2021, which became effective from January 1, 2021. This tax deduction was further increased to 100% from January 1, 2023 for all enterprises that can enjoy the pre-tax deduction policy according to the Circular on Improving the Pre-tax Deduction of Enterprise Research and Development Expenses Policies (2023 Version) promulgated by the Ministry of Finance and SAT on March 26, 2023, which became effective on January 1, 2023 and replacing the Circular 13. On November 27, 2020, the Ministry of Finance and the SAT promulgated the Circular on Matters Relating to the Pre-tax Deduction of Advertising Expenses and Business Promotion Expenses, which became effective on January 1, 2021. According to such circular, the advertising expenses and business promotion expenses incurred by tobacco enterprises are not allowed to be deducted for calculation of taxable income.

There remains significant uncertainty regarding the tax regime that will be applicable to us or the e-vapor industry. Pursuant to the E-cigarette Tax Announcement, which came into effect on November 1, 2022, (i) E-cigarette manufacturers and importers are subject to excise tax at the rate of 36% on the production or import of e-cigarettes, and (ii) E-cigarette distributors are subject to excise tax at the rate of 11% on the wholesale distribution of E-cigarettes. Meanwhile, under the regulatory framework applicable to the e-vapor industry, we may no longer be qualified as a "high and new technology enterprise" as an e-vapor brand in China. Furthermore, we may no longer be entitled to any tax subsidies granted by the local government.

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

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

Results of Operations

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

	For the Year Ended December 31,						
	2022 (As adjusted) ⁽³⁾		2023		2024		
	RMB	%	RMB	%	RMB	US\$	
	(in thousands, except for percentages)						
Net revenues	5,332,779	100.0	1,586,397	100.0	2,748,576	376,553	100.0
Cost of revenues	(2,974,981)	(55.8)	(856,329)	(54.0)	(1,718,006)	(235,366)	(62.5)
Excise tax on products	(52,668)	(1.0)	(342,354)	(21.6)	(304,053)	(41,655)	(11.1)
Gross profit	2,305,130	43.2	387,714	24.4	726,517	99,532	26.4
Operating expenses⁽¹⁾							
Selling expenses	(347,798)	(6.5)	(213,723)	(13.5)	(229,466)	(31,437)	(8.3)
General and administrative expenses	(576,811)	(10.8)	(498,015)	(31.4)	(515,887)	(70,676)	(18.8)
Research and development expenses	(317,110)	(6.0)	(172,686)	(10.9)	(88,309)	(12,098)	(3.2)
Total operating expenses	(1,241,719)	(23.3)	(884,424)	(55.8)	(833,662)	(114,211)	(30.3)
Income/(loss) from operations	1,063,411	19.9	(496,710)	(31.4)	(107,145)	(14,679)	(3.9)
Other income:							
Interest income, net	180,729	3.4	627,879	39.6	616,388	84,445	22.4
Investment income	136,531	2.6	245,700	15.5	49,636	6,800	1.8
Others, net	399,641	7.5	214,874	13.5	99,924	13,690	3.6
Income before income tax	1,780,312	33.4	591,743	37.2	658,803	90,256	23.9
Income tax expense	(371,580)	(7.0)	(50,755)	(3.2)	(94,459)	(12,941)	(3.4)
Net income	1,408,732	26.4	540,988	34.0	564,344	77,315	20.5
Unaudited Non-GAAP Financial Measure:							
Adjusted income/(loss) from operations⁽²⁾	1,229,572	23.1	(133,842)	(8.4)	262,510	35,963	9.6
Adjusted net income⁽²⁾	1,574,893	29.5	903,856	57.0	933,999	127,957	34.0

Notes:

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

	For the Year Ended December 31,					
	2022 (As adjusted) ⁽³⁾		2023		2024	
	RMB	%	RMB	%	RMB	US\$
	(in thousands, except for percentages)					
Share-based compensation expenses:						
Selling expenses	(6,993)	(0.1)	16,700	1.1	32,563	4,461
General and administrative expenses	162,229	3.0	334,344	21.1	348,629	47,762
Research and development expenses	10,925	0.2	11,824	0.7	(11,537)	(1,581)

(2) See “—Unaudited Non-GAAP Financial Measure.”

(3) The Company acquired various companies on December 13, 2023, which was accounted for as an under common control transaction in accordance with ASC 805-50. The Company retrospectively adjusted the comparative financial data in prior year.

Year ended December 31, 2024 compared to the year ended December 31, 2023

Net revenues

Our net revenues increased by 73.3% from RMB1,586.4 million for the year ended December 31, 2023 to RMB2,748.6 million (US\$376.6 million) for the year ended December 31, 2024. In particular, the net revenues from sales to offline distributors increased by 73.9% from RMB1,487.1 million for the year ended December 31, 2023 to RMB2,585.8 million (US\$354.3 million) for the year ended December 31, 2024. Our revenue increase was primarily due to increase of net revenues generated through our international expansion. Our international expansion was mainly driven by engaging with the optimal business partners, expanding our distribution network to more retailers, launching products with strong product-market-fit, and strategically entering new markets. Apart from distributing our products to third party distributors in international markets, we also distribute raw materials and finished goods to entities within Relx Inc.’s operations, which then distributes such products to other overseas distributors. Prior to and until September 30, 2022, we adopted the integrated offline distribution and “branded store plus” retail model. Since October 1, 2022 and currently, our offline distributors in China exclusively comprised qualified distributors with wholesale license (namely provincial Tobacco Commercial Enterprises in China). The qualified distributors would supply our products to the qualified retailers with retail license via the National Transaction Platform, who then sell our products to users across China.

Costs of revenues

Our cost of revenues increased from RMB856.3 million for the year ended December 31, 2023 to RMB1,718.0 million (US\$235.4 million) for the year ended December 31, 2024, primarily due to an increase in our cost of products from RMB778.5 million in 2023 to RMB1,548.5 million (US\$212.1 million) during the same period. Cost of products represents a majority of our cost of revenues, accounting for 90.9% and 90.1% of our total cost of revenue for the years ended December 31, 2023 and 2024, respectively. The increase in cost of products was primarily due to the increase in sales volume of our e-vapor products.

Excise tax on products

Our excise tax on products was RMB304.1 million (US\$41.7 million) for the year ended December 31, 2024, representing a decrease of 11.2% from RMB342.4 million for the year ended December 31, 2023, primarily due to the decrease of e-vapor products sold in China.

Gross profit and gross margin

As a result of the foregoing, our gross profit increased from RMB387.7 million for the year ended December 31, 2023 to RMB726.5 million (US\$99.5 million) for the year ended December 31, 2024. Our gross margin increased from 24.4% for the year ended December 31, 2023 to 26.4% for the year ended December 31, 2024, primarily due to a favorable change in the revenue mix and cost optimization initiatives. Our cost optimization initiatives, including changes in product design and better use of better-in-value components, have led to the overall improvements in gross margin. Gross margin for both China and international markets have improved year-over-year.

Operating expenses

Our total operating expenses were RMB833.7 million (US\$114.2 million) for the year ended December 31, 2024, representing a decrease of 5.7% from RMB884.4 million for the year ended December 31, 2023. The decrease in operating expenses was primarily due to the decrease in salaries and welfare benefits.

Selling expenses

Our selling expenses increased from RMB213.7 million for the year ended December 31, 2023 to RMB229.5 million (US\$31.4 million) for the year ended December 31, 2024. The increase was primarily driven by the increase in branding expenses and share-based compensation expenses, offset by a decrease in salaries and welfare expenses. The share-based compensation expenses attributable to selling expenses increased to RMB32.6 million (US\$4.5 million) for the year ended December 31, 2024, as compared to RMB16.7 million for the year ended December 31, 2023, which was primarily due to the changes in the fair value of the share incentive awards that we granted to our employees as affected by the fluctuations of our share price.

General and administrative expenses

Our general and administrative expenses increased from RMB498.0 million for the year ended December 31, 2023 to RMB515.9 million (US\$70.7 million) for the year ended December 31, 2024. The increase was primarily attributable to the increase in share-based compensation expenses and software and technical service expenses, slightly offset by a decrease in legal and consulting expenses as well as in depreciation and amortization expenses. The share-based compensation expenses attributable to general and administrative expenses increased to RMB348.6 million (US\$47.8 million) for the year ended December 31, 2024, as compared to RMB334.3 million for the year ended December 31, 2023, which was primarily due to the changes in the fair value of the share incentive awards that we granted to our employees as affected by the fluctuations of our share price.

Research and development expenses

Our research and development expenses decreased from RMB172.7 million for the year ended December 31, 2023 to RMB88.3 million (US\$12.1 million) for the year ended December 31, 2024. This decrease was primarily driven by the decrease in share-based compensation expenses and salaries and welfare benefits. The share-based compensation expenses attributable to research and development expenses decreased to positive RMB11.5 million (US\$1.6 million) for the year ended December 31, 2024, as compared to RMB11.8 million for the year ended December 31, 2023, primarily due to change in the number of research and development employees.

Interest income, net

Our interest income decreased from RMB627.9 million for the year ended December 31, 2023 to RMB616.4 million (US\$84.4 million) for the year ended December 31, 2024, primarily due to decrease of investment of excess cash into interest-bearing bank deposits.

Investment income

Our investment income decreased from RMB245.7 million for the year ended December 31, 2023 to RMB49.6 million (US\$6.8 million) for the year ended December 31, 2024, primarily due to one-off gain from disposal of certain equity investments in the year of 2023.

Others, net

We recorded others, net of RMB99.9 million (US\$13.7 million) for the year ended December 31, 2024, compared to RMB214.9 million for the year ended December 31, 2023. The decrease was primarily due to a decrease in subsidies received from PRC local governments for operating business in their jurisdictions.

Income tax expense

Our income tax expense increased from RMB50.8 million for the year ended December 31, 2023 to RMB94.5 million (US\$12.9 million) for the year ended December 31, 2024, primarily due to an increase in taxable income.

Net income

As a result of the foregoing, we recorded net income of RMB541.0 million and RMB564.3 million (US\$77.3 million) for the year ended December 31, 2023 and 2024, respectively.

Year ended December 31, 2023 compared to the year ended December 31, 2022

See “Item 5. Operating and Financial Review and Prospects—5.A. Operating Results—Results of Operations—Year ended December 31, 2023 compared to the year ended December 31, 2022” of our annual report on Form 20-F for the fiscal year ended December 31, 2023 filed with the SEC on April 19, 2024.

Non-GAAP Financial Measure

We use adjusted net income and adjusted income/(loss) from operations, non-GAAP financial measures, in evaluating our operating results and for financial and operational decision-making purposes. Adjusted net income represents net income excluding share-based compensation expenses, adjusted income/(loss) from operations represents income/(loss) from operations excluding share-based compensation expenses.

We present these non-GAAP financial measures because they are used by our management to evaluate our operating performance and formulate business plans. We believe that adjusted net income and adjusted income/(loss) from operations help identify underlying trends in the business of us and the consolidated VIE that could otherwise be distorted by the effect of certain expenses that are included in net income and income/(loss) from operations. We also believe that the use of the non-GAAP measures facilitates investors’ assessment of our operating performance. We believe that adjusted net income and adjusted income/(loss) from operations provides useful information about our operating results, enhances the overall understanding of our past performance and future prospects and allows for greater visibility with respect to key metrics used by our management in its financial and operational decision making.

Adjusted net income and adjusted income/(loss) from operations should not be considered in isolation or construed as an alternative to net income, income/(loss) from operations or any other measure of performance or as an indicator of our operating performance. Investors are encouraged to review our historical non-GAAP financial measures to the most directly comparable GAAP measures. Adjusted net income and adjusted income/(loss) from operations presented here may not be comparable to similarly titled measures presented by other companies. Other companies may calculate similarly titled measures differently, limiting their usefulness as comparative measures to our data. We encourage investors and others to review our financial information in its entirety and not to rely on a single financial measure.

The table below sets forth a reconciliation of our net income to adjusted net income, and a reconciliation of our income/(loss) from operations to adjusted income/(loss) from operations for the years presented:

	2022 (As adjusted) ⁽¹⁾ RMB	For the Year Ended December 31,		2024 US\$
		2023 RMB (in thousands)	RMB	
Net income	1,408,732	540,988	564,344	77,315
Add:				
Share-based compensation expenses	166,161	362,868	369,655	50,642
Adjusted net income	1,574,893	903,856	933,999	127,957

	For the Year Ended			
	December 31,			
	2022 (As adjusted) ⁽¹⁾	2023	2024	
RMB	RMB	RMB	US\$	
Income/(loss) from operations	1,063,411	(496,710)	(107,145)	(14,679)
Add:				
Share-based compensation expenses	166,161	362,868	369,655	50,642
Adjusted income/(loss) from operations	1,229,572	(133,842)	262,510	35,963

(1) The Company acquired various companies on December 13, 2023, which was accounted for as an under common control transaction in accordance with ASC 805-50. The Company retrospectively adjusted the comparative financial data in prior year.

Selected Balance Sheet Items

Accounts and notes receivable, net

As of December 31, 2022 and 2023, our accounts and notes receivable, net primarily consisted of receivables from distributors. As of December 31, 2022 and 2023, our accounts and notes receivable, net were RMB51.4 million and RMB60.5 million, respectively.

As of December 31, 2024, our accounts and notes receivable, net primarily consisted of receivables from distributors. As of December 31, 2024, our accounts and notes receivable, net was RMB78.5 million (US\$10.8 million). In 2024, we experienced an increase in our accounts and notes receivable due to the improvement in sales.

Inventories

Our inventories mainly include raw materials and finished goods. Inventories are stated at the lower of cost or net realizable value. Cost is determined using the weighted average method. As of December 31, 2022, 2023 and 2024, our inventories were RMB131.0 million, RMB144.9 million and RMB142.6 million (US\$19.5 million), respectively. Our inventory turnover days were 61.6 days and 115.5 days for the years ended December 31, 2022 and 2023 and 51.6 days for the year ended December 31, 2024. The change in inventory turnover days was primarily due to our business growth and our inventory management improvement. Our inventory turnover days for a given period is computed as: (i) the simple average of the balances of inventories at the beginning and the end of the period, divided by (ii) the cost of revenues during the period and then multiplied by (iii) the number of days during the period.

We recorded inventory write-downs of RMB179.7 million, RMB35.7 million and RMB24.3 million (US\$3.3 million) for the years ended December 31, 2022, 2023 and 2024, respectively. The decrease in inventory write-downs in 2024 was primarily due to the improvement in inventory management.

Accounts and notes payable

Our accounts payable primarily include accounts payable to our suppliers and manufacturers. Our notes payable mainly include short-term notes, typically with terms of 91 to 92 days which are provided to our suppliers and manufacturers. Our banks provide guarantee of these notes to the suppliers and manufacturers under their credit and require that we keep certain amount of cash at the bank (which we account for as restricted cash) until the notes are settled. Notes payable as of December 31, 2023 were secured by restricted cash of RMB26.4 million held in commercial banks. Notes payable as of December 31, 2024 were secured by restricted cash of RMB24.1 million (USD3.3 million) held in commercial banks.

As of December 31, 2022, 2023 and 2024, our accounts and notes payable were RMB269.3 million, RMB266.4 million and RMB458.5 million (US\$62.8 million), respectively. Our accounts and notes payable turnover days were 102.0 days and 119.1 days for the years ended December 31, 2022 and 2023 and 80.1 days for the year ended December 31, 2024. Accounts and notes payable turnover days for a given period is computed as (i) the simple average of accounts and notes payable at the beginning and the end of the period, divided by (ii) the cost of revenues during the period, and then multiplied by (iii) the number of days during the period.

B. Liquidity and Capital Resources

Cash Flows and Working Capital

We had net cash generated from operating activities of RMB854.3 million (US\$117.0 million) for the year ended December 31, 2024, and had cash, cash equivalents and restricted cash of RMB5,644.4 million (US\$773.3 million) as of December 31, 2024. Additionally, we had RMB2,179.9 million (US\$298.6 million) in short-term bank deposits, net, RMB719.8 million (US\$98.6 million) in short-term investments, net, RMB6,599.4 million (US\$904.1 million) in long-term investment securities, net and RMB727.4 million (US\$99.7 million) in long-term bank deposits, net, as of December 31, 2024. We believe that our current capital resources (comprised of cash, cash equivalents, restricted cash, short-term bank deposits, net, short-term investments, net, long-term investment securities, net and long-term bank deposits, net) and our expected cash provided by operating activities will be sufficient to meet our current and anticipated working capital requirements and capital expenditures for the next twelve months. We may, however, need additional cash resources in the future if we experience changes in business conditions or other developments. We may also need additional cash resources in the future if we identify and wish to pursue opportunities for investment, acquisition, capital expenditure or similar actions.

As of December 31, 2024, 79.0% of our cash, cash equivalents and restricted cash were held in Mainland China. As of December 31, 2024, 35.9% of cash, cash equivalents and restricted cash were held by the consolidated VIE and VIE's subsidiaries.

Although we consolidate the results of the consolidated variable interest entity and its subsidiaries, we only have access to the assets or earnings of the consolidated variable interest entity and its subsidiaries through our contractual arrangements with the consolidated variable interest entity and its shareholders. See "Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with the Consolidated Variable Interest Entity and its Shareholders" for more information. For restrictions and limitations on liquidity and capital resources as a result of our corporate structure, see "—Holding Company Structure."

Aside from the revenues derived from our international operation that are in the form of U.S. dollars or local currencies, revenues generated from China business have been, and we expect they are likely to continue to be, in the form of Renminbi. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior SAFE approval as long as certain routine procedural requirements are fulfilled. Therefore, our PRC subsidiaries are allowed to pay dividends in foreign currencies to us without prior SAFE approval by following certain routine procedural requirements. However, current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of its accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. Our PRC subsidiaries are required to set aside at least 10% of its after-tax profits after making up previous years' accumulated losses each year, if any, to fund certain reserve funds until the total amount set aside reaches 50% of its registered capital. These reserves are not distributable as cash dividends. Historically, our PRC subsidiaries have not paid dividends to us. Furthermore, capital account transactions, which include foreign direct investment and loans, must be approved by and/or registered with SAFE, its local branches and certain local banks.

As a Cayman Islands exempted company and offshore holding company, we are permitted under PRC laws and regulations to provide funding to our PRC subsidiaries only through loans or capital contributions, subject to the approval, filings or registration of government authorities and limits on the amount of capital contributions and loans. This may delay us from using the proceeds from our initial public offering to make loans or capital contributions to our PRC subsidiaries. We expect to invest a significant portion of the proceeds from our initial public offering in our PRC operations for general corporate purposes within the business scopes of the consolidated VIE and VIE's subsidiaries. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—PRC regulation of loans to and direct investment in PRC entities by offshore holding companies may delay us from using the proceeds from our securities offering to make loans or additional capital contributions to our PRC subsidiaries and to make loans to the consolidated VIE, which could materially and adversely affect our liquidity and our ability to fund and expand the business of us and the consolidated VIE."

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

	For the Year Ended December 31,			
	2022 (As adjusted) ⁽¹⁾	2023		2024
	RMB	RMB	RMB	US\$
		(in thousands)		
Net cash generated from operating activities	486,829	198,703	854,349	117,045
Net cash (used in)/generated from investing activities	(4,133,040)	2,091,145	3,018,001	413,464
Net cash used in financing activities	(477,270)	(1,193,216)	(678,031)	(92,890)
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	203,100	34,340	29,982	4,108
Net (decrease)/increase in cash and cash equivalents and restricted cash	(3,920,381)	1,130,972	3,224,301	441,727
Cash, cash equivalents and restricted cash at the beginning of the year	5,209,467	1,289,086	2,420,058	331,547
Cash, cash equivalents and restricted cash at the end of the year	1,289,086	2,420,058	5,644,359	773,274

(1) The Company acquired various companies on December 13, 2023, which was accounted for as an under common control transaction in accordance with ASC 805-50. The Company retrospectively adjusted the comparative financial data in prior year.

Operating activities

Net cash generated from operating activities in the year ended December 31, 2024 was RMB854.3 million (US\$117.0 million). The difference between net cash generated from operating activities and net income of RMB564.3 million (US\$77.3 million) in the same period was due to adjustments for non-cash items that primarily included unrealized investment income of RMB91.3 million (US\$12.5 million), share-based compensation expenses of RMB369.7 million (US\$50.6 million), and reduced cash released from working capital, which mainly resulted from an increase of RMB227.4 million (US\$31.2 million) in amount due from related parties, a decrease of RMB39.0 million (US\$5.3 million) in contract liabilities, partially offset by an increase of RMB192.1 million (US\$26.3 million) in accounts and notes payables.

Net cash generated from operating activities in the year ended December 31, 2023 was RMB198.7 million. The difference between net cash generated from operating activities and net income of RMB541.0 million in the same period was due to adjustments for non-cash items that primarily included unrealized investment income of RMB378.1 million, share-based compensation expenses of RMB362.9 million, and disposal gain of equity investment of RMB164.4 million, and reduced cash released from working capital, which mainly resulted from a decrease of RMB88.5 million in salary and welfare benefits payable and a decrease of RMB59.7 million in lease liabilities, partially offset by a decrease of RMB29.9 million in prepayments and other current assets.

Net cash generated from operating activities in the year ended December 31, 2022 was RMB486.8 million. The difference between net cash generated from operating activities and net income of RMB1,408.7 million in the same period was due to adjustments for non-cash items that primarily included share-based compensation expenses of RMB166.2 million and amortization of right-of-use assets and intangible assets of RMB88.4 million, and reduced cash released from working capital, which mainly resulted from a decrease of RMB1,019.5 million in accounts and notes payable, a decrease of RMB490.6 million in taxes payable, a decrease of RMB211.4 million in contract liabilities and a decrease of RMB173.3 million in accrued expenses and other current liabilities, partially offset by a decrease of RMB357.9 million in prepayments and other current assets.

Investing activities

Net cash generated from investing activities for the year ended December 31, 2024 was RMB3,018.0 million (US\$413.5 million), primarily due to RMB13,258.1 million (US\$1,816.3 million) received from maturities of short-term investments and RMB2,710.6 million (US\$371.3 million) received from maturities of short-term bank deposits, partially offset by RMB9,786.2 million (US\$1,340.7 million) used in purchase of short-term investments, RMB1,993.7 million (US\$273.1 million) used in purchase of long-term investment securities and RMB1,090.0 million (US\$149.3 million) used in purchase of short-term bank deposits.

Net cash generated from investing activities for the year ended December 31, 2023 was RMB2,091.1 million, primarily due to RMB9,717.5 million received from maturities of short-term bank deposits and RMB8,388.0 million received from maturities of short-term investments, partially offset by RMB8,749.7 million used in purchase of short-term investments and RMB4,843.2 million used in purchase of short-term bank deposits.

Net cash used in investing activities for the year ended December 31, 2022 was RMB4,133.0 million, primarily due to RMB14,946.9 million used in purchase of short-term investments and RMB18,525.8 million used in purchase of short-term bank deposits, partially offset by RMB16,012.2 million received from matured short-term bank deposits, RMB13,415.5 million received from matured short-term investments and RMB9,569.5 million received from matured long-term bank deposits.

Financing activities

Net cash used in financing activities for the year ended December 31, 2024 primarily consisted of RMB589.4 million (US\$80.7 million) in amounts due to cash payments for repurchase of shares.

Net cash used in financing activities for the year ended December 31, 2023 primarily consisted of RMB996.6 million in amounts due to cash payments for repurchase of shares.

Net cash used in financing activities for the year ended December 31, 2022 primarily consisted of RMB500.4 million in amounts due to cash payments for repurchase of shares.

Material Cash Requirements

Our material cash requirements as of December 31, 2024 primarily include our operating lease obligations and capital expenditures.

Our operating lease obligations consist of lease of offices under non-cancelable operating lease agreements, which expire at various dates through 1 month to 55 months. Payment due by December 31, 2024 for our operating lease obligations amounted to RMB18.5 million (US\$2.5 million).

Our capital expenditures are primarily related to purchases of machinery and equipment on production lines that we manage. Our capital expenditures were RMB44.6 million and RMB32.4 million for the years ended December 31, 2022 and 2023 and RMB12.3 million (US\$1.7 million) for the year ended December 31, 2024. We intend to fund our future capital expenditures with our existing cash balance and cash generated from operating activities. We will continue to incur capital expenditures to meet the needs of the business of us and the consolidated VIE.

The following table sets forth our contractual obligations as of December 31, 2024.

	Years ending December 31,			
	Total	2025	2026	2027 and thereafter
Operating lease commitments	3,704	3,704	—	—

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. In addition, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in product development services with us.

Other than as shown above, we did not have any significant capital and other commitments, long-term obligations or guarantees as of December 31, 2024.

Holding Company Structure

RLX Technology Inc. is a holding company with no material operations of its own. We conduct operations primarily through our PRC subsidiaries, the consolidated VIE and its subsidiaries in China. As a result, our ability to pay dividends depends upon dividends paid by our PRC subsidiaries. If our existing PRC subsidiaries or any newly formed ones incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our wholly foreign-owned subsidiaries in China are permitted to pay dividends to us only out of its retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of our subsidiaries and the consolidated VIE in China are required to set aside at least 10% of its after-tax profits each year, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of their registered capital. In addition, our wholly foreign-owned subsidiaries in China may allocate a portion of their after-tax profits based on PRC accounting standards to enterprise expansion funds and staff bonus and welfare funds at their discretion, and the consolidated VIE may allocate a portion of its after-tax profits based on PRC accounting standards to a surplus fund at their discretion. The statutory reserve funds and the discretionary funds are not distributable as cash dividends. Remittance of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by SAFE. Our PRC subsidiaries have not paid dividends and will not be able to pay dividends until they generate accumulated profits and meet the requirements for statutory reserve funds. RLX Technology Inc. also conducts business outside China through its subsidiaries.

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

See “Item 4. Information on the Company—B. Business Overview—Our Technology and Product Development and Scientific Research” and “Item 4. Information on the Company—B. Business Overview—Intellectual Property.”

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the year ended December 31, 2024 that are reasonably likely to have a material effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause 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 accordance with U.S. GAAP, which requires our management to make judgements, estimates and assumptions. We continually evaluate these judgments, estimates and assumptions based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and various assumptions that we believe to be reasonable, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application.

Our critical accounting estimates are described below. 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.

Inventory Write-downs

Inventories are stated at the lower of cost or net realizable value. Write-downs are made for excessive, slow moving, expired and obsolete inventories as well as for inventories with carrying values in excess of net realizable value. Certain factors could impact the realizable value of inventory, so we continually evaluate the recoverability based on assumptions about user demand and market conditions. The evaluation may take into consideration of historical usage, expiration date, expected demand, anticipated sales price, new product development schedules, product obsolescence, customer concentrations and other factors. Inventory write-downs of RMB179.7 million, RMB35.7 million and RMB24.3 million (US\$3.3 million) were recorded in the consolidated statements of comprehensive income for the year ended December 31, 2022, 2023 and 2024, respectively. As a measure of sensitivity, for every 1% of additional inventory write-downs as of December 31, 2024, we would have recorded an additional cost of sales of approximately RMB0.2 million.

Valuation and Recognition of Share-based Compensation

We use the fair value method of accounting for our share options and restricted share units (“RSUs”) granted to employees to measure the cost of employee services received in exchange for the share-based awards. The fair value of share options is estimated on the grant date using the binomial option pricing model. Determining the appropriate valuation model and estimating the fair values of share option grants requires the input of subjective assumptions, including risk-free interest rate, expected stock price volatility, dividend yields, expected term, and forfeiture rates. The expected volatility assumption is based on the annualized standard deviation of daily stock price return of comparable companies with a time horizon close to the expected term, which may or may not be a true indicator of future volatility. The assumptions used in calculating the fair values of share option grants represent management’s best estimates, but these estimates involve inherent uncertainties and the application of judgment. The fair value of RSUs is measured on the grant date based on the closing fair market value of our common stock.

As we accumulate additional employee share-based awards data over time and as we incorporate market data related to our common stock, we may calculate significantly different volatilities and expected lives, which could materially impact the valuation of our share-based awards and the share-based compensation expenses that we will recognize in future periods. Share-based compensation expenses are recorded in selling expenses, general and administrative expenses and research and development expenses in the consolidated statements of comprehensive income. Share-based compensation expenses of RMB166.2 million, RMB362.9 million and RMB369.7 million (US\$50.6 million) were recorded in the consolidated statements of comprehensive income for the year ended December 31, 2022, 2023 and 2024, respectively. As a measure of sensitivity, for every 1% additional share-based compensation as of December 31, 2024, we would have recorded approximately an additional selling expense, general and administrative expenses, and research and development expenses of RMB0.3 million, RMB3.5 million, and positive RMB0.1 million, respectively. See Note 20 to our consolidated financial statements for the year ended December 31, 2024 for more information on the valuation and recognition of share-based compensation.

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

The following table sets forth information regarding our directors and senior management as of the date of this annual report.

Directors and Senior Management	Age	Position/Title
Ying (Kate) Wang	43	Co-founder, Chairperson of the Board of Directors and Chief Executive Officer
Long (David) Jiang	47	Co-founder and Director
Yilong Wen	37	Co-founder and Director
Zhenjing Zhu	41	Independent Director
Youmin Xi	67	Independent Director
Chao Lu	40	Chief Financial Officer

Ms. Ying (Kate) Wang is our co-founder, and has served as the chairperson of our board of directors and chief executive officer since our inception. Ms. Wang has also served as the chairperson of Relx Inc.'s board of directors and its chief executive officer since its inception. Ms. Wang has over 14 years' experience in fast-moving consumer goods, technology and related industries. Prior to co-founding Relx Inc., Ms. Wang served several leadership roles, including the head of Didi Youxiang and head of Uber China at Didi Chuxing, and as a regional general manager at Uber China, from December 2014 to April 2018. Prior to joining Uber China, Ms. Wang worked as a consultant at Bain & Company from October 2013 to December 2014. Ms. Wang received a bachelor's degree in finance and law from Xi'an Jiaotong University, a master's degree in management from Xi'an Jiaotong University and an MBA from Columbia Business School.

Mr. Long (David) Jiang is our co-founder, and has served as our director since October 2020. Mr. Jiang is responsible for our business operations in Asia Pacific. Mr. Jiang has 21 years' extensive experience in fast-moving consumer goods and technology industries. Prior to co-founding Relx Inc., Mr. Jiang worked as a regional general manager at Didi Chuxing and worked at various positions at Uber China from August 2015 to January 2018. Prior to joining Uber China, Mr. Jiang worked at Bacardi from June 2010 to October 2014 and held several leadership roles, including national head of customer marketing and channel in China, such as enterprise customers and individual consumers, off-trade, e-commerce and marketing. Prior to that, Mr. Jiang worked as a senior group key accounts manager at L'Oréal from 2008 to 2010, and worked at Procter & Gamble from 2003 to 2008 where his last held position was senior key account manager. Mr. Jiang received a bachelor's degree in mechanical engineering from Tsinghua University and a master's degree in scientific policy strategy and management from the Chinese Academy of Sciences.

Mr. Yilong Wen is our co-founder, and has served as our director since October 2020. Mr. Wen is responsible for our supply chain, product development, research and development, and scientific research. Mr. Wen has 13 years' experience in fast-moving consumer goods, technology and automobile industries. Prior to co-founding Relx Inc., Mr. Wen worked as a regional general manager at Didi Chuxing and worked at various positions at Uber China from August 2014 to February 2018. Prior to joining Uber China, Mr. Wen worked as a vehicle simulation engineer at Mercedes-Benz from December 2012 to July 2014. Mr. Wen received a bachelor's degree in mechanical engineering from Shanghai Jiao Tong University, a bachelor's degree in mechanical engineering from the University of Michigan, and double master's degrees in mechanical engineering, design and manufacturing from the University of Michigan.

Ms. Zhenjing Zhu has served as our independent director since January 2021. Ms. Zhu has over 17 years' experience in private equity and venture capital investment and has extensive expertise in healthcare industry. Ms. Zhu currently serves as the secretary at Asia Medical Group. Prior to joining Asia Medical Group in March 2021, Ms. Zhu worked at CBC Capital, Cathay Capital, CITIC Private Equity Funds, and Carlyle Asia Buyout funds specialized in merger and acquisition from 2008 to 2021. Ms. Zhu received an MBA from Columbia Business School.

Mr. Youmin Xi has served as our independent director since March 2021. Mr. Xi is executive president and board member of Xi'an Jiaotong-Liverpool University, pro-vice-chancellor of University of Liverpool and a professor at the School of Management of Xi'an Jiaotong University. Mr. Xi is also a vice dean of Shanxi MBA College, an independent director of the board of ecMAX Brandtech. (Suzhou) Co., Ltd., an independent director of the board of Shanghai Qiyuan Technology Co., Ltd., an independent director of the board of Shanghai Youole Networks Co., Ltd. In 1987, Mr. Xi established HeXie theory and later extended it with his research team into the HeXie (Harmony) Management Theory, one widely recognized in academic circles in China. Mr. Xi gained his undergraduate degree in physics from Xi'an Science and Technology University and his masters in system engineering from Xi'an Jiaotong University.

Mr. Chao Lu has served as our chief financial officer since March 2021. Mr. Lu has over 17 years' experience in finance, capital markets, and investments. Prior to joining us, Mr. Lu served as managing director and head of Asia healthcare investment banking at Citigroup from December 2013 to March 2021. During his tenure at Citigroup, Mr. Lu was responsible for healthcare client coverage across the Asia Pacific region and led many landmark healthcare and biopharma transactions. In addition, he was also responsible for education and other selective consumer client coverage. Prior to joining Citigroup, Mr. Lu worked at CICC, Morgan Stanley and the private equity investment industry. Mr. Lu received a bachelor's degree in operations research and financial engineering from Princeton University.

B. Compensation

For the year ended December 31, 2024, we incurred an aggregate of RMB38.6 million (US\$5.3 million) in cash compensation to our senior management. Other than insurance for medical care, we have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our directors and senior management. Our PRC subsidiaries and the consolidated VIE are required by law to make contributions equal to certain percentages of each employee's salary for her or his pension insurance, medical insurance, unemployment insurance and other statutory benefits and a housing provident fund.

Share Incentive Plans

2021 Share Incentive Plan

We have adopted the 2021 Plan that became effective our initial public offering in January 2021, to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of the business of us and the consolidated VIE. Simultaneously with the Share Distribution effected on April 16, 2021, the 2021 Plan assumed all outstanding share incentive awards issued under the 2018 Equity Incentive Plan and 2019 Equity Incentive Plan of Relx Inc (the "Relx Plans").

The maximum aggregate number of ordinary shares that may be issued pursuant to all awards under the 2021 Plan consists of (i) 224,935,770 Class A ordinary shares assumed from the Relx Plans, and (ii) 57,472,620 Class A ordinary shares initially, plus an annual increase to this second tranche of the award pool on the last day of each fiscal year during the term of the 2021 Plan commencing from the fiscal year ended December 31, 2021, by an amount determined by our board of directors, provided that (a) the increase to the second tranche of the award pool in any fiscal year should not exceed 2% of the total number of our issued and outstanding shares on the last day of the such fiscal year, and (b) the aggregate size of the second tranche of the award pool should not exceed 4% of the total number of our issued and outstanding shares on the last day of such fiscal year without giving effect to the annual increase for such fiscal year.

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

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

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Plan Administration. Our board of directors or a committee of one or more members of the board of directors will administer the 2021 Plan. The committee or the full board of directors, 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 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 our employees, directors and consultants of our company. However, we may grant options that are intended to qualify as incentive share options only to our employees and employees of Relx Inc. and its subsidiaries.

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 participants other than in accordance with the exceptions provided in the 2021 Plan, such as transfers by will or the laws of descent and distribution.

Termination and Amendment of the 2021 Plan. Unless terminated earlier, the 2021 Plan has a term of ten years. Our board of directors has the authority to amend or terminate the plan. However, no such action may adversely affect in any material way any awards previously granted unless agreed by the participants.

As of March 31, 2025, our directors and senior management held outstanding options and restricted share units (RSUs) that were granted between September 30, 2020 and July 31, 2022 and which will expire between September 30, 2030 and July 31, 2032, with option exercise prices ranging from US\$0 per share to US\$0.15 per share. The following table summarizes, as of March 31, 2025, the number of our ordinary shares underlying outstanding options and restricted share units that were granted to our directors and senior management.

<u>Name</u>	<u>Ordinary Shares Underlying Options and RSUs</u>
Ying (Kate) Wang	23,946,920
Long (David) Jiang	23,946,930
Yilong Wen	23,946,930
Zhenjing Zhu	*
Youmin Xi	*
Chao Lu	*

Note:

* Less than 1% of our total ordinary shares outstanding as of March 31, 2025.

Employment Agreements and Indemnification Agreements

We have entered into employment agreements with each of our executive officers. Under these agreements, each of our executive officers is employed for a specified time period. We may terminate employment for cause, at any time, for certain acts of the executive officer, such as continued failure to satisfactorily perform, willful misconduct or gross negligence in the performance of agreed duties, conviction or entry of a guilty or nolo contendere plea of any felony or any misdemeanor involving moral turpitude, or dishonest act that results in material to our detriment or material of the employment agreement. We may also terminate an executive officer's employment without cause upon 60-day advance written notice. In such case of termination by us, we will provide severance payments to the executive officer as may be agreed between the executive officer and us. 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 her or his employment agreement, in strict confidence and not to use, except as required in the performance of her or his 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 her or his employment and typically for one year following the last date of employment. Specifically, each executive officer has agreed not to (i) solicit from any customer doing business with us during the effective term of the employment agreement business of the same or of a similar nature to the business of us and the consolidated VIE; (ii) solicit from any of our known potential customer business of the same or of a similar nature to that which has been the subject of our known written or oral bid, offer or proposal, or of substantial preparation with a view to making such a bid, proposal or offer; (iii) solicit the employment or services of, or hire or engage, any person who is known to be employed or engaged by us; or (iv) otherwise interfere with the business of us and the consolidated VIE or our accounts, including but not limited to, with respect to any relationship or agreement between any vendor or supplier and us.

We have also entered into indemnification agreements with each of our directors and executive officers. Under these agreements, we agree to indemnify our directors and executive officers against certain liabilities and expenses incurred by such persons in connection with claims made by reason of their being a director or officer of our company.

C. Board Practices

Board of Directors

Our board of directors consists of five directors. A director is not required to hold any shares in our company by way of qualification. A director who is in any way, whether directly or indirectly, interested in a contract or transaction or proposed contract or transaction with our company is required to declare the nature of her or his interest at a meeting of our directors. A director may vote in respect of any contract or transaction or proposed contract or transaction notwithstanding that she or he may be interested therein, and if she or he does so such director's vote should be counted and she or he should 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 raise or borrow money, and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof, and to issue debentures, debenture stock, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of our company or of any third party.

Committees of the Board of Directors

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

Audit Committee. Our audit committee consists of Zhenjing Zhu and Youmin Xi. Zhenjing Zhu is the chairperson of our audit committee. We have determined that each of Zhenjing Zhu and Youmin Xi satisfies the “independence” requirements of Section 303A of the Corporate Governance Rules of the New York Stock Exchange and Rule 10A-3 under the Exchange Act. We have determined that Zhenjing Zhu 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 currently consists of Zhenjing Zhu and Youmin Xi. Youmin Xi is the chairperson of our compensation committee. We have determined that each of Zhenjing Zhu and Youmin Xi satisfies the “independence” requirements of Section 303A of the Corporate Governance Rules of the New York Stock Exchange. The compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- reviewing and approving, or recommending to the board for its approval, the compensation for our chief executive officer and other executive officers;
- reviewing and recommending to the board for determination with respect to the compensation of our non-employee directors;
- reviewing periodically and approving any incentive compensation or equity plans, programs or similar arrangements; and
- selecting compensation consultant, legal counsel or other advisor 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 currently consists of Zhenjing Zhu and Youmin Xi. Youmin Xi is the chairperson of our nominating and corporate governance committee. We have determined that each of Zhenjing Zhu and Youmin Xi satisfies the “independence” requirements of Section 303A of the Corporate Governance Rules of the New York Stock Exchange. The nominating and corporate governance committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee is responsible for, among other things:

- selecting and recommending to the board nominees for election by the shareholders or appointment by the board;
- reviewing annually with the board the current composition of the board with regard 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 regard to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any remedial action to be taken.

Duties of Directors

Under Cayman Islands law, our directors owe fiduciary duties to our company, including a duty of loyalty, a duty to act honestly, and a duty to act in what they consider in good faith to be in our best interests. Our directors must also exercise their powers only for a proper purpose. Our directors also owe to our company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of her or his duties a greater degree of skill than may reasonably be expected from a person of his 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 our company, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time. We have the right to seek damages if a duty owed by our directors is breached. 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 register of members.

Terms of Directors and Officers

Our directors may be appointed by an ordinary resolution of our shareholders. Alternatively, our board of directors may, by the affirmative vote of a simple majority of the directors present and voting at a board meeting appoint any person as a director to fill a casual vacancy on our board or as an addition to the existing board. Unless otherwise approved by our board of directors, our directors are not automatically subject to a term of office and hold office until such time as they are removed from office by an ordinary resolution of our shareholders. As approved by our board of directors and nominating and corporate governance committee, our directors have an initial term of one year, each commencing from February 1, 2022, subject to renewal or re-appointment by our board of directors for another one-year term upon the expiration of the preceding term. In addition, a director will cease to be a director if, among other things, the director (i) becomes bankrupt or makes any arrangement or composition with her or his creditors; (ii) dies or is found to be or becomes of unsound mind; (iii) resigns her or his office by notice in writing; (iv) without special leave of absence from our board, is absent from three consecutive board meetings and our directors resolve that her or his office be vacated; or (v) is removed from office pursuant to any other provision of our articles of association.

Our officers are appointed by and serve at the discretion of the board of directors, and may be removed by our board of directors.

D. Employees

We had a total of 707, 397 and 381 full-time employees as of December 31, 2022, 2023 and 2024, respectively. We had employees based both in China and other countries as of December 31, 2024. The following table sets forth the numbers of our full-time employees categorized by function as of December 31, 2024.

Function	Number of Employees in China	Number of Employees outside China
Technology, product development and scientific research	57	—
Supply chain management and quality assurance and control	30	7
Distribution and customer service	125	41
General and administrative	111	10
Total	323	58

Under the applicable regulations in China, we are required to participate in various government-sponsored employee benefit plans, including certain social insurance, housing funds and other welfare-oriented payment obligations, and contribute to the plans in amounts equal to certain percentages of salaries, including bonuses and allowances, of employees up to a maximum amount specified by the local government from time to time at locations where our employees are based. We believe that we maintain a good working relationship with our employees, and we have not experienced any major labor disputes.

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 March 31, 2025:

- each of our directors and executive officers; and
- each person known to us to beneficially own 5% or more of our total issued and outstanding shares.

The calculations in the table below are based on 1,570,790,570 ordinary shares issued and outstanding as of March 31, 2025, including 1,262,075,580 Class A ordinary shares and 308,714,990 Class B ordinary shares.

As of March 31, 2025, Ying (Kate) Wang beneficially owned 814,907,560 ordinary shares, consisting of (i) 71,840,780 Class A ordinary shares held by BJ BJ Limited, (ii) 308,714,990 Class B ordinary shares by Leo Valley Holding Limited, and (iii) 434,351,790 Class A ordinary shares in which she is entitled to the voting rights pursuant to the Acting-In-Concert Undertakings, including (a) under the Founders' Acting-In-Concert Undertakings, 142,797,680 Class A ordinary shares held by Longtian Holding Limited, 93,343,940 Class A ordinary shares held by StarryInv Holding Limited, and 73,315,180 Class A ordinary shares held by certain minority shareholders of our company, respectively, and (b) under the Minority Shareholders' Acting-In-Concert Undertakings, 124,894,990 Class A ordinary shares held by certain minority shareholders of our company. As of March 31, 2025, Ying (Kate) Wang, through BJ BJ Limited, beneficially owned 71,840,780 Class A ordinary shares, which were held for the purpose of administering share incentive awards under our 2021 Plan, to the plan participants. See footnotes (1)-(7) to the table below for more detailed information.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

	Ordinary Shares Beneficially Owned				
	Class A ordinary shares	Class B ordinary shares	Total ordinary shares	% of beneficial ownership	% of aggregate voting power**
Directors and Senior Management†:					
Ying (Kate) Wang ⁽¹⁾				51.9 (19.7% economic interest)	82.6
Long (David) Jiang ⁽²⁾	506,192,570	308,714,990	814,907,560	10.6	3.3
Yilong Wen ⁽³⁾	117,290,870	—	117,290,870	7.5	2.1
Zhenjing Zhu	*	—	*	*	*
Youmin Xi	*	—	*	*	*
Chao Lu	*	—	*	*	*
All Directors and Senior Management as a Group	512,252,570	308,714,990	820,967,560	52.3	82.8
Principal Shareholders:					
Leo Valley Holding Limited ⁽⁴⁾	—	308,714,990	308,714,990	19.7	71.0
Longtian Holding Limited ⁽⁵⁾	142,797,680	—	142,797,680	9.1	3.3
StarryInv Holding Limited ⁽⁶⁾	93,343,940	—	93,343,940	5.9	2.1
Deep Technology Linkage Fund L.P. ⁽⁷⁾	89,817,023	—	89,817,023	5.7	2.1

Notes:

† Except as indicated otherwise, the business address of our directors and senior management is 35/F, Pearl International Financial Center, No. 9 Jian'an First Road, Financial Street, Third District, Bao'an District, Shenzhen, Guangdong Province 518101, People's Republic of China. The business address of Ms. Zhenjing Zhu is Unit 2201, Floor 22, China Shipbuilding Tower, 650 Cheung Sha Wan Road, Kowloon, Hong Kong, People's Republic of China. The business address of Mr. Youmin Xi is No.111 Ren'ai Road, Suzhou Dushu Lake Higher Education Town, Suzhou, Jiangsu, People's Republic of China.

* Less than 1% of our total outstanding shares.

** 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 ten 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. For each person and group included, the percentage of economic interest is calculated by the economic interest owned by such person or group by the economic interest of all of our issued and outstanding ordinary shares.

- (1) Represents (i) 71,840,780 Class A ordinary shares held by BJ BJ Limited for the purpose of administering share incentive awards under the 2021 Plan (among the foregoing shares held by BJ BJ Limited as of March 31, 2025, there were 23,946,920 Class A ordinary shares underlying share awards held by Ms. Ying (Kate) Wang that are exercisable within 60 days after March 31, 2025), and (ii) 308,714,990 Class B ordinary shares held by Leo Valley Holding Limited, and (iii) 434,351,790 Class A ordinary shares in which Ms. Ying (Kate) Wang is entitled to the voting power pursuant to the Founders' Acting-In-Concert Undertakings and the Minority Shareholders' Acting-In-Concert Undertakings, respectively.
 - (a) On October 19, 2022, the Founders' Acting-In-Concert Undertakings were entered into among RLX Technology Inc., Leo Valley Holding Limited, Ms. Ying (Kate) Wang, on the one hand, and each of Mr. Long (David) Jiang and Longtian Holding Limited, Mr. Yilong Wen and StarryInv Holding Limited, and certain minority shareholders of RLX Technology Inc., on the other hand. Pursuant to the Founders' Acting-In-Concert Undertakings, each of (i) Mr. Long (David) Jiang and Longtian Holding Limited, (ii) Mr. Yilong Wen and StarryInv Holding Limited, and (iii) certain minority shareholders of RLX Technology Inc. agrees to act in concert with, and takes the same action as, Leo Valley Holding Limited in relation to all matters that require the decisions of the shareholders of RLX Technology Inc.
 - (b) On December 21, 2023, the Minority Shareholders' Acting-In-Concert Undertakings were entered into among RLX Technology Inc., Leo Valley Holding Limited, Ms. Ying (Kate) Wang, on the one hand, and certain minority shareholders of RLX Technology Inc., on the other hand. Pursuant to the Minority Shareholders' Acting-In-Concert Undertakings, each of the undersigned minority shareholders of the Minority Shareholders' Acting-In-Concert Undertakings agrees to act in concert with, and takes the same action as, Leo Valley Holding Limited in relation to all matters that require the decisions of the shareholders of RLX Technology Inc.

Ms. Ying (Kate) Wang is the sole director of BJ BJ Limited and Leo Valley Holding Limited. Except for the 23,946,920 Class A ordinary shares mentioned in footnote (1) above, the percentage of economic interest of Ms. Ying (Kate) Wang excludes the economic interest represented by Class A ordinary shares held by BJ BJ Limited for the purpose of administering share incentive awards under the 2021 Plan. See footnote (5) below for more details.
 - (2) Represents (i) 142,797,680 Class A ordinary shares held by Longtian Holding Limited, a British Virgin Islands company, and (ii) 23,946,930 Class A ordinary shares underlying share awards held by Mr. Long (David) Jiang that are exercisable within 60 days after March 31, 2025, which ordinary shares were held by BJ BJ Limited as of March 31, 2024 for the purpose of administering share incentive awards under the 2021 Plan. Mr. Long (David) Jiang is the sole director of Longtian Holding Limited. Longtian Holding Limited is owned by Cititrust Private (Cayman) Limited as the trustee of The HuaDi Family Trust. Under the terms of The HuaDi Family Trust, Mr. Long (David) Jiang is the settlor of The HuaDi Family Trust. Mr. Long (David) Jiang and his family members are the trust's beneficiaries.
 - (3) Represents (i) 93,343,940 Class A ordinary shares held by StarryInv Holding Limited, a British Virgin Islands company, and (ii) 23,946,930 Class A ordinary shares underlying share awards held by Mr. Yilong Wen that are exercisable within 60 days after March 31, 2025, which ordinary shares were held by BJ BJ Limited as of March 31, 2025 for the purpose of administering share incentive awards under the 2021 Plan. Mr. Yilong Wen is the sole director of StarryInv Holding Limited. StarryInv Holding Limited is owned by Cititrust Private (Cayman) Limited as the trustee of The UBGDX Family Trust. Under the terms of The UBGDX Family Trust, Mr. Yilong Wen is the settlor of The UBGDX Family Trust. Mr. Yilong Wen and his family members are the trust's beneficiaries.
 - (4) Represents 308,714,990 Class B ordinary shares held by Leo Valley Holding Limited, a British Virgin Islands company. Ms. Ying (Kate) Wang is the sole director of Leo Valley Holding Limited. Leo Valley Holding Limited is beneficially owned and controlled by Lion Valley Limited, a British Virgin Islands company. Lion Valley Limited is wholly owned by Zedra Trust Company (Cayman) Limited, on behalf of and for the benefit of The Alpha Trust as the trustee. Ms. Ying (Kate) Wang is the settlor and enforcer of The Alpha Trust, and Ms. Wang and her family members are the trust's beneficiaries.
 - (5) Represents 142,797,680 Class A ordinary shares held by Longtian Holding Limited, a British Virgin Islands company. Mr. Long (David) Jiang is the sole director of Longtian Holding Limited. Longtian Holding Limited is owned by Cititrust Private (Cayman) Limited as the trustee of The HuaDi Family Trust. Under the terms of The HuaDi Family Trust, Mr. Long (David) Jiang is the settlor of The HuaDi Family Trust. Mr. Long (David) Jiang and his family members are the trust's beneficiaries.
 - (6) Represents 93,343,940 Class A ordinary shares held by StarryInv Holding Limited, a British Virgin Islands company. Mr. Yilong Wen is the sole director of StarryInv Holding Limited. StarryInv Holding Limited is owned by Cititrust Private (Cayman) Limited as the trustee of The UBGDX Family Trust. Under the terms of The UBGDX Family Trust, Mr. Yilong Wen is the settlor of The UBGDX Family Trust. Mr. Yilong Wen and his family members are the trust's beneficiaries.
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(7) Represents 89,817,023 Class A ordinary shares held by Deep Technology Linkage Fund L.P., a Cayman Islands limited partnership. Information regarding beneficial ownership is reported as of December 31, 2023, based on the information contained in the Schedule 13G/A filed by Deep Technology Linkage Fund L.P. with the SEC on February 6, 2024. The general partner of Deep Technology Linkage Fund L.P. is Llex Holdings Limited, a Cayman Islands exempted company, whose sole shareholder is Source Code Super Holdings Co., a Cayman Islands exempted company. Source Code Super Holdings Co. is beneficially owned by Wheath Holdings Limited, a British Virgin Islands company, which is wholly owned by Enlightenment Trust. Enlightenment Trust is a trust established under the laws of the Island of Jersey, of which Mr. Charlie Cao and his family members are the beneficiaries. The address of Deep Technology Linkage Fund L.P. is Harneys Fiduciary (Cayman) Limited, 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands.

As of March 31, 2025, there were none record holders in the United States who held our Class A ordinary shares. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

F. Disclosure of a registrant's action to recover erroneously awarded compensation

None.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

See "Item 6. Directors, Senior Management and Employees—E. Share Ownership."

B. Related Party Transactions

Contractual Arrangements with the Consolidated VIE

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

Employment Agreements and Indemnification Agreements

See "Item 6. Directors, Senior Management and Employees—B. Compensation—Employment Agreements and Indemnification Agreements."

Share Incentive Plans

See "Item 6. Directors, Senior Management and Employees—B. Compensation—Share Incentive Plans."

Agreements with Relx Inc.

Non-competition agreement

Historically, we entered into a non-competition agreement with Relx Inc. to set forth the business scope of us and Relx Inc. and the non-compete obligations between these two companies. Under the non-competition agreement, Relx Inc. and we have each agreed to be subject to certain non-compete restrictions during a "non-competition period," which have started from the completion of our initial public offering and end on the earliest of (i) five years after the first date upon which Relx Inc. no longer controls us or ceases to be under common control with us; (ii) the date on which the ADSs cease to be listed on the New York Stock Exchange; and (iii) ten years after the completion of our initial public offering. Specifically, Relx Inc. has agreed not to conduct tobacco harm reduction (THR) product business in China, and we have agreed not to conduct THR product business outside China.

The non-competition agreement with Relx Inc. was terminated in November 2023 following our arm's length negotiations with Relx Inc. as we started our international operations.

Intellectual property license agreement

All intellectual properties of Relx Inc., including trademarks and patents, were applied and registered by our subsidiaries or the consolidated VIE before the Restructuring. Therefore, we entered into an intellectual property license agreement with Relx Inc. to license these intellectual properties to Relx Inc. Under the intellectual property license agreement, we grant to Relx Inc. a license of all trademarks applied or registered outside China and all patents related to our e-vapor products.

This agreement became effective upon the completion of our initial public offering and expire on the earlier of (i) ten years after the effective date of such agreement, and (ii) five years after the first date upon which Relx Inc. no longer controls us or ceases to be under common control with us.

Related Party Transactions

In 2022, 2023 and 2024, our consolidated financial statements included certain expenses allocated from or allocated to Relx Inc. and Relx Inc.'s operations.

In 2022, 2023 and 2024, we sold certain raw materials and finished goods to entities within Relx Inc.'s operations. The transaction was conducted in the ordinary course of our operating activities, with a total transaction amount of RMB66.8 million, RMB293.5 million and RMB1,038.2 million (US\$142.2 million) for the year ended December 31, 2022, 2023 and 2024, respectively.

For the year ended December 31, 2022, 2023 and 2024, certain employees concurrently worked for Relx Inc.'s operations and the Group. A portion of these staff costs and related expense was allocated to Relx Inc.'s operations amounted to RMB4.9 million, RMB13.4 million and RMB41.8 million (US\$5.7 million), respectively, and we recorded staff costs expenses allocated from Relx Inc.'s operations of RMB0.4 million, RMB2.7 million and RMB23.0 million (US\$3.1 million), respectively.

In 2023 and 2024, we purchased certain finished goods from entities within Relx Inc.'s operations and others amounted to RMB72.4 million and RMB13.4 million (US\$1.8 million), respectively, in the ordinary course of our operating activities.

In 2023, we purchased certain share investments from third-party sellers and such shares were purchased with a total amount of RMB588.9 million by our affiliates, along with updates in our international expansion plan. The difference between consideration received and the carrying amount of equity investments disposed was recognized as investment income in the consolidated statements of comprehensive income.

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

From time to time, we may become a party to various legal or administrative proceedings arising in the ordinary course of the business of us and the consolidated VIE, including actions with respect to intellectual property infringement, violation of third-party licenses or other rights, breach of contract and labor and employment claims. We are currently not a party to any material legal or administrative proceedings. However, litigation or any other legal or administrative proceeding, regardless of the outcome, could result in substantial cost and diversion of our resources, including our management's time and attention.

We and certain of our current officers and directors have been named as defendants in a putative securities class action captioned Garnett v. RLX Technology Inc., et al. (Case No. 1:21-cv-05125) filed on June 9, 2021 in the United States District Court for the Southern District of New York. On November 8, 2021, lead plaintiffs filed the amended, operative complaint in this case alleging, in sum and substance, that our IPO registration and prospectus (the "Offering Documents") were false or misleading, in violation of Sections 11, 12(a)(2), and 15 of the Securities Act of 1933, in that the Offering Documents allegedly failed adequately to warn investors, among other things, that e-vapor products would soon be subject to the same stringent regulations as tobacco products. Plaintiffs purport to bring this action on behalf of a class of similarly situated investors and seek monetary damages on behalf of the class. In response, we and other defendants filed a motion to dismiss in December 2021. In February 2022, the lead plaintiffs and lead plaintiff counsel filed an opposition brief against our and other defendants' motion to dismiss. In March 2022, we and other defendants further filed a reply brief in further support of our motion to dismiss, and briefing on the motion to dismiss was completed. On September 30, 2022, the court granted the company's motion to dismiss all claims. The court held that plaintiffs failed to plead that the company misrepresented its financials or the prospect of more stringent regulation of e-cigarettes in China. On October 28, 2022, plaintiffs filed a notice of appeal to appeal the dismissal of the complaint and filed their appellants' brief on February 10, 2023, before the U.S. Court of Appeals for the Second Circuit. In November 2023, the U.S. Court of Appeals for the Second Circuit affirmed the District Court's dismissal of the complaint with prejudice.

Dividend Policy

Our board of directors has discretion on whether to distribute dividends, subject to certain requirements of Cayman Islands law. On November 15, 2024, we announced the approval of a cash dividend of US\$0.01 per ordinary share, or US\$0.01 per ADS, to holders of ordinary shares and holders of ADSs, respectively, as of the close of business on December 6, 2024 Beijing/Hong Kong Time and New York Time, respectively, payable in U.S. dollars. The dividend was paid in cash in December 2023 for holders of ordinary shares and holders of ADSs.

If we pay any dividends on our ordinary shares in the future, we will pay those dividends which are payable in respect of the Class A ordinary shares underlying the ADSs to the depository, as the registered holder of such Class A ordinary shares, and the depository then will pay such amounts to the ADS holders in proportion to the Class A ordinary shares underlying the ADSs held by such ADS holders, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

Future declaration and distribution of dividends, if any, will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors as our board of directors may deem relevant. 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 account, and provided always that in no circumstances may a dividend be paid if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business. Even if our board of directors decide to pay or recommend 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.

As a holding company incorporated in the Cayman Islands, we may rely on dividends from our subsidiaries for our cash requirements, including any payment of dividends to our shareholders. PRC regulations may restrict the ability of our PRC subsidiaries to pay dividends to us. See “Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulations on Foreign Exchange and Dividend Distribution.”

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.

See “—C. Markets.”

B. Plan of Distribution

Not applicable.

C. Markets

The ADSs, each represents one of our Class A ordinary shares, have been approved for listing on the New York Stock Exchange under the symbol “RLX” since January 21, 2021.

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 and of the Companies Act, insofar as they relate to the material terms of our ordinary shares. Neither our certificate of incorporation nor our memorandum and articles of association contains any charter of the Chinese Communist party or any text thereof.

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 laws of the Cayman Islands.

Ordinary Shares. Our ordinary shares are issued in registered form. We may not issue shares to bearer. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their 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 entitles the holder thereof to one vote on all matters subject to vote at our general meetings, and each Class B ordinary share entitles the holder thereof to ten votes on all matters subject to vote at our general meetings. Our ordinary shares are issued in registered form and are issued when registered in our register of members.

Conversion. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Any number of Class B ordinary shares held by a holder thereof will be automatically and immediately converted into an equal number of Class A ordinary shares upon the occurrence of (i) any direct or indirect sale, transfer, assignment or disposition of such number of Class B ordinary shares by the holder thereof or the direct or indirect transfer or assignment of the voting power attached to such number of Class B ordinary shares through voting proxy or otherwise to any person that is not Ms. Ying (Kate) Wang or an entity controlled by her, or (ii) the direct or indirect sale, transfer, assignment or disposition of a majority of the issued and outstanding voting securities of, or the direct or indirect transfer or assignment of the voting power attached to such voting securities through voting proxy or otherwise, or the direct or indirect sale, transfer, assignment or disposition of all or substantially all of the assets of, a holder of Class B ordinary shares that is an entity to any person that is not Ms. Ying (Kate) Wang or an entity controlled by her.

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. Under the laws of the Cayman Islands, our company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business.

Voting Rights. Voting at any meeting of shareholders is by show of hands unless a poll is demanded. A poll may be demanded by the chairperson of such meeting or any one shareholder present in person or by proxy. With respect to all matters subject to a shareholders' vote, each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to ten votes, voting together as one class.

An ordinary resolution to be passed at a meeting by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast at a meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes cast attaching to the outstanding and issued ordinary shares cast at a meeting. A special resolution will be required for important matters such as a change of name or making changes to our amended and restated memorandum and articles of association. Our shareholders may, among other things, divide or combine their shares by ordinary resolution.

General Meetings of Shareholders. As a Cayman Islands exempted company, we are not obliged by the Companies Act to call shareholders' annual general meetings. Our 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 should specify the meeting as such in the notices calling it, and the annual general meeting should be held at such time and place as may be determined by our directors.

Shareholders' general meetings may be convened by our chairperson or by a majority of our board of directors. Advance notice of at least seven calendar days is required for the convening of our annual general shareholders' meeting (if any) and any other general meeting of our shareholders. A quorum required for any general meeting of shareholders consists of at least one shareholder present or by proxy, representing not less than one-third of all votes attaching to the issued and outstanding shares in our company entitled to vote at the 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 all votes attaching to the issued and outstanding shares of our company entitled to vote at general meetings, our board will convene an extraordinary general meeting and put the resolutions so requisitioned to a vote at such meeting. However, our 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 amended and restated memorandum and articles of association as set out below, any of our shareholders may transfer all or any of her or his ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board of directors.

Our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which we have a lien. Our board of directors may also decline to register any transfer of any ordinary share unless:

- the instrument of transfer is lodged with us, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is 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 New York Stock Exchange may determine to be payable or such lesser sum as our directors may from time to time require is paid to us in respect thereof.

If our directors refuse to register a transfer they should, within three months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, after compliance with any notice required of the New York Stock Exchange, be suspended and the register 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 cannot not be suspended nor the register 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 are more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus should 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 class may, subject to any rights or restrictions for the time being attached to any class, only be materially adversely varied with the consent in writing of the holders of at least 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. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not be deemed to be materially adversely varied by 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 and articles of association authorize our board of directors to issue additional ordinary shares from time to time as our board of directors determines, to the extent out of available authorized but unissued ordinary shares.

Our amended and restated memorandum and articles of association also authorize our board of directors to establish from time to time one or more series of preferred shares and to determine, with respect to any series of preferred 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 preferred shares without action by our shareholders to the extent out of authorized but unissued preferred shares. Issuance of these shares may dilute the voting power of holders of ordinary shares.

Inspection of Books and Records. Holders of our ordinary shares have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records (other than our memorandum and articles of association, any special resolutions, and our register of mortgages and charges). However, we will provide our shareholders with annual audited financial statements.

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 preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred 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 incorporated 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 30 years in the first instance);
- may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- may register as a limited duration company; and
- may register as a segregated portfolio company.

“Limited liability” means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of the company (except in exceptional circumstances, such as involving fraud, the establishment of an agency relationship or an illegal or improper purpose or other circumstances in which a court may be prepared to pierce or lift the corporate veil).

Exclusive Forum. Unless we consent in writing to the selection of an alternative forum, the United States District Court for the Southern District of New York (or, if the United States District Court for the Southern District of New York lacks subject matter jurisdiction over a particular dispute, the state courts in New York County, New York) should be the exclusive forum within the United States for the resolution of any complaint asserting a cause of action arising out of or relating in any way to the federal securities laws of the United States, regardless of whether such legal suit, action, or proceeding also involves parties other than us. Any person or entity purchasing or otherwise acquiring any share or other securities in our company, or purchasing or otherwise acquiring American depository shares issued pursuant to deposit agreements, should be deemed to have notice of and consented to the provisions of this article. Without prejudice to the foregoing, if the provision in this article is held to be illegal, invalid or unenforceable under applicable law, the legality, validity or enforceability of the rest of the articles of association should not be affected and this article should be interpreted and construed to the maximum extent possible to apply in the relevant jurisdiction with whatever modification or deletion may be necessary so as best to give effect to our intention.

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in “Item 4. Information on the Company,” “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions,” this “Item 10. Additional Information—C. Material Contracts,” or filed (or incorporated by reference) as exhibits to or otherwise described or referenced in, this annual report on Form 20-F.

D. Exchange Controls

See “Item 4. Information on the Company—B. Business Overview—Government Regulations—Regulations on Foreign Exchange and Dividend Distribution.”

E. Taxation

The following summary of the Cayman Islands, PRC and U.S. federal income tax considerations of an investment in the ADSs or Class A ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this registration statement, all of which are subject to change. This summary does not deal with all possible tax considerations relating to an investment in the ADSs or Class A ordinary shares, such as the tax considerations under U.S. state and local tax laws or under the tax laws of jurisdictions other than the Cayman Islands, the People's Republic of China and the United States. 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 Cayman Islands counsel; to the extent it relates to PRC tax law, it is the opinion of Han Kun Law Offices, our PRC counsel.

Cayman Islands Taxation

According to Maples and Calder (Hong Kong) LLP, our Cayman Islands counsel, the Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or, after execution, brought within the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties that are applicable to any payments made to or by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Payments of dividends and capital in respect of our ordinary shares and ADSs will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of a dividend or capital to any holder of our ordinary shares or the ADSs, nor will gains derived from the disposal of our ordinary shares or the ADSs be subject to Cayman Islands income or corporation tax.

People's Republic of China Taxation

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside of the PRC with a "de facto management body" within the PRC is considered a resident enterprise and will be subject to the enterprise income tax at the rate of 25% on its global income. The implementation rules define the term "de facto management body" as the body that exercises full and substantial control over and overall management of the business, production, personnel, accounts and properties of an enterprise. In April 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" test should be applied in determining the tax resident status of all offshore enterprises. According to SAT Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its "de facto management body" in China only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise's financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholder resolutions are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC. Further to the SAT Circular 82, the SAT issued the SAT Bulletin 45, which became effective since September 2011, to provide more guidance on the implementation of the SAT Circular 82. The SAT Bulletin 45 provides for detailed procedures and administration with respect to determination of residence status and administration of post determination matters.

We believe that RLX Technology Inc. is not a PRC resident enterprise for PRC tax purposes. RLX Technology Inc. is not controlled by a PRC enterprise or PRC enterprise group and we do not believe that RLX Technology Inc. meets all of the conditions above. RLX Technology Inc. is a company incorporated outside the PRC. 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 the PRC. Therefore, we do not believe that RLX Technology Inc. meets all of these conditions or RLX Technology Inc. is a PRC resident enterprise for PRC tax purposes even if the conditions for "de facto management body" prescribed in the SAT Circular 82 are applicable. For the same reasons, we believe our other entities outside of China are not PRC resident enterprises either. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term "de facto management body." There can be no assurance that the PRC government will ultimately take a view that is consistent with us.

If the PRC tax authorities determine that RLX Technology 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 the ADSs. In addition, non-resident enterprise shareholders (including the ADS holders) may be subject to a 10% PRC tax on gains realized on the sale or other disposition of ADSs or Class A ordinary shares, if such income is treated as sourced from within the PRC. It is unclear whether our non-PRC individual shareholders (including the ADS holders) would be subject to any PRC tax on dividends or gains obtained by such non-PRC individual shareholders in the event we are determined to be a PRC resident enterprise. If any PRC tax were to apply to such dividends or gains, it would generally apply at a rate of 20% unless a reduced rate is available under an applicable tax treaty. It is also unclear whether non-PRC shareholders of RLX Technology 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 RLX Technology Inc. is treated as a PRC resident enterprise.

Provided that our Cayman Islands holding company, RLX Technology Inc., is not deemed to be a PRC resident enterprise, holders of the ADSs and Class A ordinary shares who are not PRC residents will not be subject to PRC income tax on dividends distributed by us or gains realized from the sale or other disposition of our shares or ADSs. However, under SAT Public Notice 7 and SAT Public Notice 37, where a non-resident enterprise conducts an “indirect transfer” by transferring taxable assets, including, in particular, equity interests in a PRC resident enterprise, indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise, being the transferor, or the transferee, or the PRC entity which directly owns such taxable assets may report to the relevant tax authority such indirect transfer. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. We and our non-PRC resident investors may be at risk of being required to file a return and being taxed under SAT Public Notice 7 and SAT Public Notice 37, and we may be required to expend valuable resources to comply with SAT Public Notice 7 and SAT Public Notice 37, or to establish that we should not be taxed under these circulars. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—We face uncertainty with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies, which may have a material adverse effect on our financial condition and results of operations” for more details.

United States Federal Income Tax Considerations

The following discussion is a summary of U.S. federal income tax considerations generally applicable to the ownership and disposition of our ADSs or Class A ordinary shares by a U.S. Holder (as defined below) that holds our ADSs as “capital assets” (generally, property held for investment) under the U.S. Internal Revenue Code of 1986, as amended, or the Code. This discussion is based upon existing U.S. federal tax law, which is subject to differing interpretations or change, possibly with retroactive effect, and there can be no assurance that the Internal Revenue Service, or the IRS, or a court will not take a contrary position. This discussion, moreover, does not address the U.S. federal estate, gift or other non-income tax considerations, any minimum tax, the Medicare tax on certain net investment income, or any state, local or non-U.S. tax considerations, relating to the ownership or disposition of our ADSs or Class A ordinary shares. The following summary does not address all aspects of U.S. federal income taxation that may be important to particular investors in light of their individual circumstances or to persons in special tax situations such as:

- banks and other financial institutions;
- insurance companies;
- pension plans;
- cooperatives;
- regulated investment companies;
- real estate investment trusts;
- broker-dealers;
- traders that elect to use a mark-to-market method of tax accounting;

- certain former U.S. citizens or long-term residents;
- tax-exempt entities (including private foundations);
- holders who acquire their ADSs or Class A ordinary shares pursuant to any employee share option or otherwise as compensation;
- investors that will hold their ADSs or Class A ordinary shares as part of a straddle, hedge, conversion, constructive sale or other integrated transaction for U.S. federal income tax purposes;
- investors that have a functional currency other than the U.S. dollar;
- persons that actually or constructively own ADSs or Class A ordinary shares representing 10% or more of our stock (by vote or value);
- partnerships or other entities taxable as partnerships for U.S. federal income tax purposes, or persons holding ADSs or Class A ordinary shares through such entities; or
- persons holding ADSs or Class A ordinary shares in connection with a trade or business conducted outside of the United States,

all of whom may be subject to tax rules that differ significantly from those discussed below.

Each U.S. Holder is urged to consult its tax advisor regarding the application of U.S. federal taxation to its particular circumstances, and the state, local, non-U.S. and other tax considerations of the ownership and disposition of our ADSs or Class A ordinary shares.

General

For purposes of this discussion, a “U.S. Holder” is a beneficial owner of our ADSs or Class A ordinary shares that is, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created in or organized under the law of the United States or any state thereof or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of our ADSs or Class A ordinary shares, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Partnerships holding our ADSs or Class A ordinary shares and their partners are urged to consult their tax advisors regarding an investment in our ADSs or Class A ordinary shares.

For U.S. federal income tax purposes, it is generally expected that a U.S. Holder of ADSs will be treated as the beneficial owner of the underlying shares represented by the ADSs. The remainder of this discussion assumes that a U.S. Holder of our ADSs will be treated in this manner. Accordingly, deposits or withdrawals of Class A ordinary shares for ADSs will generally not be subject to U.S. federal income tax.

Passive foreign investment company rules

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 the income test, or (ii) 50% or more of the value of its assets (generally determined on the basis of a quarterly average) during such year is attributable to assets that produce or are held for the production of passive income, or the asset test. For this purpose, cash and assets readily convertible into cash are categorized as passive assets and the company’s goodwill and other unbooked intangibles 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, at least 25% (by value) of the stock.

Whether we are or will become a PFIC for any taxable year is a fact intensive determination made annually that depends, in part, upon the composition and classification of our income and assets. Fluctuations in the market price of our ADSs can affect our PFIC status because the value of our assets for purposes of the asset test, including the value of our goodwill and unbooked intangibles, may be determined by reference to the market price of our ADSs from time to time. Based on the market price of our ADSs, we believe that we were likely a PFIC in 2024 and we may be a PFIC in 2025 and possibly subsequent taxable years if the value of our goodwill is determined by reference to our market capitalization. However, we have not obtained any valuation of our assets (including goodwill). U.S. Holders of our ADSs or Class A ordinary shares should consult their tax advisors regarding the value and characterization of our assets for purposes of the PFIC rules, which are subject to some uncertainties. Additionally, whether we are a PFIC in future years will depend on the composition of our income and assets, which may also be affected by how, and how quickly, we use our liquid assets. Under circumstances where we determine not to deploy significant amounts of cash for active purposes, our risk of being or becoming classified as a PFIC may substantially increase. Moreover, it is not entirely clear how the contractual arrangements between us, the consolidated VIE, and the shareholders of the consolidated VIE will be treated for purposes of the PFIC rules, and we may be or become a PFIC for any taxable year if the consolidated VIE is not treated as owned by us for these purposes. Although the law in this regard is not entirely clear, we currently treat the consolidated VIE as being owned by us for U.S. federal income tax purposes because we control its management decisions and are entitled to substantially all of the economic benefits associated with it. However, there is no assurance that the IRS will agree with this position.

If we are classified as a PFIC for any taxable year during which a U.S. Holder holds our ADSs or Class A ordinary shares, and unless the U.S. Holder makes a mark-to-market election (as described below), the U.S. Holder will generally be subject to special tax rules on (i) any excess distribution that we make to the U.S. Holder (which generally means any distribution paid during a taxable year to a U.S. Holder that is greater than 125 percent of the average annual distributions paid in the three preceding taxable years or, if shorter, the U.S. Holder’s holding period for the ADSs or Class A ordinary shares), and (ii) any gain realized on the sale or other disposition of ADSs or Class A ordinary shares. Under the PFIC rules:

- the excess distribution or gain will be allocated ratably over the U.S. Holder’s holding period for the ADSs or Class A ordinary shares;
- the amount allocated to the taxable year of the distribution or gain and any taxable years in the U.S. Holder’s holding period prior to the first taxable year in which we are classified as a PFIC (each, a “pre-PFIC year”) will be taxable as ordinary income;
- the amount allocated to each prior taxable year, other than a pre-PFIC year, will be subject to tax at the highest income tax rate in effect for individuals or corporations, as appropriate, for that year; and
- an additional tax equal to the interest charge generally applicable to the resulting tax deemed deferred 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 Class A ordinary shares and any of our subsidiaries, our consolidated VIE or any subsidiaries of our consolidated VIE is also a PFIC, such U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. U.S. Holders are urged to consult their tax advisors regarding the application of the PFIC rules to any of our subsidiaries, our consolidated VIE or any subsidiaries of our consolidated VIE.

Under a rule commonly referred to as the “once a PFIC always a PFIC” rule, if we are a PFIC for any taxable year during which a U.S. Holder owns our ADSs or Class A ordinary shares, we will generally continue to be treated as a PFIC with respect to the U.S. Holder for all succeeding years during which the U.S. Holder owns the ADSs or Class A ordinary shares, even if we cease to meet the threshold requirements for PFIC status. If we are a PFIC for any taxable year but cease to be a PFIC for subsequent years, U.S. Holders should consult their tax advisors regarding the advisability of making a “deemed sale” election that will allow them to eliminate the continuing PFIC status under certain circumstances, but may require them to recognize gain taxed under the general PFIC rules described in the preceding paragraphs.

As an alternative to the foregoing rules, a U.S. Holder of “marketable stock” in a PFIC may make a mark-to-market election with respect to such stock, provided that such stock is regularly traded on a qualified exchange or other market. The ADSs will be treated as “regularly traded” for any calendar year in which more than a *de minimis* quantity of the ADSs is traded on a qualified exchange on at least 15 days during each calendar quarter. For those purposes, our ADSs, but not our Class A ordinary shares, are listed on the New York Stock Exchange, which is a qualified exchange. No assurances may be given that our ADSs will be “regularly traded” for any period in this regard. If a U.S. Holder makes this election, the U.S. 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 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 a year when we are classified as a PFIC and we subsequently cease to be classified as a PFIC, the U.S. 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.

Because a mark-to-market election cannot technically be made for any lower-tier PFICs that we may own, a U.S. Holder that makes the mark-to-market election may continue to be subject to the PFIC rules with respect to such U.S. Holder’s indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes.

We do not intend to provide information necessary for U.S. Holders to make qualified electing fund elections which, if available, would result in tax treatment different from (and generally less adverse than) the general tax treatment for PFICs described above.

If a U.S. Holder owns our ADSs or Class A ordinary shares during any taxable year that we are a PFIC, the holder must generally file an annual IRS Form 8621. You should consult your tax advisor regarding the U.S. federal income tax consequences of owning and disposing of our ADSs or Class A ordinary shares if we are or become a PFIC.

Dividends

The following is subject to the discussion under “—Passive foreign investment company rules” above.

Any distributions (including the amount of any PRC tax withheld) paid on our ADSs or Class A ordinary shares out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles, will generally be includible in the gross income of a U.S. Holder as dividend income on the day actually or constructively received by the U.S. Holder, in the case of Class A ordinary shares, or by the depository, in the case of ADSs. Because we do not intend to determine our earnings and profits on the basis of U.S. federal income tax principles, the full amount of any distribution we pay will generally be treated as a “dividend” for U.S. federal income tax purposes. Dividends received on our ADSs or Class A ordinary shares will not be eligible for the dividends received deduction generally allowed to corporations. Dividends received by individuals and certain other non-corporate U.S. Holders may be subject to tax at the lower capital gain tax rate applicable to “qualified dividend income,” provided that certain conditions are satisfied, including that (1) our ADSs or Class A ordinary shares on which the dividends are paid are readily tradable on an established securities market in the United States, or, in the event that we are deemed to be a PRC resident enterprise under the PRC tax law, we are eligible for the benefits of the United States-PRC income tax treaty, or the Treaty, (2) we are neither a PFIC nor treated as such with respect to such a U.S. Holder for the taxable year in which the dividend was paid and the preceding taxable year, and (3) certain holding period requirements are met. Our ADSs (but not our Class A ordinary shares) are considered readily tradable on the New York Stock Exchange, which is an established securities market in the United States, although there can be no assurance that our ADSs will continue to be considered readily tradable on an established securities market in later years. However, in light of the discussion in “—Passive foreign investment company rules” above, non-corporate U.S. Holders should expect that dividends, if any, will likely not be eligible for preferential tax rates.

In the event that we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law (see “Item 10. Additional Information—E. Taxation—People’s Republic of China Taxation”), we may be eligible for the benefits of the Treaty. If we are eligible for such benefits, dividends we pay on our Class A ordinary shares, regardless of whether such shares are represented by the ADSs, would be eligible for the reduced rate of taxation described in the preceding paragraph. As mentioned above, however, in light of the discussion in “—Passive foreign investment company rules” above, non-corporate U.S. Holders should expect that dividends, if any, will likely not be eligible for preferential tax rates.

Dividends paid on our ADSs or Class A ordinary shares will generally be treated as income from foreign sources. Depending on the U.S. Holder’s individual facts and circumstances and the discussion below regarding certain U.S. Department of Treasury (“Treasury”) regulations, a U.S. Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of any nonrefundable foreign withholding taxes imposed on dividends received on our ADSs or Class A ordinary shares. A U.S. Holder who does not elect to claim a foreign tax credit for foreign taxes 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 their outcome depends in large part on the U.S. Holder’s individual facts and circumstances. For example, Treasury regulations provide that, in the absence of an election to apply the benefits of an applicable income tax treaty, in order for non-U.S. income taxes to be creditable, the relevant non-U.S. income tax rules must be consistent with certain U.S. federal income tax principles, and we have not determined whether the PRC income tax system meets this requirement. However, notices issued by the IRS indicate that the Treasury and the IRS are considering proposing amendments to such regulations and allow taxpayers, subject to certain conditions, to defer the application of many aspects of such regulations until the date that a notice or other guidance withdrawing or modifying this temporary relief is issued (or any later date specified in such notice or other guidance). Accordingly, 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

The following is subject to the discussion under “—Passive foreign investment company rules” above.

A U.S. Holder will generally recognize capital gain or loss upon the sale or other disposition of our ADSs or Class A ordinary shares in an amount equal to the difference between the amount realized upon the disposition and the holder’s adjusted tax basis in such ADSs or Class A ordinary shares. Any capital gain or loss will be long-term if the ADSs or Class A ordinary shares have been held for more than one year and will generally be U.S.-source gain or loss for U.S. foreign tax credit purposes. The deductibility of a capital loss may be subject to limitations. Long-term capital gain of individuals and certain other non-corporate U.S. Holders will generally be eligible for a reduced rate of taxation. However, in light of the discussion under “—Passive foreign investment company rules” above, depending on the circumstances of each U.S. Holder, any gain recognized on a sale or other taxable disposition of the ADSs or Class A ordinary shares may not be treated as long-term capital gain. In the event that gain from the disposition of the ADSs or Class A ordinary shares is subject to tax in the PRC, a U.S. Holder that is eligible for the benefits of the Treaty may treat such gain as PRC-source gain under the Treaty for purposes of the rules relating to foreign tax credits. Subject to IRS notices discussed above under “—Dividends,” pursuant to Treasury regulations, however, if a U.S. Holder is not eligible for the benefits of the Treaty or does not elect to apply the Treaty, then such holder may not be able to claim a foreign tax credit arising from any PRC tax imposed on the disposition of the ADSs or Class A ordinary shares. U.S. Holders are urged to consult their tax advisors regarding the tax consequences if a foreign tax is imposed on a disposition of our ADSs or Class A ordinary shares, including the availability of the foreign tax credit or deduction under their particular circumstances, their eligibility for benefits under the Treaty and the potential impact of the Treasury regulations and notices.

Information reporting and backup withholding

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related intermediaries may be subject to information reporting and backup withholding, unless (i) the U.S. Holder is a corporation or other “exempt recipient” or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder’s U.S. federal income tax liability and may entitle it to a refund, provided that the required information is timely furnished to the IRS.

Information with respect to foreign financial assets

Certain U.S. Holders who are individuals (and, under proposed regulations, certain entities) may be required to report information relating to an interest in our Class A ordinary shares, subject to certain exceptions (including an exception for Class A ordinary shares held in accounts maintained by certain U.S. financial institutions). U.S. Holders should consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of the ADSs or Class A ordinary shares.

F. Dividends and Paying Agents

On November 15, 2024, we announced the approval of a cash dividend of US\$0.01 per ordinary share, or US\$0.01 per ADS, to holders of ordinary shares and holders of ADSs, respectively, as of the close of business on December 6, 2024 Beijing/Hong Kong Time and New York Time, respectively, payable in U.S. dollars. The dividend was paid in cash in December 2024 for holders of ordinary shares and holders of ADSs. Citibank, N.A., the depository for the American Depositary Shares, acted as the paying agent in respect of the cash dividend paid.

G. Statement by Experts

Not Applicable.

H. Documents on Display

We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F no later than four months after the close of each fiscal year. The SEC maintains a website 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.

I. Subsidiary Information

Not applicable.

J. Annual Report to Security Holders

Not applicable.

Item 11. Quantitative and Qualitative Disclosures about Market Risk and Concentration Risk

We do not hold any instruments for trading purposes, and most financial assets on our balance sheet are in the form of demand deposits or highly liquid investment products placed with banks and other creditable financial institutions in China. These investment products are mainly for cash management purpose, and are not expected to be subject to material market risks including interest rate risk, commodity price risk and equity price risk.

Foreign exchange risk

The revenues and expenses of our entities in the PRC are generally denominated in RMB and their assets and liabilities are denominated in RMB. For entities incorporated in Cayman Islands, BVI, Hong Kong, the revenue and expense, assets and liabilities are generally denominated in United States dollars ("US\$"). For entities in other jurisdictions, the revenue and expense, assets and liabilities are generally denominated in their respective local currencies. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge exposure to such risk. Although our exposure to foreign exchange risks should be limited in general, the value of your investment in our ADSs will be affected by the exchange rate between the U.S. dollar and Renminbi because the value of the business of us and the consolidated VIE is effectively denominated in RMB, while our ADSs will be traded in U.S. dollars.

Renminbi is not freely convertible into foreign currencies. Remittances of foreign currencies into the PRC or remittances of Renminbi out of the PRC as well as exchange between Renminbi and foreign currencies require approval by foreign exchange administrative authorities with certain supporting documentation. The State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of Renminbi into other currencies.

To the extent that we need to convert U.S. dollars into Renminbi for the operations of us and the consolidated VIE, 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. dollars against the Renminbi would have a negative effect on the U.S. dollar amounts available to us.

Credit risk

Financial instruments that potentially expose us to credit risk consist primarily of cash and cash equivalents, restricted cash, short-term bank deposits, long-term bank deposits, accounts and notes receivable, receivables from online payment platforms, short-term investments, long-term investment securities and amounts due from related parties. The carrying amounts of these financial instruments represent the maximum amount of loss due to credit risk.

We place our cash and cash equivalents, restricted cash, short-term bank deposits, long-term bank deposits, short-term investments and long-term investment securities in reputable financial institutions with high credit ratings and quality. There has been no recent history of default in relation to these financial institutions and credit risk is immaterial.

Accounts and notes receivable and other receivables are typically unsecured and are mainly derived from the ordinary course of business. The risk with respect to these financial instruments is mitigated by credit evaluations we perform on our customers and its ongoing monitoring processes of outstanding balances.

Concentration

For the year ended December 31, 2022, 2023 and 2024, one distributor, Shenzhen Yihaoji Technology Limited, contributed to 16.9%, nil and nil of our net revenues for such period, respectively.

In 2022 and 2023, our purchases from Shenzhen Smoore Technology Limited, one contract manufacturer that is also the third-party operational partner of our exclusive production plants, accounted for 80% and 58% of our total purchase amount, and the corresponding accounts and notes payable due to it represented 86% and 74% of our total accounts and notes payable as of December 31, 2022 and 2023, respectively. For the year ended December 31, 2024, our purchases from the same manufacturer accounted for 41% of our total purchase amount, and the corresponding accounts and notes payable due to it represented 52% of our total accounts and notes payable as of December 31, 2024.

Recently Issued Accounting Pronouncements

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

Item 12. Description of Securities Other than Equity Securities

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Fees and Charges Our ADS holders May Have to Pay

Citibank, N.A. has agreed to act as the depository for the American Depositary Shares. Citibank's depository offices are located at 388 Greenwich Street, New York, New York 10013. American Depositary Shares are frequently referred to as "ADSs" and represent ownership interests in securities that are on deposit with the depository. ADSs may be represented by certificates that are commonly known as "American Depositary Receipts" or "ADRs." The depository typically appoints a custodian to safekeep the securities on deposit. In this case, the custodian is Citibank, N.A.—Hong Kong, located at 9/F Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong.

Our ADS holders will be required to pay the following fees under the terms of the deposit agreement:

Service	Fees
· Issuance of ADSs (e.g., an issuance of ADS upon a deposit of Class A ordinary shares, upon a change in the ADS(s)-to-Class A ordinary share(s) ratio, or for any other reason), excluding ADS issuances as a result of distributions of Class A ordinary shares	Up to US\$ 5¢ per ADS issued
· Cancellation of ADSs (e.g., a cancellation of ADSs for delivery of deposited property, upon a change in the ADS(s)-to-Class A ordinary share(s) ratio, or for any other reason)	Up to US\$ 5¢ per ADS cancelled
· Distribution of cash dividends or other cash distributions (e.g., upon a sale of rights and other entitlements)	Up to US\$ 5¢ per ADS held
· Distribution of ADSs pursuant to (i) stock dividends or other free stock distributions, or (ii) exercise of rights to purchase additional ADSs	Up to US\$ 5¢ per ADS held
· Distribution of securities other than ADSs or rights to purchase additional ADSs (e.g., upon a spin-off)	Up to US\$ 5¢ per ADS held
· ADS Services	Up to US\$ 5¢ per ADS held on the applicable record date(s) established by the depository
· Registration of ADS transfers (e.g., upon a registration of the transfer of registered ownership of ADSs, upon a transfer of ADSs into DTC and vice versa, or for any other reason)	Up to US\$ 5¢ per ADS (or fraction thereof) transferred
· Conversion of ADSs of one series for ADSs of another series (e.g., upon conversion of Partial Entitlement ADSs for Full Entitlement ADSs, or upon conversion of Restricted ADSs (each as defined in the Deposit Agreement) into freely transferable ADSs, and vice versa).	Up to US\$ 5¢ per ADS (or fraction thereof) converted

Our ADS holders will also be responsible to pay certain charges such as:

- taxes (including applicable interest and penalties) and other governmental charges;
- the registration fees as may from time to time be in effect for the registration of Class A ordinary shares on the share register and applicable to transfers of Class A ordinary shares to or from the name of the custodian, the depository or any nominees upon the making of deposits and withdrawals, respectively;
- certain cable, telex and facsimile transmission and delivery expenses;
- the fees, expenses, spreads, taxes and other charges of the depository and/or service providers (which may be a division, branch or affiliate of the depository) in the conversion of foreign currency;
- the reasonable and customary out-of-pocket expenses incurred by the depository in connection with compliance with exchange control regulations and other regulatory requirements applicable to Class A ordinary shares, ADSs and ADRs; and
- the fees, charges, costs and expenses incurred by the depository, the custodian, or any nominee in connection with the ADR program.

ADS fees and charges for (i) the issuance of ADSs, and (ii) the cancellation of ADSs are charged to the person for whom the ADSs are issued (in the case of ADS issuances) and to the person for whom ADSs are cancelled (in the case of ADS cancellations). In the case of ADSs issued by the depositary into DTC, the ADS issuance and cancellation fees and charges may be deducted from distributions made through DTC, and may be charged to the DTC participant(s) receiving the ADSs being issued or the DTC participant(s) holding the ADSs being cancelled, as the case may be, on behalf of the beneficial owner(s) and will be charged by the DTC participant(s) to the account of the applicable beneficial owner(s) in accordance with the procedures and practices of the DTC participants as in effect at the time. ADS fees and charges in respect of distributions and the ADS service fee are charged to the holders as of the applicable ADS record date. In the case of distributions of cash, the amount of the applicable ADS fees and charges is deducted from the funds being distributed. In the case of (i) distributions other than cash and (ii) the ADS service fee, holders as of the ADS record date will be invoiced for the amount of the ADS fees and charges and such ADS fees and charges may be deducted from distributions made to holders of ADSs. For ADSs held through DTC, the ADS fees and charges for distributions other than cash and the ADS service fee may be deducted from distributions made through DTC, and may be charged to the DTC participants in accordance with the procedures and practices prescribed by DTC and the DTC participants in turn charge the amount of such ADS fees and charges to the beneficial owners for whom they hold ADSs. In the case of (i) registration of ADS transfers, the ADS transfer fee will be payable by the ADS Holder whose ADSs are being transferred or by the person to whom the ADSs are transferred, and (ii) conversion of ADSs of one series for ADSs of another series, the ADS conversion fee will be payable by the Holder whose ADSs are converted or by the person to whom the converted ADSs are delivered.

In the event of refusal to pay the depositary fees, the depositary 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. Certain depositary fees and charges (such as the ADS services fee) may become payable shortly after the closing of the ADS offering. Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the depositary. You will receive prior notice of such changes.

E. 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 2024, we received US\$7.8 million of contribution from the depositary for our expenses incurred in connection with investor relationship programs related to the ADS facility.

PART II.

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

A-D. Material Modifications to the Rights of Security Holders

See “Item 10. Additional Information—B. Memorandum and Articles of Association—Ordinary Shares” for a description of the rights of securities holders, which remain unchanged.

E. Use of Proceeds

The following “Use of Proceeds” information relates to the registration statement on Form F-1, as amended (File Number: 333-251849) in relation to our initial public offering of 133,975,000 ADSs representing 133,975,000 of our Class A ordinary shares, at a public offering price of US\$12.00 per ADS. Citigroup Global Markets Inc. and China Renaissance Securities (Hong Kong) Limited were the representatives of the underwriters for our initial public offering.

The F-1 Registration Statement was declared effective by the SEC on January 21, 2021. For the period from the effective date of the F-1 Registration Statement to December 31, 2024, the total expenses incurred for our company's account in connection with our initial public offering was approximately US\$55.0 million, which included US\$52.3 million in underwriting discounts and commissions for the initial public offering and approximately US\$2.7 million in other costs and expenses for our initial public offering. We received net proceeds of approximately US\$1,553.0 million from our initial public offering and exercise of over-allotment option. None of the transaction expenses included payments to directors or officers of our company or their associates, persons owning more than 10% or more of our equity securities or our affiliates. None of the net proceeds we received 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 the closing of our initial public offering to December 31, 2024, we used an aggregate of approximately US\$25.3 million of the net proceeds from our initial public offering for payment of dividends. There is no material change in the use of proceeds as described in our registration statement on Form F-1.

Item 15. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this annual report, 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 within the meaning of Rules 13a-15(e) and 15d-15(e) of the Exchange Act.

Based upon this evaluation, our management concluded that, as of December 31, 2024, 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 and chief financial 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 Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with U.S. GAAP and 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 a company's assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company's receipts and expenditures are being made only in accordance with authorizations of a company's management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of a company's assets that could have a material effect on the consolidated financial statements.

Our management, with the participation of our chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of our company's internal control over financial reporting as of December 31, 2024 based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013 Framework). Based on this evaluation, the management concluded that our internal control over financial reporting was effective as of December 31, 2024.

Attestation Report of the Independent Registered Public Accounting Firm

PricewaterhouseCoopers Zhong Tian LLP, our independent registered public accounting firm, audited the effectiveness of our company's internal control over financial reporting as of December 31, 2024, as stated in its report, which appears on page F-2 of this Form 20-F.

Changes in Internal Control Over Financial Reporting

There were no changes in our 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) during the year ended December 31, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 16.A. Audit Committee Financial Expert

Our board of directors has determined that Zhenjing Zhu, an independent director, chairperson and member of our audit committee, is an audit committee financial expert.

Item 16.B. Code of Ethics

Our board of directors has adopted a code of ethics that applies to all of the directors, officers and employees. We have posted a copy of our code of business conduct and ethics on our website at <https://ir.relxtech.com/>.

Item 16.C. 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. We did not pay any other fees to our auditors during the periods indicated below.

	For the Year Ended December 31,	
	2023	2024
	RMB	RMB
	(in thousands)	
Audit fees ⁽¹⁾	9,750	9,750
All other fees	324	2,150

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.

The policy of our audit committee is to pre-approve all audit and other services 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 16.D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16.E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Our board of directors approved a share repurchase plan on December 8, 2021, under which we may repurchase up to US\$500 million of our shares over a period until December 31, 2023. The share repurchase plan was publicly announced on December 8, 2021. In December 2023, our Board of Directors authorized the extension of such share repurchase plan for an additional 24-month period through December 31, 2025. As of December 31, 2024, we executed trades to repurchase approximately US\$304.7 million of our ordinary shares represented by ADSs.

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The table below is a summary of the shares repurchased by us in 2024. All shares were repurchased in the open market and private transactions pursuant to such share repurchase plan.

Period	Total Number of ADSs Purchased	Average Price Paid Per ADS	Total Number of ADSs Purchased as Part of the Publicly Announced Plans	Approximate Dollar Value of ADSs that May Yet Be Purchased Under the Plans
January 2024	23,851,759	\$ 1.83	123,084,778	260,780,172
February 2024	11,251,890	\$ 1.87	134,336,668	239,736,832
March 2024	7,000,000	\$ 1.96	141,336,668	226,045,094
June 2024	14,000,000	\$ 1.98	155,336,668	198,287,979
August 2024	602,400	\$ 1.59	155,939,068	197,331,589
October 2024	126,467	\$ 1.61	156,065,535	197,128,202
November 2024	1,118,724	\$ 1.60	157,184,259	195,334,468

Item 16.F. Change in Registrant’s Certifying Accountant

Not applicable.

Item 16.G. Corporate Governance

As a Cayman Islands company listed on the NYSE, we are subject to the NYSE listing standards, which requires listed companies to have, among other things, a majority of their board members to be independent. However, NYSE 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 NYSE listing standards. We currently follow our home country practice in lieu of the requirements of NYSE Listed Company Manual Section 303A.01 to have a majority of independent directors and Section 303A.07 to have an audit committee with at least three members. If we choose to follow additional home country practice in the future, our shareholders may be afforded less protection than they would otherwise enjoy under the NYSE corporate governance listing standards applicable to U.S. domestic issuers.

Furthermore, we are also permitted to rely on exemptions afforded to controlled companies. We are a “controlled company” as defined under the New York Stock Exchange listing rules because Ms. Ying (Kate) Wang, our co-founder, chairperson of board of directors and chief executive officer, beneficially owns all of our then issued and outstanding Class B ordinary shares and is able to exercise over 50% of our total voting power. For so long as we remain a controlled company under that definition, we are permitted to elect to rely, and may rely, on certain exemptions from corporate governance rules. If we choose to rely on these exemptions in the future, our shareholders may not be afforded the same protection that they would otherwise enjoy under these exempted NYSE corporate governance listing standards.

Item 16.H. Mine Safety Disclosure

Not applicable.

Item 16.I. Disclosure Regarding Foreign Jurisdictions That Prevent Inspections

Not applicable.

Item 16.J. Insider Trading Policies

We have adopted insider trading policies governing the purchase, sale, and other disposition of our securities by directors, senior management, and employees. A copy of the insider trading policies is filed as an exhibit to this annual report and is incorporated herein by reference.

Item 16.K. Cybersecurity

Cybersecurity Risk Management

Cybersecurity risk management is an integral part of our overall security management practices. Over the years, we have developed a set of internal rules and processes for handling cybersecurity threats and incidents and facilitate coordination across different functions and business units within our company. These rules and processes cover, among other things, steps for assessing the severity of a cybersecurity threat, identifying its source, implementing protective measures, and keeping the management informed of material cybersecurity threats and incidents. Depending on our needs, we either collaborate with third-party security experts for risk assessment and system enhancements or rely on our in-house teams for these critical assessments.

Our senior executive officers oversee a specialized internal cybersecurity team responsible for the oversight of risks from cybersecurity threats. This team plays a crucial role in managing our cybersecurity efforts, including identifying and assessing risks, and developing strategies to address and lessen these risks. Members of this team regularly receive detailed reports from the personnel focused on cybersecurity to guide their decisions in preventing, detecting, and managing security incidents. Our cybersecurity team and personnel are highly skilled in information systems security and management, and many of them are experienced information systems security professionals and information security managers with years of experience. Our internal security team has over eight years of experience in the field of security and has worked at top-tier security companies in China. Similarly, the security personnel from the third-party team also come from leading security teams in China, possessing professional skills and extensive security expertise. Our dedicated cybersecurity personnel regularly update our cybersecurity team, and management on our overall cybersecurity practices, material cybersecurity risks and mitigation strategies, and provide cybersecurity reports annually that cover, among other topics, developments in cybersecurity and updates to our cybersecurity practices and mitigation strategies.

In 2024, we did not identify any cybersecurity threats that have materially affected or are reasonably likely to materially affect our business strategy, results of operations, or financial condition. However, despite our efforts, we cannot eliminate all risks from cybersecurity threats, or provide assurances that we have not experienced an undetected cybersecurity incident. For more information about these risks, please see “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Doing Business in China—The business of us and the consolidated VIE is subject to complex and evolving PRC laws and regulations regarding data privacy and cybersecurity. Failure to protect confidential information of our users, business partners and network against security breaches could damage our reputation and brand and substantially harm the business and results of operations of us and the consolidated VIE” on pages 65 to 67 of this annual report.

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 RLX Technology Inc. and its subsidiaries are included at the end of this annual report.

Item 19. Exhibits

Exhibit Number	Description
1.1	Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated herein by reference to Exhibit 3.2 to the registration statement on Form F-1 (File No. 333-251849), as amended, filed with the Securities and Exchange Commission on January 15, 2021)
2.1	Registrant's Specimen American Depositary Receipt (included in Exhibit 2.3) (incorporated herein by reference to Exhibit 4.3 to the registration statement on Form F-1 (File No. 333-251849), as amended, initially filed with the Securities and Exchange Commission on December 31, 2020)
2.2	Registrant's Specimen Certificate for Class A Ordinary Shares (incorporated herein by reference to Exhibit 4.2 to the registration statement on Form F-1 (File No. 333-251849), as amended, initially filed with the Securities and Exchange Commission on December 31, 2020)
2.3	Form of Deposit Agreement, among the Registrant, the depository and the holders and beneficial owners of American Depositary Shares issued there under (incorporated herein by reference to Exhibit 4.3 to the registration statement on Form F-1 (File No. 333-251849), as amended, initially filed with the Securities and Exchange Commission on December 31, 2020)
2.4	Description of Securities (incorporated herein by reference to Exhibit 2.4 to the annual report on form 20-F (File No. 001-39902), filed with the Securities and Exchange Commission on April 23, 2021)
4.1	2021 Share Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the registration statement on Form F-1 (File No. 333-251849), as amended, initially filed with the Securities and Exchange Commission on December 31, 2020)
4.2	Form of Indemnification Agreement between the Registrant and its directors and senior management (incorporated herein by reference to Exhibit 10.2 to the registration statement on Form F-1 (File No. 333-251849), as amended, initially filed with the Securities and Exchange Commission on December 31, 2020)
4.3	Form of Employment Agreement between the Registrant and its senior management (incorporated herein by reference to Exhibit 10.3 to the registration statement on Form F-1 (File No. 333-251849), as amended, initially filed with the Securities and Exchange Commission on December 31, 2020)
4.4	English translation of the executed form of the Powers of Attorney granted by shareholders of Beijing Wuxin, as currently in effect, and a schedule of all executed Powers of Attorney adopting the same form (incorporated herein by reference to Exhibit 10.4 to the registration statement on Form F-1 (File No. 333-251849), as amended, initially filed with the Securities and Exchange Commission on December 31, 2020)
4.5	English translation of the Equity Interest Pledge Agreement among Beijing Yueke, Beijing Wuxin and shareholders of Beijing Wuxin dated October 31, 2018 (incorporated herein by reference to Exhibit 10.5 to the registration statement on Form F-1 (File No. 333-251849), as amended, initially filed with the Securities and Exchange Commission on December 31, 2020)
4.6	English translation of the Exclusive Business Cooperation Agreement between Beijing Yueke and Beijing Wuxin dated October 31, 2018 (incorporated herein by reference to Exhibit 10.6 to the registration statement on Form F-1 (File No. 333-251849), as amended, initially filed with the Securities and Exchange Commission on December 31, 2020)
4.7	English translation of the Exclusive Option Agreement among Beijing Yueke, Beijing Wuxin and shareholders of Beijing Wuxin dated October 31, 2018 (incorporated herein by reference to Exhibit 10.7 to the registration statement on Form F-1 (File No. 333-251849), as amended, initially filed with the Securities and Exchange Commission on December 31, 2020)
4.8	English translation of the Exclusive Assets Option Agreement between Beijing Yueke and Beijing Wuxin dated October 31, 2018 (incorporated herein by reference to Exhibit 10.8 to the registration statement on Form F-1 (File No. 333-251849), as amended, initially filed with the Securities and Exchange Commission on December 31, 2020)

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Exhibit Number	Description
4.9	English translation of the Exclusive Smoore Factory Cooperation Agreement among Beijing Wuxin, Shenzhen Wuxin, Shenzhen Smoore Technology Co., Ltd. and other parties thereto dated October 24, 2019, as amended by the Supplementary Agreement dated October 25, 2019 and the Second Supplementary Agreement dated October 26, 2019 (incorporated herein by reference to Exhibit 10.9 to the registration statement on Form F-1 (File No. 333-251849), as amended, initially filed with the Securities and Exchange Commission on December 31, 2020).
4.10	English translation of the Supplementary Agreement between Shenzhen Wuxin and Shenzhen Smoore Technology Co., Ltd. dated September 1, 2020 (incorporated herein by reference to Exhibit 10.10 to the registration statement on Form F-1 (File No. 333-251849), as amended, initially filed with the Securities and Exchange Commission on December 31, 2020)
4.11	Non-Competition Agreement between the Registrant and Relx Inc. dated December 16, 2020 (incorporated herein by reference to Exhibit 10.13 to the registration statement on Form F-1 (File No. 333-251849), as amended, initially filed with the Securities and Exchange Commission on December 31, 2020)
4.12	Intellectual Property License Agreement between the Registrant and Relx Inc. dated December 16, 2020 (incorporated herein by reference to Exhibit 10.14 to the registration statement on Form F-1 (File No. 333-251849), as amended, initially filed with the Securities and Exchange Commission on December 31, 2020)
8.1*	Significant Subsidiaries and Consolidated Variable Interest Entity of the Registrant
11.1	Code of Business Conduct and Ethics of the Registrant
11.2*	Statement of Policies Governing Material Non-Public Information and the Prevention of Insider Trading
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 Maples and Calder (Hong Kong) LLP
15.2*	Consent of Han Kun Law Offices
15.3*	Consent of PricewaterhouseCoopers Zhong Tian LLP
97.1	Compensation Recoupment Policy
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 With Embedded Linkbase Documents
104*	Cover page formatted as Inline XBRL and contained in Exhibit 101

* Filed herewith.

** Furnished herewith.

† Portions of this exhibit have been omitted in reliance of the revised Item 601 of Regulation S-K.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing its annual report on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: April 17, 2025

RLX Technology Inc.

By: /s/ Ying (Kate) Wang

Name: Ying (Kate) Wang

Title: Co-founder, Chairperson of the Board of Directors
and Chief Executive Officer

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of RLX Technology Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of RLX Technology Inc. and its subsidiaries (the “Company”) as of December 31, 2024 and 2023, and the related consolidated statements of comprehensive income, of changes in shareholders’ equity and of cash flows for each of the three years in the period ended December 31, 2024, 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, 2024, 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, 2024 and 2023, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2024 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, 2024, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Annual Report on Internal Control over Financial Reporting appearing under Item 15. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates 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 matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue recognition for sales of products to offline distributors

As described in Notes 2(r) and 19 to the consolidated financial statements, the Company's revenues are primarily derived from sales of its products to offline distributors who are responsible for sales to retailers and end users. The Company recognizes revenue from sales to offline distributors when control of the products is transferred to customers, in accordance with the incoterms or acceptance clause involved distribution agreements, at an amount equal to the contract sales prices, less applicable allowances for estimated sales rebates, sales return, price concession and approved subsidies. For the year ended December 31, 2024, the Company's net revenues from sales to offline distributors were RMB2,586 million.

The principal consideration for our determination that performing procedures relating to revenue recognition for sales of products to offline distributors is a critical audit matter is the significant audit effort in performing procedures and evaluating audit evidence related to the occurrence, accuracy and cutoff of revenue transactions.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the revenue recognition process, including controls over the occurrence, accuracy, and cutoff of revenue transactions. These procedures also included, among others, reading distribution agreements and evaluating the Company's business practices to determine that the accounting policy of revenue recognition is appropriate and evaluating, on a test basis, the occurrence, accuracy, and cutoff of revenue transactions, including revenue transactions subsequent to balance sheet date, by obtaining and inspecting confirmations from offline distributors, distribution agreements, sales orders, cash receipts from offline distributors and shipping documents, where applicable.

/s/ PricewaterhouseCoopers Zhong Tian LLP
Beijing, the People's Republic of China
April 17, 2025

We have served as the Company's auditor since 2019.

RLX TECHNOLOGY INC.
CONSOLIDATED BALANCE SHEETS
 (All amounts in thousands)

	Note	As of December 31,		
		2023	2024	US\$
		RMB	RMB	(Note 2(e))
ASSETS				
Current assets				
Cash and cash equivalents	3	2,390,298	5,593,492	766,305
Restricted cash		29,760	50,867	6,969
Short-term bank deposits, net	4	2,631,256	2,179,886	298,643
Receivables from online payment platforms		6,893	4,722	647
Short-term investments, net	5	3,093,133	719,755	98,606
Accounts and notes receivable, net	6	60,482	78,484	10,752
Inventories	7	144,850	142,552	19,530
Amounts due from related parties	23	118,736	346,132	47,420
Prepayments and other current assets, net	8	508,435	185,091	25,357
Total current assets		8,983,843	9,300,981	1,274,229
Non-current assets				
Property, equipment and leasehold improvement, net	9	77,358	50,787	6,958
Intangible assets, net	10	69,778	52,796	7,233
Long-term investments, net	11	8,000	8,000	1,096
Deferred tax assets, net	18	58,263	38,067	5,215
Right-of-use assets, net	17	52,562	24,110	3,303
Long-term bank deposits, net	4	1,757,804	727,448	99,660
Long-term investment securities, net	5	5,236,109	6,599,365	904,109
Goodwill	12	66,506	59,581	8,163
Other non-current assets, net	13	4,874	9,914	1,358
Total non-current assets		7,331,254	7,570,068	1,037,095
Total assets		16,315,097	16,871,049	2,311,324

The accompanying notes are an integral part of these consolidated financial statements.

RLX TECHNOLOGY INC.
CONSOLIDATED BALANCE SHEETS (CONTINUED)
(All amounts in thousands, except for number of shares and per share data)

	Note	As of December 31,		
		2023	2024	US\$
		RMB	RMB	(Note 2(e))
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts and notes payable (including amounts of the consolidated VIE without recourse to the primary beneficiary of RMB224,383 and RMB252,401 as of December 31, 2023 and 2024, respectively)	14	266,426	458,538	62,819
Contract liabilities (including amounts of the consolidated VIE without recourse to the primary beneficiary of RMB11,319 and RMB1,148 as of December 31, 2023 and 2024, respectively)		49,586	10,610	1,454
Salary and welfare benefits payable (including amounts of the consolidated VIE without recourse to the primary beneficiary of RMB19,519 and RMB42,785 as of December 31, 2023 and 2024, respectively)		39,256	73,740	10,102
Taxes payable (including amounts of the consolidated VIE without recourse to the primary beneficiary of RMB36,932 and RMB30,720 as of December 31, 2023 and 2024, respectively)		77,164	126,154	17,283
Short-term loans (including amounts of the consolidated VIE without recourse to the primary beneficiary of nil and RMB40,000 as of December 31, 2023 and 2024, respectively)	15	—	40,000	5,480
Accrued expenses and other current liabilities (including amounts of the consolidated VIE without recourse to the primary beneficiary of RMB95,125 and RMB92,335 as of December 31, 2023 and 2024, respectively)	16	103,996	108,816	14,908
Amounts due to related parties (including amounts of the consolidated VIE without recourse to the primary beneficiary of nil and RMB26 as of December 31, 2023 and 2024, respectively)	23	101,927	27,401	3,754
Dividend payable (including amounts of the consolidated VIE without recourse to the primary beneficiary of nil and nil as of December 31, 2023 and 2024, respectively)		881	1,144	157
Lease liabilities - current portion (including amounts of the consolidated VIE without recourse to the primary beneficiary of RMB25,422 and RMB9,301 as of December 31, 2023 and 2024, respectively)	17	29,435	11,447	1,568
Total current liabilities		668,671	857,850	117,525
Non-current liabilities				
Deferred tax liabilities (including amounts of the consolidated VIE without recourse to the primary beneficiary of RMB7,695 and RMB3,293 as of December 31, 2023 and 2024, respectively)	18	23,591	16,196	2,219
Lease liabilities - non-current portion (including amounts of the consolidated VIE without recourse to the primary beneficiary of RMB18,092 and RMB4,743 as of December 31, 2023 and 2024, respectively)	17	24,419	7,050	966
Total non-current liabilities		48,010	23,246	3,185
Total liabilities		716,681	881,096	120,710
Commitments and contingencies	25			
Shareholders' equity				
Ordinary shares (US\$0.00001 par value; 15,000,000,000 shares authorized; 1,570,790,570 shares issued as of December 31, 2023; 1,570,790,570 shares issued as of December 31, 2024) ⁽ⁱ⁾	21	104	104	14
Treasury stock	21	(1,280,989)	(2,105,754)	(288,487)
Additional paid-in capital	21	12,115,485	12,723,938	1,743,172
Statutory reserves		27,811	27,305	3,741
Retained earnings	21	3,765,679	4,219,689	578,095
Accumulated other comprehensive income		981,303	1,122,934	153,841
Total RLX Technology Inc. shareholders' equity		15,609,393	15,988,216	2,190,376
Noncontrolling interests		(10,977)	1,737	238
Total shareholders' equity		15,598,416	15,989,953	2,190,614
Total liabilities and shareholders' equity		16,315,097	16,871,049	2,311,324

(i) As of December 31, 2023, there were 1,570,790,570 ordinary shares issued, par value US\$0.00001 per share, including 299,188,826 ordinary shares that consist of treasury shares held by the Company's depository bank and shares reserved for future exercise of share-based awards. As of December 31, 2024, there were 1,570,790,570 ordinary shares issued, par value US\$0.00001 per share, including 352,346,961 ordinary shares that consist of treasury shares held by the Company's depository bank and shares reserved for future exercise of share-based awards.

The accompanying notes are an integral part of these consolidated financial statements.

RLX TECHNOLOGY INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(All amounts in thousands, except for number of shares and per share data)

	Note	For the year ended December 31,			
		2022 (As adjusted) ⁽ⁱ⁾	2023	2024	US\$
		RMB	RMB	RMB	(Note 2(e))
Net revenues	19	5,332,779	1,586,397	2,748,576	376,553
Cost of revenues		(2,974,981)	(856,329)	(1,718,006)	(235,366)
Excise tax on products		(52,668)	(342,354)	(304,053)	(41,655)
Gross profit		2,305,130	387,714	726,517	99,532
Operating expenses:					
Selling expenses		(347,798)	(213,723)	(229,466)	(31,437)
General and administrative expenses		(576,811)	(498,015)	(515,887)	(70,676)
Research and development expenses		(317,110)	(172,686)	(88,309)	(12,098)
Total operating expenses		(1,241,719)	(884,424)	(833,662)	(114,211)
Income/(loss) from operations		1,063,411	(496,710)	(107,145)	(14,679)
Other income:					
Interest income, net		180,729	627,879	616,388	84,445
Investment income		136,531	245,700	49,636	6,800
Others, net		399,641	214,874	99,924	13,690
Income before income tax		1,780,312	591,743	658,803	90,256
Income tax expense	18	(371,580)	(50,755)	(94,459)	(12,941)
Net income		1,408,732	540,988	564,344	77,315
Less: net (loss) / income attributable to noncontrolling interests		(32,487)	6,660	12,507	1,713
Net income attributable to RLX Technology Inc.		1,441,219	534,328	551,837	75,602
Other comprehensive income:					
Foreign currency translation adjustments		937,428	198,534	143,811	19,702
Unrealized (loss)/income on investment securities		(5,425)	632	(2,167)	(297)
Total other comprehensive income		932,003	199,166	141,644	19,405
Total comprehensive income		2,340,735	740,154	705,988	96,720
Less: total comprehensive (loss)/ income attributable to noncontrolling interests		(32,487)	6,660	12,520	1,713
Total comprehensive income attributable to RLX Technology Inc.		2,373,222	733,494	693,468	95,007
Net income per ordinary share					
-Basic	22	1.092	0.407	0.448	0.061
-Diluted	22	1.085	0.399	0.428	0.059
Weighted average number of ordinary shares					
-Basic	22	1,319,732,802	1,311,401,901	1,232,148,531	1,232,148,531
-Diluted	22	1,328,144,092	1,340,445,653	1,288,911,783	1,288,911,783

(i) The Company acquired various companies on December 13, 2023, which was accounted for as an under common control transaction in accordance with ASC 805-50. The Company retrospectively adjusted the above comparative consolidated statements of comprehensive income in prior year. Refer to Note 1 (e) for detailed information.

The accompanying notes are an integral part of these consolidated financial statements.

RLX TECHNOLOGY INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(All amounts in thousands, except for number of shares)

	Note	Ordinary shares		Treasury Stock		Additional paid-in capital	Statutory reserves	Retained earnings	Accumulated other comprehensive (loss)/income	Non-controlling interests	Total shareholder equity
		Shares	Amounts RMB	Shares	Amounts RMB						
Balance as of January 1, 2022 (As adjusted)⁽ⁱ⁾	21	1,570,790,570	103	(229,995,503)	(127,516)	11,881,023	2,319	1,908,889	(149,866)	3,800	13,518,751
Net income/(loss)								1,441,219		(32,487)	1,408,732
Share-based compensation	20					166,161					166,161
Unrealized loss on investment securities									(5,425)		(5,425)
Appropriation to statutory reserves							25,492	(25,492)			
Share-based awards to employees of Relx Inc.	20					(80,649)					(80,649)
Deemed dividend to shareholders in connection with the share-based awards to employees of Relx Inc.	1(b) (iii)					80,649					80,649
Exercising of share-based awards	20(a)		1	9,648,928		15,094					15,094
Share repurchase	21			(37,373,909)	(500,370)						(500,370)
Foreign currency translation adjustments									937,428		937,428
Balance as of December 31, 2022 (As adjusted)⁽ⁱ⁾	21	1,570,790,570	104	(257,720,484)	(627,886)	12,062,278	27,811	3,324,616	782,137	(28,687)	15,540,371
Net income								534,328		6,660	540,988
Share-based compensation	20					362,868					362,868
Capital contribution from noncontrolling interests										11,050	11,050
Unrealized gain on investment securities									632		632
Share-based awards to employees of Relx Inc.	20					396,378					396,378
Deemed dividend to shareholders in connection with the share-based awards to employees of Relx Inc.	1(b) (iii)					(396,378)					(396,378)
Exercising of share-based awards	20(a)			11,834,355		15,441					15,441
Share repurchase	21			(53,302,697)	(653,103)	(343,525)					(996,625)
Business combination under common control						18,423					18,423
Cash dividend								(93,265)			(93,265)
Foreign currency translation adjustments									198,534		198,534
Balance as of December 31, 2023	21	1,570,790,570	104	(299,188,826)	(1,280,989)	12,115,485	27,811	3,765,679	981,303	(10,977)	15,598,411
Net income								551,837		12,507	564,344
Share-based compensation	20					369,655					369,655
Unrealized loss on investment securities									(2,167)		(2,167)
Share-based awards to employees of Relx Inc.	20					(425,976)					(425,976)
Deemed dividend to shareholders in connection with the share-based awards to employees of Relx Inc.	1(b) (iii)					425,976					425,976
Exercising of share-based awards	20(a)			8,289,785		3,390					3,390
Share repurchase	21			(61,447,920)	(824,765)	235,408					(589,357)
Appropriation to statutory reserves							(506)	312		194	
Cash dividend								(98,139)			(98,139)
Foreign currency translation adjustments									143,798	13	143,811
Balance as of December 31, 2024	21	1,570,790,570	104	(352,346,961)	(2,105,754)	12,723,938	27,305	4,219,689	1,122,934	1,737	15,989,951

(i) The Company acquired various companies on December 13, 2023, which was accounted for as an under common control transaction in accordance with ASC 805-50. The Company retrospectively adjusted the above comparative consolidated statements of changes in shareholders' equity in prior year. Refer to Note 1 (e) for detailed information.

The accompanying notes are an integral part of these consolidated financial statements.

RLX TECHNOLOGY INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(All amounts in thousands)

Note	For the year ended December 31.			
	2022 (As adjusted) ⁽ⁱ⁾	2023	2024	US\$
	RMB	RMB	RMB	(Note 2(e))
Cash flows from operating activities:				
Net income	1,408,732	540,988	564,344	77,315
Adjustments to reconcile Net income to net cash generated from operating activities:				
Depreciation of property, equipment and leasehold improvement	9	76,041	37,622	27,738
Amortization of right-of-use assets		83,051	50,087	35,548
Amortization of intangible assets		5,367	8,892	12,510
Loss on disposal of long-term assets		1,228	2,989	5,486
Dividend income		(640)	(640)	(1,280)
Deferred income tax	18	(38,898)	4,495	9,661
Inventory write-downs	7	179,694	35,695	24,344
Interest expense		1,402	—	176
Foreign exchange loss/(gain)		5,818	(586)	14,061
Share-based compensation expenses	20	166,161	362,868	369,655
Impairment of long-term investments	11	4,000	—	—
Unrealized investment income		(68,876)	(378,138)	(91,298)
Impairment of property, equipment, and leasehold improvement and intangible assets		29,938	5,008	—
Impairment of other non-current assets		12,591	72	—
Gain on disposal of long-term investment		—	(164,400)	—
Provision for credit losses		25,039	1,615	4,045
			4,045	554
Changes in operating assets and liabilities:				
Accounts and notes receivable		(37,417)	26,976	(19,310)
Receivables from online payment platforms		7,006	(3,893)	2,171
Inventories		278,493	(39,054)	(21,743)
Amounts due from related parties	23(c)	(3,176)	(113,624)	(227,396)
Amounts due to related parties	23(c)	423	60,397	(42,457)
Prepayments and other current assets		357,876	29,937	(2,181)
Other non-current assets		11,159	2,240	(4,702)
Accounts and notes payable		(1,019,499)	(30,057)	192,112
Contract liabilities		(211,425)	(25,798)	(38,976)
Salary and welfare benefits payable		(42,644)	(88,493)	34,484
Taxes payable		(490,645)	(36,861)	48,990
Accrued expenses and other current liabilities		(173,278)	(29,924)	819
Lease liabilities		(80,622)	(59,710)	(42,452)
		(86,829)	(59,710)	(42,452)
Net cash generated from operating activities		486,829	198,703	854,349
			854,349	117,045
Cash flows from investing activities:				
Purchase of property, equipment, and leasehold improvement		(38,638)	(28,221)	(10,086)
Purchase of intangible assets		(5,930)	(4,192)	(2,978)
Purchase of short-term bank deposits		(18,525,804)	(4,843,210)	(1,090,022)
Purchase of long-term bank deposits		(8,835,258)	(782,335)	(180,000)
Proceeds from maturities of short-term bank deposits		16,012,167	9,717,494	2,710,561
Proceeds from maturities of long-term bank deposits		9,569,537	240,000	10,000
Proceeds from sale of short-term bank deposits		—	—	100,000
Purchase of short-term investments		(14,946,940)	(8,749,704)	(9,786,203)
Purchase of long-term investment securities		(3,481,674)	(2,325,411)	(1,993,689)
Proceeds from maturities of short-term investments		13,415,500	8,388,000	13,258,052
Sale of short-term investments		2,704,000	320,000	—
Sale of long-term investments		—	588,872	—
Purchase of long-term investments		—	(430,788)	—
Disposal of property, equipment and leasehold improvement		—	—	285
Dividend from investment		—	640	1,280
		—	640	174
Net cash (used in) generated from investing activities		(4,133,040)	2,091,145	3,018,001
			3,018,001	413,464
Cash flows from financing activities:				
Capital contribution from non-controlling interest		—	11,050	—
Proceeds from bank loan	15	198,598	—	40,000
Repayments of bank loans		(200,000)	—	—
Proceeds from exercise of employees' share options		23,862	8,757	1,448
Acquisition of subsidiaries - net of cash acquired		—	(169,148)	—
Dividend paid		—	(92,384)	(88,839)
Funds provided by related parties	23(b)	—	41,107	(12,171)
Funds paid back to related parties	23(b)	—	—	(41,107)
Cash payments for repurchase of shares		(500,370)	(996,628)	(589,357)
Other financing activities		640	4,030	(176)
Net cash used in financing activities		(477,270)	(1,193,216)	(678,031)
			(678,031)	(92,890)
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash		203,100	34,340	29,982
Net (decrease)/increase in cash, cash equivalents and restricted cash		(3,920,381)	1,130,972	3,224,301
Cash, cash equivalents and restricted cash at the beginning of the year		5,209,467	1,289,086	2,420,058
Cash, cash equivalents and restricted cash at the end of the year		1,289,086	2,420,058	5,644,359
			2,420,058	773,274
Including:				
Cash and cash equivalents at the end of the year		1,268,512	2,390,298	5,593,492
Restricted cash at the end of the year		20,574	29,760	50,867
Supplemental disclosures of cash flow information:				
Cash paid for income taxes		743,528	74,844	40,805
Cash paid for interest		1,402	—	176
Non-cash investing and financing activities:				
Property, equipment and leasehold improvement financed by other payables		154	923	174
Deemed dividend to shareholders in connection with the share-based awards to employees of Relx Inc.		(80,649)	396,378	(425,976)
				(58,359)

(i) The Company acquired various companies on December 13, 2023, which was accounted for as an under common control transaction in accordance with ASC 805-50. The Company retrospectively adjusted the above comparative consolidated statements of cash flows in prior year. Refer to Note 1 (e) for detailed information.

The accompanying notes are an integral part of these consolidated financial statements.

RLX TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except for number of shares and per share data, or otherwise noted)

1. Nature of operations and reorganizations

a) Nature of operations

RLX Technology Inc. (the “Company”) is a holding company incorporated in the Cayman Islands. The Company, its subsidiaries, the VIE and VIE’s subsidiaries together are referred to as the “Group”. The Group is primarily engaged in the manufacturing and sales of e-vapor products in the PRC (the “PRC Business”) and overseas markets.

b) Reorganizations

The Company is an exempted company with limited liability in connection with a group reorganization of Relx Inc.

i) First Reorganization

The PRC Business was initially carried out by Shenzhen Wuxin Technology Co., Ltd. (“Shenzhen Wuxin”), established on January 2, 2018 (date of inception), and Beijing Wuxin Technology Co., Ltd. (“Beijing Wuxin”), established on February 22, 2018. On May 18, 2018, Beijing Wuxin closed a preferred share financing (the “Domestic PS Financing”) with two investors, Investor A and Investor B.

On August 16, 2018, Relx Inc. was incorporated by Ms. Ying (Kate) Wang and Mr. Bing Du under the laws of the Cayman Islands as an exempted company with limited liability. By October 31, 2018, Relx Inc. completed a series of reorganization transactions (the “First Reorganization”) and obtained control over the PRC Business through contractual arrangements.

The First Reorganization was completed with the steps described as below:

- Relx Inc. established a directly wholly owned subsidiary Relx HK Limited (“Relx HK”) on August 21, 2018. In October 2018, Relx HK established a wholly foreign-owned subsidiary in China, Beijing Yueke Technology Co., Ltd. (“Beijing Yueke”, or the “WFOE”).
- Beijing Yueke entered into a series of agreements with Beijing Wuxin and its shareholders, through which Beijing Yueke obtained control over Beijing Wuxin and its subsidiaries. Refer to Note 1 (c) VIE arrangements between Relx HK’s PRC subsidiaries for detailed information.
- Relx Inc. issued ordinary shares to Ms. Ying (Kate) Wang and Mr. Bing Du and issued Series Angel Preferred Shares (the “PS Angel”) to Investor A and Investor B, to replace their respective equity interest in Beijing Wuxin.

As the shareholdings in Beijing Wuxin and Relx Inc. were with a high degree of common ownership immediately before and after the First Reorganization, the First Reorganization was determined to be a recapitalization transaction of the PRC Business and to lack economic substance, and therefore it was accounted for in a manner similar to a common control transaction. Consequently, the PRC Business’ assets and liabilities are presented on a carryover basis.

After the First Reorganization, Relx Inc. completed multiple rounds of preferred shares financing (the “Relx Inc. PS”). Some of the proceeds were given to the Group as operating fund to support the growth of PRC Business, and other funds were used to pay for start-up and other expenses of newly developed operations in non-PRC countries and regions through other subsidiaries of Relx Inc., which are not part of the Group. The operating fund given to the Group were accounted for as an increase to amounts due to related parties, and the fund the Group paid on behalf of the fellow subsidiaries were accounted for as an offset to such amounts due to Relx Inc.

RLX TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except for number of shares and per share data, or otherwise noted)

1. Nature of operations and reorganizations (Continued)

b) Reorganizations (Continued)

ii) Second Reorganization

On September 24, 2020, the Company was established as a wholly owned subsidiary of Relx Inc. Pursuant to a series of agreements entered into on September 25, 2020 and October 19, 2020 (the “Second Reorganization Agreements”), Relx Inc. transferred its 100% equity interests in Relx HK to the Company, upon completion of which, Relx HK became a wholly owned subsidiary of the Company and continues to hold the PRC Business through the same corporate structure in the PRC and the Company newly issued one ordinary share to Relx Inc. on October 19, 2020 (the “Second Reorganization”).

Upon incorporation, the Company had 500,000,000 shares authorized, 1 ordinary share issued and outstanding with a par value of US\$0.0001 per share, which was held by Relx Inc. Upon the completion of the Second Reorganization, the Company had 500,000,000 shares authorized, 2 ordinary shares issued and outstanding with a par value of US\$0.0001 per share, which were held by Relx Inc.

Immediately before and after the Second Reorganization, the Company, Relx HK and its subsidiaries, the VIE and VIE’s subsidiaries involved in the Second Reorganization are ultimately controlled by Relx Inc. Accordingly, the Second Reorganization is accounted for as a common control transaction and another recapitalization of the PRC Business.

Therefore, the accompanying consolidated financial statements of the Company include the assets, liabilities, revenue, expenses and cash flows of the PRC Business for all the periods presented and are prepared as if the corporate structure of the Group after the Second Reorganization had been in existence throughout the periods presented.

As of December 31, 2024, major subsidiaries, the VIE and VIE’s subsidiaries of Relx HK, the holding company of the PRC Business, were as follows:

	Place of incorporation	Date of incorporation	Percentage of direct or indirect economic ownership	Principal activities
Subsidiaries				
Beijing Yueke Technology Co., Ltd.	Beijing, China	October 25, 2018	100 %	Investment holding
Shanghai Wuke Information Technology Co., Ltd. (“Shanghai Wuke”)	Shanghai, China	July 26, 2019	100 %	Investment holding
Mons Co., Ltd	Incheon, South Korea	June 1, 2020	100 %	Selling e-vapor products
Supersmooth Alpha HK Limited	Hong Kong, China	January 8, 2024	100 %	Selling e-vapor products
VIE				
Beijing Wuxin Technology Co., Ltd.	Beijing, China	February 22, 2018	100 %	Investment holding
Subsidiaries of VIE				
Shenzhen Wuxin Technology Co., Ltd.	Shenzhen, China	January 2, 2018	100 %	Selling e-vapor products, research and development
Ningbo Wuxin Information Technology Co., Ltd. (“Ningbo Wuxin”)	Ningbo, China	October 10, 2018	100 %	Selling e-vapor products

RLX TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except for number of shares and per share data, or otherwise noted)

1. Nature of operations and reorganizations (Continued)

b) Reorganizations (Continued)

iii) Share splits and waiver of amount due to Relx Inc.

On November 25, 2020, the Company issued additional 143,681,555 ordinary shares to Relx Inc. and the total number of ordinary shares issued and outstanding as of November 25, 2020 were 143,681,557 shares with a par value of US\$0.0001 per share, all held by Relx Inc. The issuance of additional ordinary shares was accounted for as a share split. On January 11, 2021, the Company effected a further share split to subdivide each of its authorized ordinary shares into ten ordinary shares. Following this further share split, the Company's authorized share capital (including all issued and unissued ordinary shares) became US\$50 divided into 5,000,000,000 ordinary shares with a par value of US\$0.00001 per share. Following the share split, the Board of Directors also approved the resolution to (i) increase the authorized share capital of the Company to US\$150 divided into 15,000,000,000 ordinary shares, (ii) re-designate 1,436,815,570 ordinary shares held by Relx Inc. into Class B ordinary shares (refer to Note 21) on a one-for-one basis, and (iii) increase the award pool under the 2021 share incentive plan (refer to Note 20), all effective upon the completion of IPO of the Group. The effects of the share splits in November 2020 and January 2021 have been adjusted retrospectively since January 2, 2018 (date of inception) or the Domestic PS Financing's original issuance date, whichever is later, as if such shares were issued by the Company when the Group completed the historical funding transactions.

Concurrent with the November 2020 share split, a net amount due to Relx Inc. of RMB600,000, mainly originating from operating funds advanced by Relx Inc., offset by the payments made by the Company on behalf of the non-PRC related parties and the corporate expense allocated to Relx Inc., was waived. The accounting for the waiver was recorded in additional paid-in capital as a contribution to the Group from Relx Inc. and a deduction on the net amount due to Relx Inc. on November 25, 2020.

iv) Share distribution

On March 26, 2021, the Company announced that Relx Inc. has approved a share distribution pursuant to which Relx Inc. shall distribute its shares in the Company to its shareholders of record on March 26, 2021 (the "Record Date") in proportion to Relx Inc.'s shareholding structure on the Record Date (the "Share Distribution"). On April 16, 2021, the Share Distribution was completed. Accordingly on April 16, 2021, Relx Holdings Limited owns 618,171,790 Class B ordinary shares of the Company and the other existing shareholders of Relx Inc. owns 952,618,780 Class A ordinary shares of the Company. The Class B ordinary shares then beneficially owned by Relx Holdings Limited represent all of the Company's issued and outstanding Class B ordinary shares upon the completion of Share Distribution and constitute approximately 39.4% beneficial ownership or 86.6% voting power of the Company's total issued and outstanding share capital immediately after the completion of Share Distribution.

c) VIE arrangements between the Company's PRC subsidiaries

As of December 31, 2024, the Company, through the WFOE, entered into the following contractual arrangements with the VIE and its shareholders that enabled the Company to (i) have power to direct the activities that most significantly affect the economic performance of the VIE, and (ii) bear the risks and enjoy the rewards normally associated with ownership of the VIE. Accordingly, the Company is the primary beneficiary of the VIE. Consequently, the financial results of the VIE were included in the Group's consolidated financial statements.

RLX TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except for number of shares and per share data, or otherwise noted)

1. Nature of operations and reorganizations (Continued)

c) VIE arrangements between the Company's PRC subsidiaries (Continued)

Agreements that provide the Company with effective control over the VIE

Powers of Attorney. Pursuant to the powers of attorney, between Beijing Yueke and the shareholders of Beijing Wuxin, each of the shareholders of Beijing Wuxin has executed a power of attorney to irrevocably authorize Beijing Yueke, or any person designated by Beijing Yueke, to act as its attorney-in-fact to exercise all of its rights as a shareholder of Beijing Wuxin, including, but not limited to, the right to (i) attend shareholders' meetings, (ii) exercise all shareholder rights and vote on any resolution on behalf of the shareholders that require the shareholders to vote under PRC law and Beijing Wuxin's articles of association, such as the sale, transfer, pledge and disposal of all or part of a shareholder's equity interest in Beijing Wuxin, and (iii) designate and appoint Beijing Wuxin's legal representative, director, supervisor, chief executive officer and other senior management members on behalf of the shareholders. The powers of attorney will remain effective until such shareholder ceases to be a shareholder of Beijing Wuxin.

Equity Interest Pledge Agreement. Pursuant to the share pledge agreement, among Beijing Yueke, Beijing Wuxin and the shareholders of Beijing Wuxin, the shareholders of Beijing Wuxin have pledged all of their respective equity interests in Beijing Wuxin to Beijing Yueke to guarantee performance of the obligations of Beijing Wuxin and its shareholders under the exclusive business cooperation agreement. In the event of a breach by Beijing Wuxin or any of its shareholders of contractual obligations under the exclusive business cooperation arrangement, Beijing Yueke, as pledgee, will have the right to request for enforcement of the pledge and dispose of the pledged equity interests in Beijing Wuxin and will have priority in receiving the proceeds from such disposal. The shareholders of Beijing Wuxin also covenant that, without the prior written consent of Beijing Yueke, they shall not transfer the pledged equity interests, create or allow any new pledge or any other encumbrance on the pledged equity interests. The equity interest pledge agreement has an initial term of 10 years, which shall be extended for a further term same as the extended term of the exclusive business cooperation agreement, if applicable.

Agreement that allows the Company to receive economic benefits from the VIE

Exclusive Business Cooperation Agreement. Pursuant to the exclusive business cooperation agreement, between Beijing Yueke and Beijing Wuxin, Beijing Yueke has the exclusive right to provide Beijing Wuxin with complete business support and technical and consulting services, including but not limited to technical services, staff training, network support, business consultations, intellectual property licenses, equipment or leasing, marketing consultancy, system integration, product research and development, and system maintenance. Without Beijing Yueke's prior written consent, Beijing Wuxin may not accept any consultations and/or services regarding the matters contemplated by this agreement provided by any third party during the term of the agreement. Beijing Wuxin agrees to pay Beijing Yueke service fees based on the workload and business value of services provided by Beijing Yueke on a quarterly basis. Beijing Yueke has the exclusive ownership of all the intellectual property rights created as a result of the performance of the exclusive business cooperation agreement. To guarantee Beijing Wuxin's performance of its obligations thereunder, the shareholders of Beijing Wuxin have pledged all their equity interests in Beijing Wuxin to Beijing Yueke pursuant to the equity interest pledge agreement. The exclusive business cooperation agreement has an initial term of 10 years and shall be extended if confirmed in writing by Beijing Yueke prior to the expiration. The extended term shall be determined by Beijing Yueke, and Beijing Wuxin shall accept such extended term unconditionally.

RLX TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except for number of shares and per share data, or otherwise noted)

1. Nature of operations and reorganizations (Continued)

c) VIE arrangements between the Company's PRC subsidiaries (Continued)

Agreement that provides the Company with the option to purchase the equity interests in the VIE

Exclusive Option Agreement. Pursuant to the exclusive option agreement, among Beijing Yueke, Beijing Wuxin and the shareholders of Beijing Wuxin, each of the shareholders of Beijing Wuxin has irrevocably granted Beijing Yueke, or any person or persons designated by Beijing Yueke, an exclusive option to purchase all or part of its equity interests in Beijing Wuxin, and Beijing Wuxin has agreed to such grant of options. Beijing Yueke may exercise such options at a price equal to the lowest price as permitted by applicable PRC laws, except that a valuation is mandatory under applicable PRC laws and regulations at the time of such option exercise. Beijing Wuxin and the shareholders of Beijing Wuxin covenant that, without Beijing Yueke's prior written consent, they will not, among other things, (i) supplement, change or amend Beijing Wuxin's articles of association and bylaws, (ii) increase or decrease Beijing Wuxin's registered capital or change its structure of registered capital, (iii) create any pledge or encumbrance on their equity interests in Beijing Wuxin, other than those created under the equity interest pledge agreement, (iv) sell, transfer, mortgage, or dispose of their equity interests in and any assets of Beijing Wuxin and any legal or beneficial interests in the business or revenue of Beijing Wuxin, (v) enter into any material contracts by Beijing Wuxin, except in the ordinary course of business, or (vi) merge or consolidate Beijing Wuxin with any other entity. The exclusive option agreement has an initial term of 10 years, which could be extended at Beijing Yueke's election.

Exclusive Assets Option Agreement. Pursuant to the exclusive assets option agreement, between Beijing Yueke and Beijing Wuxin, Beijing Wuxin has irrevocably granted Beijing Yueke, or any person or persons designated by Beijing Yueke, an exclusive option to purchase all or part of the current and future intellectual properties and other assets owned by Beijing Wuxin and its subsidiaries. Beijing Yueke may exercise such options at a price equal to the lowest price as permitted by applicable PRC laws at the time of transfer of assets. Beijing Wuxin covenants that, without Beijing Yueke's prior written consent, it will not, among other things, sell, transfer, mortgage, authorize others to use, or dispose of any assets owned by it and its subsidiaries. The exclusive assets option agreement has an initial term of 10 years, which could be extended at Beijing Yueke's election.

d) Risks in relation to the VIE structure

It is possible that the Group's operations of certain of its businesses through the VIE could be found by the PRC authorities to be in violation of the PRC laws and regulations prohibiting or restricting foreign ownership of companies that engage in such operations and businesses. 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 12, 2019, effective from January 1, 2020. The Supreme People's Court of China issued a judicial interpretation on the Foreign Investment Law on December 27, 2019, effective from January 1, 2020. 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. There are substantial uncertainties with respect to the implementation and interpretation of the Foreign Investment Law and the Implementation Regulations, 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 the Group's operations, products and services and may incur additional compliance cost, which may in turn materially and adversely affect the Group's business, financial condition and results of operations.

RLX TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except for number of shares and per share data, or otherwise noted)

1. Nature of operations and reorganizations (Continued)

d) Risks in relation to the VIE structure (Continued)

In addition, if the legal structure and contractual arrangements were found to be in violation of any other existing PRC laws and regulations, the PRC government could:

- revoke the business licenses and/or operating licenses of such entities;
- impose fines on the Group;
- confiscate any of the Group's income that they deem to be obtained through illegal operations;
- discontinue or placing restrictions or onerous conditions on the operations of the consolidated VIE;
- place restrictions on the Group's right to collect revenues;
- shut down the Group's servers or block the Group's app/websites;
- require the Group to restructure the ownership structure or operations;
- require the nullification of the contractual arrangements between the WFOE, the consolidated VIE and its shareholders;
- restrict or prohibit the Group's use of the proceeds from the offering or listing or other of the Group's capital raising activities to fund the business and operations of the consolidated VIE; or
- take other regulatory or enforcement actions that could be harmful to the Group's business.

The imposition of any of these penalties may result in a material and adverse effect on the Group's ability to conduct the Group's businesses. In addition, if the imposition of any of these penalties causes the Group to lose the right to direct the activities of any of the VIE (through its equity interests in its subsidiaries) or the right to receive their economic benefits, the Group will no longer be able to consolidate the relevant VIE and its subsidiaries, 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 the VIE is remote.

There is no VIE for which the Group has variable interests but is not the primary beneficiary.

RLX TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except for number of shares and per share data, or otherwise noted)

1. Nature of operations and reorganizations (Continued)**d) Risks in relation to the VIE structure (Continued)**

The following consolidated financial information of the VIE and its subsidiaries taken as a whole as of December 31, 2023 and 2024 and for the years ended December 31, 2022, 2023 and 2024 was included in the consolidated financial statements of the Group as follows:

	As of December 31,	
	2023 RMB	2024 RMB
Current assets		
Cash and cash equivalents	927,097	1,975,345
Restricted cash	29,718	50,867
Short-term bank deposits, net	99,996	1,489,286
Receivables from online payment platforms	5,398	3,452
Short-term investments, net	2,148,719	612,798
Accounts and notes receivable, net	20,490	34,970
Inventories	72,468	81,838
Amounts due from group companies	129,214	203,905
Amounts due from related parties	102,661	87,804
Prepayments and other current assets, net	112,575	127,903
Total current assets	3,648,336	4,668,168
Non-current assets		
Property, equipment and leasehold improvement, net	52,102	29,665
Intangible assets, net	53,672	47,364
Long-term investments, net	8,000	8,000
Deferred tax assets, net	42,808	24,931
Right-of-use assets, net	42,529	17,442
Long-term bank deposits, net	1,398,376	334,382
Other non-current assets, net	2,599	6,663
Total non-current assets	1,600,086	468,447
Total assets	5,248,422	5,136,615
Current liabilities		
Accounts and notes payable	224,383	252,401
Contract liabilities	11,319	1,148
Salary and welfare benefits payable	19,519	42,785
Short-term loan	—	40,000
Taxes payable	36,932	30,720
Accrued expenses and other current liabilities	95,125	92,335
Amounts due to group companies	275,376	91,835
Amounts due to related parties	—	26
Lease liabilities - current portion	25,422	9,301
Total current liabilities	688,076	560,551
Non-current liabilities		
Deferred tax liabilities	7,695	3,293
Lease liabilities - non-current portion	18,092	4,743
Total non-current liabilities	25,787	8,036
Total liabilities	713,863	568,587

RLX TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 (All amounts in thousands, except for number of shares and per share data, or otherwise noted)

1. Nature of operations and reorganizations (Continued)

d) Risks in relation to the VIE structure (Continued)

	For the year ended		
	December 31, 2022	December 31, 2023	December 31, 2024
	RMB	RMB	RMB
Third-party revenues	5,330,992	1,338,746	1,133,178
Inter-group revenues ⁽ⁱ⁾	4,533	15,937	369,356
Third-party cost of revenues	(2,965,169)	(664,660)	(813,601)
Inter-group cost of revenues ⁽ⁱⁱ⁾	(144)	(1,268)	(1,188)
Excise tax on products	(52,668)	(342,354)	(304,053)
Third-party operating expenses	(713,520)	(484,994)	(399,784)
Inter-group operating expenses ⁽ⁱⁱⁱ⁾	(459,549)	(237,664)	(267,518)
Other income	132,736	220,220	93,321
Net income/(loss)	1,277,211	(156,037)	(190,289)

(i) Starting from 2022, the consolidated VIE and its subsidiaries provide operation services to entities within the Group. Starting from 2024, a subsidiary of the consolidated VIE sells products to entities within the Group. The inter-group revenue is eliminated at the consolidated level.

(ii) Starting from 2022, the entities within the Group sell products to the consolidated VIE. The inter-group cost of revenues is eliminated at the consolidated level.

(iii) The subsidiaries of the Group and the primary beneficiary of the consolidated VIE provide operation supporting services to the consolidated VIE and its subsidiaries. The inter-group service charge is eliminated at the consolidation level.

	For the year ended		
	December 31, 2022	December 31, 2023	December 31, 2024
	RMB	RMB	RMB
Net cash used in operating activities with group company	(512,685)	(210,479)	192,826
Other operating activities	641,865	202,414	(68,003)
Net cash generated from/(used in) operating activities	129,180	(8,065)	124,823
Loans to group companies	(450,769)	(80,805)	(233,835)
Repayment of loans from group companies	342,000	61,590	95,915
Other investing activities	343,317	53,451	1,198,041
Net cash generated from investing activities	234,548	34,236	1,060,121
Borrowings under loans from group companies	390,358	543,912	312,584
Repayment of borrowings under loans from group companies	(164,408)	(590,760)	(467,946)
Other financing activities	(763)	—	39,824
Net cash generated from /(used in) financing activities	225,187	(46,848)	(115,538)

RLX TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except for number of shares and per share data, or otherwise noted)

1. Nature of operations and reorganizations (Continued)

d) Risks in relation to the VIE structure (Continued)

The above includes intercompany balances and transactions which have been eliminated on the Company's consolidated financial statements.

Under the contractual arrangements with the VIE and through its equity interests in its subsidiaries, the Group has the power to direct the activities of the VIE and the VIE's subsidiaries and the transfer of assets out of the VIE and the VIE's subsidiaries. Therefore, the VIE assets are considered to be fully available to the Company. As the consolidated VIE and VIE's subsidiaries are incorporated as limited liability companies under the PRC Company Law, the creditors of the liabilities of the consolidated VIE and the VIE's subsidiaries do not have recourse to the general credit of the Company.

e) Business combination

In December 2023, to facilitate on international expansion, the Group acquired from its related parties 100% equity interest of certain e-vapor related businesses, including SS North Asia Holding Limited and its consolidated subsidiaries ("SS North Asia"), Sunnyheart HK Limited and its consolidated subsidiaries ("Sunnyheart") and Relx Indonesia Holding Inc. and its consolidated subsidiaries ("Relx Indonesia"), for purchase prices in cash totaling RMB173,274. Each of the acquired businesses is primarily engaged in the sales of e-vapor products in its home country, located in North Asia and Southeast Asia, respectively. As the Company and the acquired companies were under common control by Ms. Ying (Kate) Wang both before and after the closing of the transactions, in accordance with ASC 805-50, the acquisitions were accounted for as business combination under common control. The purchase prices in excess of the former parent's basis of the transferred businesses were recorded as deemed distribution to the shareholders. The results of operations of the acquired businesses have been included in the Group's consolidated financial statements retrospectively throughout the periods presented at historical carrying values as if the combination had been in effect since the inception of common control. The footnote disclosures to these consolidated financial statements have also been retrospectively adjusted, as applicable.

2. Significant accounting policies

a) Basis of presentation

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") to reflect the financial position, results of operations and cash flows of the Group.

On December 13, 2023, because of the Group's acquisition of SS North Asia, Sunnyheart and Relx Indonesia, which are under common control by Ms. Ying (Kate) Wang (Note 1(e)), the Group's consolidated financial statements as of December 31, 2022 and 2023, and for the years ended December 31, 2022 and 2023, incorporated the results of operations of the acquired companies as if they had been consolidated from the date when it first came under the control of Ms. Ying (Kate) Wang. The Group's consolidated financial statements as of December 31, 2022, and for the years ended December 31, 2022 have been retrospectively adjusted.

Significant accounting policies followed by the Group in the preparation of the accompanying consolidated financial statements are summarized below.

b) Principles of consolidation

The Group's consolidated financial statements include the financial statements of the Company, its subsidiaries, the VIE and VIE's subsidiaries for which the Company or its subsidiary is the primary beneficiary. Results of the entities and businesses acquired from the seller controlled by Ms. Ying (Kate) Wang are consolidated from the date when the acquired companies first came under the control of Ms. Ying (Kate) Wang, regardless of the date of the common control acquisition.

RLX TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except for number of shares and per share data, or otherwise noted)

2. Significant accounting policies (Continued)

b) Principles of consolidation (Continued)

A subsidiary is an entity 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, to cast a majority of votes at the meeting of directors or has the power to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

A 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 VIE and VIE's subsidiaries have been eliminated upon consolidation.

For the Company's consolidated subsidiaries and VIEs, non-controlling interests are recognized to reflect the portion of their equity that is not attributable, directly or indirectly, to the Company as the controlling shareholder. Non-controlling interests are classified as a separate line item in the equity section of the Group's consolidated balance sheets and have been separately disclosed in the Group's consolidated statements of operations and comprehensive income to distinguish the interests from that of the Company.

c) Use of estimates

The preparation of the Group's consolidated financial statements in conformity with 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 periods in the consolidated financial statements and accompanying notes. Significant accounting estimates reflected in the Group's consolidated financial statements mainly include, but are not limited to, valuation and recognition of share-based compensation and inventories write-downs. 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 incorporated in Cayman Islands, BVI, and Hong Kong is United States dollars ("US\$"). The functional currency of the Group's PRC entities is RMB. The Group's entities in other jurisdictions generally use their respective local currencies as their functional currencies. The determination of the functional currency is based on the criteria of ASC Topic 830, Foreign Currency Matters.

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 other than earnings generated in current period are translated at historical exchange rates. Revenues, expenses, gains and losses are translated using the average rate for the period. Translation adjustments are reported as foreign currency translation adjustments and shown as a component of other comprehensive income in the consolidated statements of comprehensive income.

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 others, net in the consolidated statements of comprehensive income.

RLX TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except for number of shares and per share data, or otherwise noted)

2. Significant accounting policies (Continued)

e) Convenience translation

Translations of the consolidated balance sheets, consolidated statements of comprehensive income and consolidated statements of cash flows from RMB into US\$ as of and for the year ended December 31, 2024 are solely for the convenience of the reader and were calculated at the noon buying rate of US\$1.00 = RMB7.2993 on December 31, 2024 as set forth in the H.10 statistical release of the U.S. Federal Reserve Board. No representation is made that the RMB amounts could have been, or could be, converted, realized or settled into US\$ at that rate or at any other rate.

f) Fair value measurement

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.

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 establishes three levels of inputs that may be used to measure fair value:

- Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical asset or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.
- Level 3 applies to asset or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

Refer to Note 24 for additional information.

g) Cash and cash equivalents

Cash and cash equivalents mainly represent cash at bank, demand deposits which are unrestricted as to withdrawal or use, and which have original maturities of three months or less and are readily convertible to known amount of cash.

h) Restricted cash and consolidated statements of cash flows

Cash that is legally restricted as to withdrawal or for use or pledged as security is reported separately on the face of the Group's consolidated balance sheets. In November 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, ("ASU 2016-18"), which requires entities to present the aggregate changes in cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As such, the Group presented restricted cash within the ending cash, cash equivalents, and restricted cash balance on the Group's consolidated statements of cash flows.

The Group's restricted cash mainly represents security deposits held in designated bank accounts for issuance of bank acceptance notes relating to notes payable.

RLX TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except for number of shares and per share data, or otherwise noted)

2. Significant accounting policies (Continued)

i) Bank deposits

Short-term bank deposits, net

Short-term bank deposits are time deposits with original maturities of longer than three months but less than one year or the long-term bank deposits with a maturity date within one year. Interest earned is recorded as interest income, net in the consolidated statements of comprehensive income during the years presented.

Long-term bank deposits, net

Long-term bank deposits represent time deposits placed with banks with original maturities more than one year. And those matured within one year are reclassified to short-term bank deposits, net.

The Group accounts for the bank deposits at amortized cost less allowance for credit losses.

j) Investments

Short-term investments, net include debt-classified securities held by the Group with maturities less than one year.

Long-term investment securities, net include debt-classified securities held by the Group with maturities more than one year.

The Group classifies the investment securities as held-to-maturity or available-for-sale, whose classification determines the respective accounting methods stipulated by ASC 320.

Held-to-maturity debt securities include debt instruments with fixed interest rates issued by financial institutions for which the Group has the positive intent and ability to hold those securities to maturity. The Group accounts for the held-to-maturity debt securities at amortized cost less allowance for credit losses.

Available-for-sale debt securities include debt instruments with a variable interest rate indexed to the performance of underlying assets, which are reported at fair value, with changes in fair values reflected in other comprehensive income in the consolidated statements of comprehensive income. Fair value is estimated based on quoted prices of similar products provided by financial institutions at the end of each reporting period. The Group classifies these inputs as Level 2 fair value measurement.

For certain investments in financial instruments with a variable interest rate indexed to the performance of underlying assets, the Group elects the fair value option at the date of initial recognition and carries these investments subsequently at fair value. Changes in fair values are reflected in investment income in the consolidated statements of comprehensive income. Fair value is estimated based on quoted prices of similar products provided by financial institutions at the end of each reporting period. The Group classifies these inputs as Level 2 fair value measurement.

The allowance for credit losses on available-for-sale debt securities is accounted for in accordance with ASC 326. At each reporting period, available-for-sale debt securities are evaluated at the individual security level to determine whether there is a decline in the fair value below its amortized cost basis (an impairment). In circumstances where the Group intends to sell, or is more likely than not required to sell, the security before it recovers its amortized cost basis, the difference between fair value and amortized cost is recognized as a loss in the consolidated statements of comprehensive income, with a corresponding write-down of the security's amortized cost. In circumstances where neither condition exists, the Group then evaluates whether a decline is due to credit-related factors. The factors considered in determining whether a credit loss exists can include the extent to which fair value is less than the amortized cost basis, changes in the credit quality of the underlying loan obligors, credit ratings actions, as well as other factors. To determine the portion of a decline in fair value that is credit-related, the Group compares the present value of the expected cash flows of the security discounted at the security's effective interest rate to the amortized cost basis of the security. A credit-related impairment is limited to the difference between fair value and amortized cost, and recognized as an allowance for credit loss on the consolidated balance sheets with a corresponding adjustment to net income. Any remaining decline in fair value that is non-credit related is recognized in other comprehensive income, net of tax. Improvements in expected cash flows due to improvements in credit are recognized through reversal of the credit loss and corresponding reduction in the allowance for credit loss.

RLX TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except for number of shares and per share data, or otherwise noted)

2. Significant accounting policies (Continued)

j) Investments (Continued)

Interest earned for both held-to-maturity and available-for-sale long-term investment securities is recorded as interest income, net in the consolidated statements of comprehensive income during the years presented.

Long-term investments, net

The Group elects to record an equity investment without readily determinable fair values and not accounted for by the equity method at its cost less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer (“measurement alternative”). As of December 31, 2024, the Group’s long-term investments consist of investments in privately held companies which do not have readily determinable fair values and therefore the Group recognized these investments at cost adjusted for changes from observable transactions for identical or similar investments of the same investee, less impairment.

The Group regularly evaluates the long-term investments for impairment based on performance and financial position of the investees as well as other evidence of market value for each reporting period. 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 others, net in the consolidated statements of comprehensive income equal to the excess of the investment’s carrying value over its fair value.

The impairment on long-term investments for the years ended December 31, 2022, 2023 and 2024 was RMB4,000, nil and nil.

k) Accounts and notes receivable, net

Accounts and notes receivable are recognized and carried at the original invoiced amount less an allowance for credit losses. The Group maintains an allowance for credit losses in accordance with ASC 326 and records the allowance for credit losses as an offset to accounts and notes receivable. Expected credit losses of RMB201, RMB2,884 and RMB1,308 were recorded as general and administrative expenses in the consolidated statements of comprehensive income for the years ended December 31, 2022, 2023 and 2024. Refer to Note 2(ah) “Allowance for credit losses” for additional information about adoption of ASC 326.

l) Inventories

Inventories of the Group consist of raw materials and finished goods. Inventories are stated at the lower of cost or net realizable value. Cost is determined using the weighted average method. Inventories write-downs are made for excessive, slow moving, expired and obsolete inventories as well as for inventories with carrying values in excess of net realizable value. Certain factors could impact the realizable value of inventory, so the Group continually evaluates the recoverability based on assumptions about customer demand and market conditions. The evaluation may take into consideration of historical usage, expiration date, expected demand, anticipated sales price, new product development schedules, product obsolescence, customer concentrations and other factors. Inventories write-downs are recorded in cost of revenue in the consolidated statements of comprehensive income.

RLX TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except for number of shares and per share data, or otherwise noted)

2. Significant accounting policies (Continued)

m) Property, equipment and leasehold improvement, net

Property, equipment and leasehold improvement are stated at cost less accumulated depreciation and impairment, if any. Except for land, which is not depreciated, depreciation of other items of property, equipment and leasehold improvement is computed using the straight-line method over the following estimated useful lives:

Category	Estimated useful lives
Electronic equipment	3-5 years
Furniture and office equipment	3-5 years
Machinery and equipment	2-10 years
Transportation equipment	5 years
Office building	40 years
Leasehold improvement	The shorter of the term of the lease or the estimated useful lives of the assets

Expenditures for maintenance and repairs are expensed as incurred, whereas the costs of renewals and betterment that extend the useful lives of property, equipment and leasehold improvement are capitalized as additions to the related assets. The gain or loss on the disposal of property, equipment and leasehold improvement is the difference between the net sales proceeds and the carrying amount of the relevant assets and is recognized in others, net in the consolidated statements of comprehensive income.

n) Intangible assets, net

Intangible assets mainly include purchased intangible assets and those acquired through a business combination under common control (refer to Note 1(e)). Intangible assets purchased from third parties mainly consist of license of copyright, software and trademark. Identifiable intangible assets are carried at acquisition cost less accumulated amortization and impairment loss, if any. Intangible assets acquired in a business combination under common control, mainly consisting of brands and channel relations, were recognized at the carrying amount recorded by the former parent of the entities under common control. Finite-lived intangible assets are tested for impairment if impairment indicators arise. Amortization of finite-lived intangible assets is computed using the straight-line method over their estimated useful lives, which are as follows:

Category	Estimated useful lives
License of copyright	2 years
Purchased software	2-3 years
Trademark	2 years
Brands	10 years
Channel relations	6 years

o) Goodwill

Goodwill represents the excess of the purchase price over the amounts assigned to the fair value of the identifiable assets acquired and the liabilities assumed of an acquired business. Goodwill of the Group was mainly arisen from a business combination under common control (refer to Note 1 (e)), and recognized at the historical cost recorded by the former parent of the entities under common control. In accordance with ASC 350, Intangibles-Goodwill and Other, recorded goodwill amounts are not amortized, but rather are tested for impairment annually or more frequently at the reporting unit level if there are indicators of impairment present.

RLX TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except for number of shares and per share data, or otherwise noted)

2. Significant accounting policies (Continued)

o) Goodwill (Continued)

Under ASC 350-20-35, the Group has the option to assess qualitative factors first to determine whether it is necessary to perform the quantitative impairment test. In the qualitative assessment, the Group considers primary factors such as industry and market considerations, the overall financial performance of the reporting unit, and other specific information related to the operations. If the Group determines, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than the carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. The quantitative impairment test compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit is greater than zero and its fair value exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. If the carrying value of the reporting unit, including goodwill, exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, but limited to the total amount of goodwill allocated to that reporting unit.

Based on an assessment of the qualitative factors and quantitative assessment, the Group determined that it is more-likely-than-not that the fair value of its reporting unit is in excess of its carrying amount as of December 31, 2024. Therefore, no impairment loss was recorded for the year ended December 31, 2024 (2023: nil, 2022: nil).

p) 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 flows is less than the carrying value of the assets, the Group recognizes an impairment loss based on the excess of the carrying value of the assets over the fair value of the assets. Impairment charge of RMB42,529, RMB5,080 and nil was recognized for the years ended December 31, 2022, 2023 and 2024.

q) Leases

The Group leases office space, warehouses, stores, dormitories and office equipment for fixed periods ranging from 1 month to 66 months, some of which have extension options. Extension options are not recognized by the Group in the determination of lease liabilities unless renewals are reasonably certain. The Group has elected the short-term lease measurement and recognition exemption. The Group recognizes lease payments for its short-term lease on a straight-line basis over the lease term and reassesses the extension options of them to be qualify for the short-term lease measurement.

As of December 31, 2023 and 2024, all the Group's leases are classified as operating leases. For operating leases, the lease liability is initially and subsequently measured at the present value of the unpaid lease payments at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received. Costs associated with operating lease assets are recognized on a straight-line basis within operating expenses over the term of the lease.

In determining the present value of the unpaid lease payments, ASC 842 requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. As most of the Group's leases do not provide an implicit rate, the Group uses its incremental borrowing rate as the discount rate for the lease. The Group's incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments.

RLX TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except for number of shares and per share data, or otherwise noted)

2. Significant accounting policies (Continued)

r) Revenue recognition

The Group follows five steps for revenue recognition: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation.

The Group's revenues are primarily derived from sales of the Group's products to offline distributors who then sell to retailers and end users. Refer to Note 19 to the consolidated financial statements for disaggregation of the Group's revenue for the years ended December 31, 2022, 2023 and 2024.

Sale of products to offline distributors

The Group enters into distribution agreements with offline distributors in the markets outside of China or with those in China prior to the E-Cigarettes Administrative Measures came into effect in 2022. Under the distribution agreements, the offline distributors purchase products from the Group, take delivery and then sell to retailers and end users. After taking control of the products, the offline distributors carry out direct interactions with retailers and end users, delivering the products and providing customer support. Based on these indicators, the Group determined the offline distributors (as opposed to the end users) to be its customers according to ASC 606-10-55-39.

The Group has also entered into rebate agreements with offline distributors in order to incentivize the offline distributors to increase their purchases from the Group. The sales rebates are usually calculated as a percentage of the purchase amount, which is accounted for as variable consideration according to ASC 606-10-32-5.

In addition, the Group provides cash subsidy to offline distributors for promotional activities in the form of rebate. The amount of subsidy is based on a certain percentage of the cost of specific promotional activities, which varies from activity to activity. These subsidies are payable to the Group's customers. The Group determined the subsidy should be recorded as a reduction of revenue, according to ASC 606-10-32-25.

Accordingly, the Group recognizes revenue from sales to offline distributors when control of the products is transferred to customers, in accordance with the incoterms or acceptance clause involved distribution agreements, at an amount equal to the contract sales prices, less applicable allowances for estimated sales rebates and approved subsidies.

Following the E-Cigarettes Administrative Measures came into effect in 2022, the Group sells the products to the offline distributors with Tobacco Monopoly License ("licensed offline distributors") for products sold in China. The licensed offline distributors make full payment to the Group after receiving the products, the payment period is approximately one month. According to the agreements between the Group and the licensed offline distributors, the licensed offline distributors took control of the products upon receipt but was entitled to certain rights of return and price concession after receipt of products. The Group made estimation for sales returns and price concession based on contract terms and historical patterns. The Group determined the sales return and price concession should be recorded as a reduction of revenue, according to ASC 606-10-55-23.

Accordingly, the Group recognized revenue from licensed offline distributors upon delivery of the products to licensed offline distributors' warehouses in an amount equal to the contract sales prices, less applicable allowances for estimated of sales return and price concession.

Others

Other revenues are primarily derived from selling e-liquid to e-cigarette manufacturers and direct sales of e-vapor products through offline stores operated by the Group. The Group recognized revenues when goods are delivered to the end customers.

RLX TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except for number of shares and per share data, or otherwise noted)

2. Significant accounting policies (Continued)

r) Revenue recognition (Continued)

Contract balances

A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. A contract asset is recorded when the Group has transferred products to the customer before payment is received or is due, and the Group's right to consideration is conditional on future performance or other factors in the contract. No contract asset was recorded as of December 31, 2023 and 2024.

Contract liabilities are recognized if the Group receives consideration in advance of performance, which is mainly in relation to the orders unshipped, where there is still an obligation to be fulfilled by the Group. The contract liabilities will be recognized as revenue when all of the revenue recognition criteria are met. All contract liability balances at the beginning of the years 2022, 2023 and 2024 were recognized as revenue for the years ended December 31, 2022, 2023 and 2024 due to generally short-term duration of contracts.

For the years ended December 31, 2022, 2023 and 2024, the Group did not have any revenue recognized from performance obligations satisfied (or partially satisfied) in previous years.

Practical Expedients

The transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied has not been disclosed, as substantially all the Group's contracts have a duration of one year or less.

Payment terms with licensed offline distributors generally require settlement within 90 days or less. The Group has determined that its contracts generally do not include a significant financing component.

s) Cost of revenue

Cost of revenues consists primarily of consignment manufacturing costs, material costs, import duties and taxes, inventories write-downs and depreciation of the machinery and equipment used on production lines, as well as related costs that are directly attributable to the production of products.

t) Excise taxes

Excise taxes of the Group consist of excise tax imposed on manufacturers of e-cigarettes in China. In October 2022, the Ministry of Finance of the People's Republic of China, General Administration of Customs of the People's Republic of China, and State Taxation Administration of the People's Republic of China jointly issued the Announcement on Imposing Excise Tax on E-cigarettes, pursuant to which e-cigarette manufacturers are subject to excise tax at the rate of 36% on the production or import of e-cigarettes.

The excise taxes of the Group are reported on a gross basis and recognized in excise tax on products in the consolidated statements of comprehensive income.

u) Product warranty

The Group provides product warranty on all e-vapor products sold based on the contracts with its customers at the time of sale of products. The Group accrues a warranty reserve for the products sold, which includes the best estimate of defective rate and projected costs to repair or replace items under warranty. These estimates are primarily based on the estimates of the nature, frequency and average costs of future claims. The warranty reserve is included within the accrued expenses and other current liabilities in the consolidated balance sheets. Warranty cost is recorded as a component of cost of sales in the consolidated statements of comprehensive income. The Group reevaluates the adequacy of the warranty accrual on a regular basis.

RLX TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except for number of shares and per share data, or otherwise noted)

2. Significant accounting policies (Continued)

v) Research and development expenses

Research and development expenses primarily consist of salaries, welfare benefits and share-based compensation expenses for research and development personnel as well as material expenses and depreciation of equipment associated with research and development activities.

Costs incurred for the preliminary project stage of internal use software are expensed in research and development expenses when incurred. Costs incurred during the application development stage are capitalized when certain criteria are met as stated in ASC 350-40 “*Internal-use Software*”. Costs incurred during the post-implementation-operation stage are also expensed as incurred. As the period qualified for capitalization has historically been very short and the development costs incurred during this period have been immaterial, development costs of internal use software to date have been expensed when incurred.

w) Selling expenses

Selling expenses primarily consist of branding expenses, salaries, welfare benefits and shared-based compensation expenses for sales personnel, and shipping expenses. The advertising expenses amounted to RMB57,954, RMB31,899 and RMB15,013 for the years ended December 31, 2022, 2023 and 2024, respectively. The shipping expenses amounted to RMB40,710, RMB8,925 and RMB10,814 for the years ended December 31, 2022, 2023 and 2024, respectively.

x) General and administrative expenses

General and administrative expenses primarily consist of salaries, welfare benefits and share-based compensation expenses for general and administrative personnel, depreciation and amortization expenses and professional service fees.

y) Subsidy income

Subsidy income represents cash subsidies received from the PRC local government by the Group. Such amounts are recognized in others, net in the consolidated statements of comprehensive income upon receipt. The Group recorded RMB338,112, RMB124,480 and RMB23,223 of subsidy income for the years ended December 31, 2022, 2023 and 2024, respectively.

z) Share-based compensation

All share-based awards granted to directors, executive officers, employees, consultants and nonemployees who provide services to Relx Inc., including restricted ordinary shares, restricted share units and share options, are measured at fair value on grant date and are classified as equity awards in accordance with ASC 718 — “Compensation-Stock Compensation”. The Group early adopted ASU 2018-07, “Compensation-Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting” on January 2, 2018 (date of inception) to account for share-based payments for acquiring goods and services from nonemployees at grant date fair value.

For all share-based awards granted with service conditions that have a graded vesting schedule, share-based compensation expenses are recognized using the straight-line method, over the requisite service period. The Group adopted ASU 2016-09 to recognize the impact of forfeiture within compensation expense, when they occur. Restricted share units and share options granted with a service condition and a performance condition are measured at the grant date fair value. In circumstances where the service inception date precedes the grant date, share-based compensation expenses are measured beginning on the service inception date and is re-measured on each subsequent reporting date before the grant date, based on the estimated fair value of the related awards.

Prior to the Share Distribution, all the share options and restricted ordinary shares were granted by Relx Inc. using Relx Inc.’s underlying ordinary shares. The fair value of the ordinary shares of Relx Inc. is determined by using the income approach, with a discount for lack of marketability, given that the shares underlying the awards were not publicly traded. Upon completion of the Share Distribution, the options were granted by the Company using its own underlying ordinary shares. The fair value of the ordinary shares of the Company is equal to its market price. The Group uses the binomial option pricing model to estimate fair value of the share options. The determination of the fair value of share options is affected by the fair value of the underlying ordinary shares as well as assumptions regarding a number of complex and subjective variables, including the expected share price volatility, actual and projected grantee’s share option exercise behavior, risk free interest rates and expected dividends.

RLX TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except for number of shares and per share data, or otherwise noted)

2. Significant accounting policies (Continued)

z) Share-based compensation (Continued)

The shares issued prior to the Share Distribution to directors, executive officers, employees and consultants are those of Relx Inc. and the proportion of the share-based compensation expenses attributable to the Group is accounted for as a capital contribution from Relx Inc. The Company's share options granted to employees of Relx Inc. in connection with the Share Distribution are recorded as a deemed dividend from the Group to its shareholders at the fair value determined as of the grant date. Refer to Note 20 for details.

aa) 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 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 regulatory contributions made.

The total amounts of such employee benefit expenses, which were expensed as incurred, were approximately RMB86,666, RMB49,609 and RMB32,806 for the years ended December 31, 2022, 2023 and 2024, respectively.

ab) Taxation

Income taxes

Current income taxes are provided on the basis of net income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions. Deferred income taxes are accounted for using an asset and liability method. Under this method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purpose. The effect on deferred taxes of a change in tax rates is recognized in the consolidated statement of comprehensive income in the period of change. The Group records a valuation allowance against the amount of deferred tax assets if, based on the weight of available evidence, it is more likely than not that the deferred tax assets will not be realized.

Uncertain tax positions

The guidance on accounting for uncertainties in income taxes prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Guidance is also provided on the recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. Significant judgment is required in evaluating the Group's uncertain tax positions and determining its provision for income taxes. The Group recognizes interests and penalties, if any, under accrued expenses and other current liabilities on its balance sheet and under others, net in its consolidated statements of comprehensive income. The Group did not recognize any interest and penalties associated with uncertain tax positions for the years ended December 31, 2022, 2023 and 2024. As of December 31, 2023 and 2024, the Group did not have any significant unrecognized uncertain tax positions.

RLX TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except for number of shares and per share data, or otherwise noted)

2. Significant accounting policies (Continued)

ac) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or significant influence, such as a family member or relative, shareholder, or a related corporation.

ad) Statutory reserves

The Company's subsidiaries, the VIE and subsidiaries of the VIE established in the PRC are required to make appropriations to certain non-distributable reserve funds.

In accordance with the laws applicable to the Foreign Investment Enterprises established in the PRC, the Company's subsidiaries registered as wholly foreign-owned enterprise have to make appropriations from their annual after-tax profits (as determined under generally accepted accounting principles in the PRC ("PRC GAAP")) to reserve funds including general reserve fund, enterprise expansion fund and staff bonus and welfare fund. The appropriation to the general reserve fund must be at least 10% of the annual after-tax profits calculated in accordance with PRC GAAP. Appropriation is not required if the general reserve fund has reached 50% of the registered capital of the company. Appropriations to the enterprise expansion fund and staff bonus and welfare fund are made at the respective company's discretion.

In addition, in accordance with the PRC Company Laws, the Group's VIE registered as Chinese domestic company must make appropriations from its annual after-tax profits as determined under the PRC GAAP to non-distributable reserve funds including statutory surplus fund and discretionary surplus fund. The appropriation to the statutory surplus fund must be 10% of the annual after-tax profits as determined under PRC GAAP. Appropriation is not required if the statutory surplus fund has reached 50% of the registered capital of the company. Appropriation to the discretionary surplus fund is made at the discretion of the company.

The use of the general reserve fund, enterprise expansion fund, statutory surplus fund and discretionary surplus fund are restricted to offsetting of losses or increasing of the registered capital of the respective company. The staff bonus and welfare fund are liabilities in nature and are restricted to fund payments of special bonus to employees and for the collective welfare of all employees. None of these reserves are allowed to be transferred to the Company in terms of cash dividends, loans or advances, nor can they be distributed except under liquidation.

For the years ended December 31, 2022, 2023 and 2024, the profit appropriation to statutory surplus fund for the Group's entities incorporated in the PRC was RMB25,492, nil and RMB506, respectively. No appropriation to other reserve funds was made for any of the periods presented.

ae) Comprehensive income

Comprehensive income is defined as the change in equity of the Group during a period arising from transactions and other events and circumstances excluding transactions resulting from investments by shareholders and distributions to shareholders. Accumulated other comprehensive income, as presented on the accompanying consolidated balance sheets, mainly consists of accumulated foreign currency translation adjustments, and unrealized (loss)/income on investment securities.

af) Segment reporting

Based on the criteria established by ASC 280 "Segment Reporting", the Group's chief operating decision maker ("CODM") has been identified as its Chief Executive Officer, who reviews consolidated results of the Group when making decisions about allocating resources and assessing performance.

For the purpose of internal reporting and management's operation review, the chief operating decision maker does not segregate the Group's business by market or product. Hence, the Group has only one operating and reportable segment.

RLX TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except for number of shares and per share data, or otherwise noted)

2. Significant accounting policies (Continued)

ag) Concentration and risk

Foreign exchange risk

The revenues and expenses of the Group's entities in the PRC are generally denominated in RMB and their assets and liabilities are denominated in RMB. The RMB is not freely convertible into foreign currencies. Remittances of foreign currencies into the PRC or remittances of RMB out of the PRC as well as exchange between RMB and foreign currencies require approval by foreign exchange administrative authorities with certain supporting documentation. The State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into other currencies.

Credit risk

Financial instruments that potentially expose the Group to credit risk consist primarily of cash and cash equivalents, restricted cash, short-term bank deposits, long-term bank deposits, accounts and notes receivable, receivables from online payment platforms, short-term investments, long-term investment securities and amounts due from related parties. The carrying amounts of these financial instruments represent the maximum amount of loss due to credit risk.

The Group places its cash and cash equivalents, restricted cash, short-term bank deposits, short-term investments, long-term investment securities and long-term bank deposits in reputable financial institutions with high credit ratings and quality. There has been no recent history of default in relation to these financial institutions and credit risk is immaterial.

Accounts and notes receivable and other receivables are typically unsecured and are mainly derived from the ordinary course of business. The risk with respect to these financial instruments is mitigated by credit evaluations the Group performs on its customers and its ongoing monitoring processes of outstanding balances.

Concentration of customers and suppliers

There was revenue from one offline Distributor A which individually represented greater than 10% of the net revenue for the year ended December 31, 2022. There were accounts receivable due from two offline distributors (Distributor D and Distributor E) which individually represented greater than 10% and totally contributed to 33% of the Group's total accounts and notes receivable as of December 31, 2022.

There was no revenue from one offline distributor which individually represented greater than 10% of the net revenue for the year ended December 31, 2023. There were accounts receivable due from four offline distributors (Distributor F, Distributor G, Distributor H and Distributor I) which individually represented greater than 10% and totally contributed to 61% of the Group's total accounts and notes receivable as of December 31, 2023.

There was revenue from two offline distributors which individually represented greater than 10% of the net revenue for the year ended December 31, 2024. There were accounts receivable due from three offline distributors (Distributor J, Distributor K, Distributor L) which individually represented greater than 10% and totally contributed to 39% of the Group's total accounts and notes receivable as of December 31, 2024.

There was purchase from Supplier A which represented greater than 10% and contributed to 80% of the total purchases amount for the year ended December 31, 2022 and the corresponding accounts and notes payable due to that supplier represented greater than 10% and contributed to 86% of the Group's total accounts and notes payable as of December 31, 2022.

There was purchase from Supplier A which represented greater than 10% and contributed to 58% of the total purchases amount for the year ended December 31, 2023 and the corresponding accounts and notes payable due to that supplier represented greater than 10% and contributed to 74% of the Group's total accounts and notes payable as of December 31, 2023.

RLX TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except for number of shares and per share data, or otherwise noted)

2. Significant accounting policies (Continued)

ag) Concentration and risk (Continued)

There was purchase from two Suppliers (Supplier A and Supplier B) which individually represented greater than 10% and totally contributed to 55% of the total purchases amount for the year ended December 31, 2024 and the corresponding accounts and notes payable due to those two suppliers individually represented greater than 10% and totally contributed to 68% of the Group's total accounts and notes payable as of December 31, 2024.

ah) Allowance for credit losses

The Group's financial assets subject to the current expected credit loss model ("CECL model") mainly include short-term bank deposits, long-term bank deposits, short-term and long-term investment securities, accounts and notes receivable, prepayments and other current assets and related party receivables, and the allowance for these financial assets is driven by estimated default rate of underlying receivables. The Group estimates the default rate of receivables on a pool basis by taking into consideration the overall trend of historical delinquency rate and collection rate, correlated industrial and macro-economic factors, and other information deemed relevant in assessing future performance of the receivables portfolio. The Group monitors the delinquency status by vintage of origination and write off delinquent receivables timely when the receivables become uncollectible. Allowance for credit losses of RMB25,039, RMB1,615 and RMB4,045 were recorded in the consolidated statements of comprehensive income during the years ended December 31, 2022, 2023 and 2024.

ai) Net income per ordinary share

Basic net income per ordinary share is computed by dividing net income attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. For the calculation of diluted net income per ordinary share, the weighted average number of ordinary shares is adjusted by the effect of potential dilutive ordinary shares, including ordinary shares issuable upon the exercise of outstanding share options and restricted share units using the treasury stock method. The effect mentioned above is not included in the calculation of the diluted net income per ordinary share when inclusion of such effect would be anti-dilutive.

The shares repurchased by the Company are excluded from the number of shares outstanding for purposes of computing basic and diluted net income per ordinary share in accordance with ASC 260.

aj) Dividends

Dividends of the Company are recognized when declared.

RLX TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except for number of shares and per share data, or otherwise noted)

2. Significant accounting policies (Continued)

ak) Recently issued accounting pronouncements

Recently adopted accounting pronouncements

In November 2023, the FASB issued ASU No. 2023-07, Segment Reporting: Improvements to Reportable Segment Disclosures (“ASU 2023-07”). ASU 2023-07 requires an enhanced disclosure of significant segment expenses that are regularly provided to the CODM and included in reported segment profit or loss, on an annual and interim basis. The guidance is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The amendments should be adopted retrospectively to all prior periods presented. The Group adopted this ASU in 2024 for annual period disclosures, which did not have a material impact on the Group’s consolidated financial statements.

Recent accounting pronouncements not yet adopted

In December 2023, the FASB issued ASU No. 2023-09, Income Taxes (Topic 740)-Improvements to Income Tax Disclosures (“ASU 2023-09”). ASU 2023-09 requires disaggregated information about a reporting entity’s effective tax rate reconciliation as well as additional information on income taxes paid. The guidance is effective for annual periods beginning after December 15, 2024 on a prospective basis. Early adoption is permitted. The Group is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

In November, 2024, the FASB issued ASU No. 2024-03, Income Statement (Topic 220)- Reporting Comprehensive Income- Expense Disaggregation Disclosures (Subtopic 220-40). ASU 2024-03 requires publicly-traded business entities to disclose specified information about the components of certain costs and expenses that are currently disclosed in the financial statements. The guidance is effective for annual reporting periods beginning after December 15, 2026, and interim reporting periods beginning after December 15, 2027. Early adoption is permitted. The Group is currently evaluating the impact of the above new accounting pronouncement or guidance on the consolidated financial statements.

3. Cash and cash equivalents

Cash and cash equivalents represent cash at bank and demand deposits placed with banks which have original maturities of three months or less and are readily convertible to known amount of cash. The balance of cash and cash equivalents as of December 31, 2023 and 2024 primarily consist of the following:

	As of December 31,	
	2023	2024
	RMB	RMB
Short-term bank deposits with initial terms within three months	155,819	337,855
Cash at bank	2,234,479	5,255,637
Cash and cash equivalents	2,390,298	5,593,492

4. Bank deposits, net

	As of December 31,	
	2023	2024
	RMB	RMB
Short-term bank deposits, net	2,631,256	2,179,886
Long-term bank deposits, net	1,757,804	727,448
Total⁽ⁱ⁾	4,389,060	2,907,334

The allowance for credit losses recorded in bank deposits as of December 31, 2023 and 2024 were RMB2,408 and RMB1,607.

RLX TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except for number of shares and per share data, or otherwise noted)

5. Investment securities

	As of December 31,	
	2023 RMB	2024 RMB
Short-term investments_ Fair value option	2,183,862	642,822
Short-term investments, net_ Available-for-sale	561,940	—
Short-term investments, net_ Held-to-maturity	347,331	76,933
Long-term investment securities, net_ Held-to-maturity	5,236,109	6,390,542
Long-term investment securities, net_ Available-for-sale	—	208,823
Total	8,329,242	7,319,120

The allowance for credit losses recorded in investment securities as of December 31, 2023 and 2024 were RMB5,213 and RMB8,467.

6. Accounts and notes receivable, net

	As of December 31,	
	2023 RMB	2024 RMB
Accounts receivable	63,508	82,096
Allowance for doubtful accounts	(3,026)	(3,612)
Accounts and notes receivable, net	60,482	78,484

7. Inventories

Inventories are consisted of the following:

	As of December 31,	
	2023 RMB	2024 RMB
Finished goods	117,665	121,436
Raw materials	27,185	21,116
Inventories	144,850	142,552

For the years ended December 31, 2022, 2023 and 2024, write-downs of inventories to net realizable value amounted to RMB179,694, RMB35,695 and RMB24,344, respectively, were recognized in cost of sales.

RLX TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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8. Prepayments and other current assets, net

The following is a summary of prepayments and other current assets:

	As of December 31,	
	2023 RMB	2024 RMB
Value Added Tax (“VAT”) recoverable	28,597	16,557
Income tax recoverable	—	3,033
Prepaid service fees and selling expenses	7,842	10,893
Prepayments to suppliers	2,700	7,940
Deferred charges	1,321	4,651
Deposits for rental	11,669	9,606
Interest receivable	446,528	111,146
Receivable from financial institution	1,511	6,162
Others	20,027	27,147
Prepayments and other current assets	520,195	197,135
Less: allowance for credit losses ⁽ⁱ⁾	(11,760)	(12,044)
Prepayments and other current assets, net	508,435	185,091

(i) The allowance for credit losses recorded as of December 31, 2023 and 2024 were RMB11,760 and RMB12,044. The movement in the allowance for credit losses were as follow:

	2023	2024
	RMB	RMB
Balance as of January 1	18,102	11,760
Write-off	(6,862)	—
Amounts charged to expenses	520	284
Balance as of December 31	11,760	12,044

9. Property, equipment and leasehold improvement, net

The following is a summary of property, equipment and leasehold improvement, net:

	As of December 31,	
	2023 RMB	2024 RMB
Leasehold improvement	97,509	97,767
Machinery and equipment	123,142	135,155
Land	8,376	7,501
Office building	8,328	7,457
Furniture and office equipment	6,746	1,663
Electronic equipment	1,809	2,759
Transportation equipment	1,349	1,756
Total property, equipment and leasehold improvement	247,259	254,058
Less: accumulated depreciation	(154,656)	(188,169)
Less: accumulated impairment	(15,245)	(15,102)
Property, equipment and leasehold improvement, net	77,358	50,787

Depreciation expenses were RMB76,041, RMB37,622 and RMB27,738 for the years ended December 31, 2022, 2023 and 2024, respectively. The Group recorded RMB28,561, RMB5,008 and nil impairment losses for the years ended December 31, 2022, 2023 and 2024, respectively.

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10. Intangible assets, net

The following table summarizes the Group's intangible assets, net:

	As of December 31,	
	2023 RMB	2024 RMB
License of copyright	4,098	3,421
Purchased software	23,264	26,793
Trademark	44	567
Brands ⁽ⁱ⁾	34,522	30,916
Channel relations ⁽ⁱ⁾	32,430	29,044
Total intangible assets	94,358	90,741
Less: accumulated amortization	(23,203)	(36,568)
Less: accumulated impairment	(1,377)	(1,377)
Intangible assets, net	69,778	52,796

(i) The brands and channel relations were transferred from SS North Asia as a result of a business combination under common control (refer to Note 1 (e)), and recognized at the historical cost recorded by the former parent of SS North Asia in accordance with ASC 805-50.

Amortization expenses for the years ended December 31, 2022, 2023 and 2024 were RMB5,367, RMB8,892 and RMB12,510, respectively. The Group recorded RMB1,377, nil and nil impairment losses for the years ended December 31, 2022, 2023 and 2024, respectively.

The estimated amortization expenses for each of next five years and thereafter is as follows :

	Amortization expense of intangible assets RMB
2025	10,416
2026	9,019
2027	8,104
2028	7,932
2029	6,117
Thereafter	11,208

11. Long-term investments, net

The following sets forth the summary of the Group's long-term investments:

	As of December 31,	
	2023 RMB	2024 RMB
Measurement alternative investments:		
Investee A	1,000	1,000
Investee B	4,000	4,000
Investee C	8,000	8,000
Total measurement alternative investments	13,000	13,000
Less: impairment	(5,000)	(5,000)
Long-term investments, net	8,000	8,000

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11. Long-term investments, net (Continued)

In July 2019, the Group acquired 13.34% equity interests of investee A and 20.00% equity interests of investee B for cash consideration of RMB1,000 and RMB4,000, respectively.

In March 2021, the Group acquired 5.00% equity interests of investee C for cash consideration of RMB8,000.

The investments are accounted for under measurement alternative according to ASU 2016-01 as the shares held by the Company were not considered as in-substance common stock and the shares do not have readily determinable fair value. The Group recognized impairment loss of RMB4,000, nil and nil for the years ended December 31, 2022, 2023 and 2024, respectively.

12. Goodwill

The changes in the carrying amount of goodwill were as follows:

	As of December 31,	
	2023	2024
	RMB	RMB
Balance as of January 1	—	66,506
Addition ⁽ⁱ⁾	66,506	24
Foreign currency translation difference	—	(6,949)
Balance as of December 31	66,506	59,581

- (i) The goodwill as of December 31, 2023 was transferred from SS North Asia as a result of a business combination under common control (refer to Note 1 (e)), and recognized at the historical cost recorded by the former parent of SS North Asia in accordance with ASC 805-50.

No impairment charge was recognized for the years ended December 31, 2022, 2023 and 2024, respectively.

13. Other non-current assets, net

The following is a summary of other non-current assets as of December 31, 2023 and 2024:

	As of December 31,	
	2023	2024
	RMB	RMB
Prepayments on long-term assets	6,717	7,054
Deposits for rental	4,183	3,182
Others	—	3,032
Other non-current assets	10,900	13,268
Less: impairment ⁽ⁱ⁾	(6,026)	(3,354)
Other non-current assets, net	4,874	9,914

- (i) The Group recorded RMB12,591, RMB72 and nil impairment losses for the years ended December 31, 2022, 2023 and 2024, respectively.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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14. Accounts and notes payable

The Group measures accounts payable and notes payable at amortized cost considering they are arising from transactions with suppliers in the normal course of business and are due in customary trade terms not exceeding one year. Accounts and notes payable consist of the following:

	As of December 31,	
	2023	2024
	RMB	RMB
Accounts payable	109,410	295,490
Notes payable ⁽ⁱ⁾	157,016	163,048
Total accounts and notes payable	266,426	458,538

(i) The Group's notes payable mainly include short-term notes, typically with terms of 91 to 92 days which are provided to the Group's suppliers and manufacturers. Notes payable as of December 31, 2023 and December 31, 2024 were secured by restricted cash of RMB26,436 and RMB24,052 held in commercial banks.

15. Short-term loan

Short-term loans as of December 31, 2023 and 2024 amounted to nil and RMB40.0 million (US\$5.5 million), respectively, which consisted of RMB denominated borrowings made by the Group's subsidiaries from financial institutions in mainland China and were repayable within one year.

16. Accrued expenses and other current liabilities

The following is a summary of accrued expenses and other current liabilities as of December 31, 2023 and 2024:

	As of December 31,	
	2023	2024
	RMB	RMB
Deposits from offline distributors, retailers and others	9,427	12,080
Professional service fee payables	18,194	33,601
Product warranty ⁽ⁱ⁾	3,208	5,125
Payables on equipment	1,575	516
Accrued liabilities to suppliers	44,140	37,194
Payable related to employees' exercise of share-based awards	3,168	8,269
Others	24,284	12,031
Accrued expenses and other current liabilities	103,996	108,816

(i) Product warranty activities were as follows:

	Product warranty RMB
Balance as of January 1, 2023 (As adjusted)	5,051
Provided during the year	21,116
Utilized during the year	(22,959)
Balance as of December 31, 2023	3,208
Provided during the year	10,188
Utilized during the year	(8,271)
Balance as of December 31, 2024	5,125

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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17. Leases

The Group has operating leases for office space, warehouses, stores, dormitories and office equipment that the Group utilizes under lease arrangement. The Group also leases space for a manufacturing facility which houses production equipment owned by the Company and operated in cooperation with a third party operational partner.

A summary of supplemental information related to operating leases is as follows:

	As of December 31,	
	2023	2024
	RMB	RMB
Lease right-of-use assets, net	52,562	24,110
Lease liabilities - current portion	29,435	11,447
Lease liabilities - non-current portion	24,419	7,050
Total lease liabilities	53,854	18,497
Weighted average remaining lease term	1.88 years	1.05 years
Weighted average annual discount rate	4.75 %	4.75 %

A summary of lease cost recognized in the Group's consolidated statements of comprehensive income and supplemental cashflow information related to operating leases is as follows:

	For the year ended		
	December 31, 2022 (As adjusted)	December 31, 2023	December 31, 2024
	RMB	RMB	RMB
Operating lease expense	89,629	54,565	35,548
Short-term lease expense	5,596	5,430	7,561
Total lease cost	95,225	59,995	43,109

Supplemental cash flow information for the Group's leases was as follows:

	For the year ended		
	December 31, 2022 (As adjusted)	December 31, 2023	December 31, 2024
	RMB	RMB	RMB
Cash payments for operating lease liabilities, included in operating cash flows	77,189	62,636	43,135
Lease liabilities arising from obtaining right-of-use assets	35,311	38,746	6,625
Decrease in lease liabilities due to termination of lease contracts	(53,510)	(12,657)	(42)

As of December 31, 2024, the remaining lease terms for these operating leases are generally from 1 month to 55 months. The aggregate future minimum rental payments under non-cancelable agreement were as follows:

	Rental RMB
2025	11,845
2026	7,066
2027	102
2028	63
2029	30
Total minimum lease payment	19,106
Less: imputed interest	(609)
Total lease liability balance	18,497

RLX TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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18. Income tax expense

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 its shareholders, no Cayman Islands withholding tax will be imposed.

Hong Kong

Under the current Hong Kong Inland Revenue Ordinance, the subsidiaries of the Group in Hong Kong are subject to 16.5% Hong Kong profit tax for their taxable income earned. Additionally, payments of dividends by the subsidiaries incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

South Korea

The subsidiaries of the Group in South Korea are subject to an enterprise income tax on their taxable income in South Korea with a progressive tax rate, which is 9% on the first Korean won (KRW) 200 million, 19% for the taxable income over KRW200 million up to KRW20 billion, 21% for the taxable income over KRW20 billion up to KRW300 billion and 24% for the excess. The subsidiaries of the Group in South Korea are also subject to local income tax with progressive tax rates from 0.9% to 2.4% based on their taxable income.

The South Korean Enterprise Income Tax Law provides that a withholding tax rate of 20% is normally applicable to dividends paid to non-resident enterprise shareholders. A preferential withholding tax rate of 10% or 15% could be applicable for dividend paid to a Hong Kong resident company provided that certain conditions under the double tax treaty between Hong Kong and the Republic of Korea are met.

Indonesia

The subsidiary of the Group in Indonesia is subject to 22% Indonesia income tax for its taxable income.

PRC

In accordance with the Enterprise Income Tax Law (“EIT Law”), Foreign Investment Enterprises (“FIEs”) and domestic companies are subject to Enterprise Income Tax (“EIT”) at a uniform rate of 25%. The subsidiaries and the VIE of the Group in the PRC are subject to a uniform income tax rate of 25% for years presented. A subsidiary established in Shenzhen met the criteria for a preferential income tax rate of 15%.

Shenzhen Wuxin is recognized as “High and New Technology Enterprises” in accordance with the Notice of the Ministry of Science, the Ministry of Finance and the State Administration of Taxation on Amending and Issuing the Administrative Measures for the Determination of High and New Tech Enterprises and is entitled to enjoy a preferential enterprise income tax rate of 15% rather than the 25% uniform statutory tax rate. The preferential tax treatment continues as long as it can retain its “High and New Technology Enterprise” status, for the three-year period from 2023 to 2025, and may not be available in a future period.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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18. Income tax expense (Continued)

PRC (Continued)

The EIT Law also provides that an enterprise established under the laws of a foreign country or region but whose “de facto management body” is located in the PRC be treated as a resident enterprise for PRC tax purposes and consequently be subject to the PRC income tax at the rate of 25% for its global income. The Implementing Rules of the EIT Law merely define the location of the “de facto management body” as “the place where the exercising, in substance, of the overall management and control of the production and business operation, personnel, accounting, properties, etc., of a non-PRC company is located.” Based on a review of surrounding facts and circumstances, the Group does not believe that it is likely that its entities registered outside of the PRC should be considered as resident enterprises for the PRC tax purposes.

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 examinations of the tax filings in other jurisdictions, which are not material to the consolidated financial statements.

The EIT Law also imposes a withholding income tax of 10% on dividends distributed by a FIE to its immediate holding company outside of China, if such immediate holding company is considered as a non-resident enterprise without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. The Cayman Islands, where the Company incorporated, does not have such tax treaty with China. According to the arrangement between the mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by an FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the immediate holding company in Hong Kong is the beneficial owner of the FIE and owns directly at least 25% of the shares of the FIE). In accordance with accounting guidance, all undistributed earnings are presumed to be transferred to parent company and withholding taxes should be accrued accordingly. All FIEs are subject to the withholding tax from January 1, 2008. The presumption may be overcome if the Group has sufficient evidence to demonstrate that the undistributed dividends from its PRC subsidiaries will be reinvested and the remittance of the dividends from its PRC subsidiaries will be postponed indefinitely.

Aggregate undistributed earnings and reserves of the Group entities located in the PRC that are available for distribution to the Company as of December 31, 2023 and 2024 are approximately RMB2,832,451 and RMB3,023,956, respectively. The Group plans to indefinitely reinvest undistributed earnings earned from its PRC subsidiaries in its operations in the PRC, and distribute the earnings earned from its tax-exempt subsidiaries in its operations out of PRC as dividends to shareholders. Therefore, as of December 31, 2023 and 2024, no withholding income tax for undistributed earnings of its subsidiaries were provided, and the unrecognized deferred tax liabilities were RMB283,245 and RMB302,396.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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18. Income tax expense (Continued)

Composition of income tax expense

The current and deferred components of income taxes appearing in the consolidated statements of comprehensive income are as follows:

	For the year ended		
	December 31, 2022 (As adjusted)	December 31, 2023	December 31, 2024
	RMB	RMB	RMB
Current tax expense	410,478	46,260	84,798
Deferred tax (benefit)/expense	(38,898)	4,495	9,661
Income tax expense	371,580	50,755	94,459

The following table presents a reconciliation of the differences between the statutory income tax rate of PRC, where the Group's major subsidiary and business is located, and the Company's effective income tax rate for the years ended December 31, 2022, 2023 and 2024:

	For the year ended		
	December 31, 2022 (As adjusted)	December 31, 2023	December 31, 2024
	%	%	%
Statutory income tax rate of the PRC	25	25	25
Tax effect of permanent differences ⁽ⁱ⁾	1	2	1
Change in valuation allowance	—	(2)	1
Tax effect of preferential tax rates	(1)	1	(1)
Effect of income tax in jurisdictions other than the PRC	(2)	(21)	(14)
Tax effect of Super Deduction and others	(2)	3	2
Effective income tax rate	21	8	14

(i) The permanent book-tax differences mainly consisted of share-based compensation.

The following table sets forth the effect of tax holiday to the Group:

	For the year ended		
	December 31, 2022 (As adjusted)	December 31, 2023	December 31, 2024
	RMB	RMB	RMB
Tax holiday effect	24,365	(8,793)	3,744
Basic net income per share effect	0.02	(0.01)	0.00
Diluted net income per share effect	0.02	(0.01)	0.00

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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18. Income tax expense (Continued)

Deferred tax assets and deferred tax liabilities

The following table presents the tax impact of significant temporary differences that give rise to the deferred tax assets and liabilities as of December 31, 2023 and 2024:

	As of December 31,	
	2023 RMB	2024 RMB
Deferred tax assets:		
Net operating tax loss carry forwards	36,235	16,504
Inventory provisions	23,433	13,357
Product warranty	481	775
Accrued expenses and others	17,137	27,577
Less: Valuation Allowance	(3,613)	(8,551)
Total deferred tax assets	73,673	49,662
Deferred tax liabilities:		
Accelerated depreciation of property, equipment and leasehold improvement	(16,145)	(13,480)
Unrealized investment income	(7,301)	(2,063)
Assets arisen from business combination	(15,555)	(12,248)
Total deferred tax liabilities	(39,001)	(27,791)
Presentation in the consolidated balance sheet		
Deferred tax assets	58,263	38,067
Deferred tax liabilities	(23,591)	(16,196)
Net deferred tax assets	34,672	21,871

The Group offsets deferred tax assets and liabilities pertaining to a particular tax-paying component of the Group within a particular jurisdiction.

The movements in the valuation allowance were as follows:

	For the year ended	
	December 31, 2023 RMB	December 31, 2024 RMB
Balance as of January 1	16,145	3,613
Addition	—	4,938
Reverse	(12,532)	—
Balance as of December 31	3,613	8,551

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18. Income tax expense (Continued)*Deferred tax assets and deferred tax liabilities (Continued)*

A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion or all of the deferred tax assets will not be realized in the foreseeable future. In making such determination, the Group evaluate a variety of positive and negative factors including the operating history, accumulated deficit, the existence of taxable temporary differences and reversal periods.

The Company evaluated its income tax uncertainty under ASC 740. ASC 740 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. The Company elects to classify interest and penalties related to an uncertain tax position, if and when required, as part of income tax expense in the consolidated statements of comprehensive income. The Company does not expect the amount of unrecognized tax benefits to increase significantly in the next 12 months. In general, the PRC tax authorities have up to five years to conduct examinations of the tax filings of the Company's PRC subsidiaries. Accordingly, the PRC subsidiaries' tax years of 2019 – 2024 remain open to examination by the respective tax authorities. The Company may also be subject to the examination of the tax filings in other jurisdictions.

19. Revenues

The Group's revenue by channel for the respective periods are detailed as follows:

	For the year ended		
	December 31, 2022 (As adjusted)	December 31, 2023	December 31, 2024
	RMB	RMB	RMB
Sales of products by channel			
- Sales to offline distributors	5,168,559	1,487,084	2,585,814
- Others	164,220	99,313	162,762
Total revenues	5,332,779	1,586,397	2,748,576

20. Share-based compensation

Share-based compensation expenses for the years presented relates to (a) share awards to directors, executive officers, employees and consultants of the Group, (b) restricted ordinary shares held in escrow by Relx Inc. to Ms. Ying (Kate) Wang, Mr. Long (David) Jiang and Mr. Yilong Wen (together, "Co-founders"), and three founding employees (together with Co-founders, the "Founding Members") of the Group. For the years ended December 31, 2022, 2023 and 2024, total share-based compensation expenses allocated and recognized by the Group were amounted to RMB166,161, RMB362,868 and RMB369,655, respectively.

(a) Equity Incentive Plans

On September 30, 2018 and May 22, 2019, the Board of Directors of Relx Inc. respectively approved 2019 equity incentive plan and 2020 equity incentive plan (together, the "Relx Inc. Incentive Plans") to attract, motivate, retain and reward certain directors, executive officers, employees and consultants for their contribution to the Group and to Relx Inc.'s non-PRC operations. According to the resolutions of Relx Inc.'s Board of Directors in September 2018, February 2019 and April 2019, the total number of Class B ordinary shares of Relx Inc. available for issuance under Relx Inc. Incentive Plans increased to 22,493,577. The awards granted under Relx Inc. Incentive Plans have a contractual term of ten years from the stated grant date, and are generally scheduled to be vested in four to seven years subject to a service condition and a performance condition as below.

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20. Share-based compensation (Continued)

(a) Equity Incentive Plans (Continued)

The awards will vest in four to seven equal annual installments, with the number of vested awards for each installment determined based on the grantee's performance rating during each year. No objective measurement metrics used to determine the performance rating was provided on the stated grant date, and the actual performance rating will only be subjectively determined by Relx Inc.'s chief executive officer after the end of the corresponding year for each annual installment in the period from January 2, 2018 (date of inception) to December 31, 2018 and the year ended December 31, 2019; and from January 1, 2020, the performance rating will be subjectively determined by the compensation committee of Relx Inc. at the end of the corresponding year for each annual installment. Therefore, the stated grant date does not meet the definition of the accounting grant date as there was no mutual understanding of the key terms and conditions. For each annual installment, the accounting grant date is considered to be the date the performance evaluation for corresponding year is completed and communicated, which is the date used to measure the share-based compensation expense. As the awards contain a performance condition that if not satisfied during the year 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;

Subject to Relx Inc.'s repurchase right, in the event that the grantee voluntarily terminates employment with the Group within the stated vesting period, any awards vested in prior years will be forfeited and any shares issued from exercised awards will be repurchased at the exercise price paid by the grantee. The Group considered this repurchase feature equivalent to a forfeiture provision that creates an in-substance cliff vesting in four to seven years since the stated grant date.

In accordance with ASC 718 Compensation — Stock Compensation, the share-based awards under Relx Inc. Incentive Plans are classified as equity awards. Share-based compensation expenses were accrued beginning on the service inception date (i.e. the stated grant date) and will be re-measured on each subsequent reporting date before the accounting grant date is established. The estimates of the awards' fair values will be fixed when the accounting grant date occurs and will continue to be amortized over the remaining requisite service period.

On December 28, 2020, the Board of Directors of the Company approved a resolution to adopt the 2021 share incentive plan (the "2021 Plan"), effective upon the completion of IPO of the Group. After the successful IPO of the Group, the Company assumes all outstanding share incentive awards issued under Relx Inc. Incentive Plans and to administer the assumed awards pursuant to the 2021 Plan. The maximum aggregate number of ordinary shares that may be issued pursuant to all awards under the 2021 Plan (the "Award Pool") will consist of (i) 22,493,577 Class A ordinary shares to be assumed from outstanding share incentive awards issued under Relx Inc. Incentive Plans, and (ii) 5,747,262 Class A ordinary shares initially, which may be further increased as determined by the Board of Directors.

On January 11, 2021, the Board of Directors of the Company approved a resolution to subdivide each of its authorized ordinary shares (including all issued and unissued ordinary shares) into ten ordinary shares, which was accounted for as a share split (refer to Note 1, the "Share Split"). On April 16, 2021, the Share Distribution was completed (refer to Note 1, the "Share Distribution"). In connection with the Share Distribution and Share Split, the Company granted share awards under the 2021 Plan to assume all the outstanding share incentive awards issued under Relx Inc. Incentive Plans with the same remaining requisite vesting periods and vesting conditions on April 16, 2021, and each granted share is subdivided into ten shares. Relx Inc. Incentive Plans were cancelled when the option grants were all completed. The Award Pool will consist of (i) 224,935,770 Class A ordinary shares assumed from outstanding share incentive awards issued under Relx Inc. Incentive Plans, and (ii) 57,472,620 Class A ordinary shares initially, which may be further increased as determined by the Board of Directors. The Company accounted for the awards granted under the 2021 Plan in connection with the Share Distribution as a modification under ASC 718 and assessed that there was no incremental fair value before and after the modification date.

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20. Share-based compensation (Continued)

(a) Equity Incentive Plans (Continued)

In connection with the Share Distribution, the Company also granted option awards under the 2021 Plan to nonemployees who provide services to Relx Inc. to assume the outstanding share incentive awards issued under the Relx Inc. Incentive Plans with the same remaining requisite vesting periods and vesting conditions on April 16, 2021. Immediately before and after the Share Distribution, the Company and Relx Inc. are ultimately controlled by their common shareholders. In connection with the share-based awards to employees of Relx Inc., the Company does not require service or any form of payment in return from Relx Inc. for such awards. Therefore, such share awards granted to employees of Relx Inc. were measured at fair value on the grant date and recognized as a dividend to the shareholders. In accordance with ASC 718 Compensation - Stock Compensation, the share-based awards to employees of Relx Inc will be re-measured on each subsequent reporting date before the accounting grant date is established. The estimates of the awards' fair values will be fixed when the accounting grant date occurs, and the re-measured results will be accounted as the adjustment to the amount of the dividend to the Shareholders.

On November 1, 2022, the Company announced a resolution to amend the unexercised options by adjusting downward the exercise price to US\$0 per share, and the scope of the employees subject to adjustment of exercise price is certain full-time employees who hold options of the Company and will continue to serve the Company or its subsidiaries or affiliates as of January 1, 2023. The Company accounted for the adjustment as a modification under ASC 718, assessed the incremental fair value before and after the modification date and recognized the incremental compensation cost accordingly. The total incremental cost as a result of the modification was RMB22,307 and will be recorded over the remaining service periods.

Share Options

The summary of the options granted to the directors, executive officers, employees and consultants of the Group as of December 31, 2022, 2023 and 2024 is presented below:

	Contractually Granted	Granted (For Purposes of Measuring Share-based Compensation Expense)
As of January 1, 2022	126,581,250	15,835,670
Granted	—	27,846,178
As of December 31, 2022	126,581,250	43,681,848
Granted	12,012,400	30,811,514
As of December 31, 2023	138,593,650	74,493,362
Granted	8,850,000	25,840,498
As of December 31, 2024	147,443,650	100,333,860

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20. Share-based compensation (Continued)

(a) Equity Incentive Plans (Continued)

	Number of Shares	Weighted Average Exercise Price (US\$)	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands US\$)
Outstanding as of January 1, 2022	13,925,404	0.336	7.35	49,627
Granted	27,846,178	0.171	7.41	59,041
Forfeited	(303,241)	0.780	—	—
Outstanding as of December 31, 2022	41,468,341	0.171	7.06	88,297
Granted	30,811,514	0.130	6.85	48,251
Exercised	(10,802,458)	0.268	—	—
Forfeited	(9,056,467)	0.144	—	—
Outstanding as of December 31, 2023	52,420,930	0.163	6.62	116,149
Granted	25,840,498	0.124	6.16	51,344
Exercised	(3,579,925)	0.240	—	—
Forfeited	—	0.036	—	—
Outstanding as of December 31, 2024	74,681,503	0.152	5.77	178,803
Vested and Exercisable as of December 31, 2022	11,126,832	0.200	6.24	23,361
Vested and Exercisable as of December 31, 2023	6,221,650	0.190	5.48	11,263
Vested and Exercisable as of December 31, 2024	74,715,658	0.174	5.49	148,360

As of December 31, 2023 and 2024, 7,817,866 and 4,329,502 outstanding share options were held by nonemployees mainly including employees of Relx Inc.

RSU

The summary of the restricted share units (RSU) activity under the 2021 Plan during the years ended December 31, 2022, 2023 and 2024 is presented below:

	Contractually Granted	Granted (For Purposes of Measuring Share-based Compensation Expense)
As of December 31, 2022	30,981,708	4,354,338
Granted	9,514,319	2,471,222
Vested	—	(458,719)
Forfeited	—	(3,413,780)
As of December 31, 2023	40,496,027	2,953,061
Granted	1,352,854	3,111,945
Vested	(837,414)	(1,407,775)
Forfeited	—	(432,724)
As of December 31, 2024	41,011,467	4,224,507

For the years ended December 31, 2022, 2023 and 2024, the share-based compensation expenses recognized by the Group for share awards under the Equity Incentive Plans were RMB166,161, RMB362,868 and RMB369,655, respectively. As of December 31, 2024, there was unrecognized compensation expense amounted to RMB305,164 attributable to the Group related to unvested share awards which are expected to be recognized over a weighted average period of 1.84 years.

For the years ended December 31, 2022, 2023 and 2024, the number of vested options were 10,011,093, 5,897,276 and 72,073,933, the number of exercised options were 9,648,928, 11,364,636 and 7,534,978.

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20. Share-based compensation (Continued)

(a) Equity Incentive Plans (Continued)

For the years ended December 31, 2022, 2023 and 2024, the number of vested RSU were nil, 469,719 and 754,807.

The fair value for each of the share options granted under the Equity Incentive Plans for the years ended December 31, 2022, 2023 and 2024 was estimated on the grant dates or at the end of each reporting period when an accounting grant date was not established, using a binomial option pricing model with the following assumptions used:

	For the year ended		
	December 31, 2022	December 31, 2023	December 31, 2024
Risk-free interest rate	3.93%~3.99%	3.55%~4.18%	4.31%~4.44%
Expected terms (in years)	5~8	5~8	4~6
Expected volatility	86.07%~87.99%	77.50%~87.20%	67.71%~73.07%
Expected dividend yield	—	—	—
Fair value of underlying ordinary share (US\$)	2.3	2.0	2.2

The risk-free interest rate is estimated based on the daily treasury long-term rate of U.S. Department of the Treasury with a maturity period close to the expected term of the options. The expected volatility as of December 31, 2022, 2023 and 2024 is estimated based on the annualized standard deviation of daily stock price of the company and comparable companies with a time horizon close to the expected term. Expected term is the remaining life from the valuation date to the maturity of the contract life of the options. Relx Inc. and the Company have no determined plan of paying significant dividends on its ordinary shares.

(b) Restriction of Relx Inc.'s ordinary shares held by the Founding Members

On May 18, 2018, upon the completion of the Domestic PS Financing, the Founding Members agreed to put all their ordinary shares in Beijing Wuxin into escrow ("Beijing Wuxin's Restricted Ordinary Shares") and the Group released the shares from escrow to them only if specified service criteria are met. One half of Beijing Wuxin's Restricted Ordinary Shares shall be vested on the second anniversary of grant date and the remaining would be vested bi-annually in equal installments over the next two years after the second anniversary of the commencement date. All Beijing Wuxin's Restricted Ordinary Shares are subject to accelerated vesting under certain circumstances including a successful Initial Public Offering ("IPO") of Beijing Wuxin. Such restriction is deemed as a compensatory arrangement for services to be provided by the Founding Members, and therefore accounted for as a share-based compensation arrangement. The share-based compensation expenses related to Beijing Wuxin's Restricted Ordinary Shares are recognized on a straight-line basis.

On September 27, 2018, all the Founding Members' ordinary shares in Beijing Wuxin (including the shares under the Beijing Wuxin's Restricted Ordinary Shares arrangement) were replaced by the ordinary shares of Relx Inc. (the "Relx Inc.'s Restricted Ordinary Shares") in conjunction with the First Reorganization and Relx Inc.'s Restricted Ordinary Shares continued to be subject to the same remaining vesting schedule as the original restriction arrangement. Relx Inc.'s Restricted Ordinary Shares continued to be subject to accelerated vesting under certain circumstances including a successful IPO of Relx Inc. As disclosed in Note 1(b)(i), the change in the terms of Beijing Wuxin's Restricted Ordinary Shares was a modification as it was conducted in conjunction with the First Reorganization which was similar to under a common control and the modification impact was evaluated not material. The Group continued to recognize the share-based compensation expenses related to Relx Inc.'s Restricted Ordinary Shares in its consolidated statements of comprehensive income with the amount allocated by Relx Inc.

On December 17, 2020, the Founding Members, Relx Inc. and Relx Inc.'s preferred shareholders entered into a series of agreements regarding the corporate restructuring following a successful IPO of the Group, pursuant to which, Relx Inc.'s Restricted Ordinary Shares held by the Founding Members, which were subject to accelerated vesting upon a successful IPO of Relx Inc., will now be fully vested to the Founding Members upon a successful IPO of the Group. The amendment on the accelerated vesting condition was a modification under ASC 718 and the accounting impact of the modification was not material, as the modification was on vesting conditions of the awards and had no impact on the awards' fair value immediately before and after the modification.

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20. Share-based compensation (Continued)

(b) Restriction of RELX's ordinary shares held by the Founding Members (continued)

In January 2021, the Company completed its IPO on the New York Stock Exchange ("NYSE"). Upon the completion of IPO, the Group recognized RMB11,398 share-based compensation expenses related to Relx Inc.'s Restricted Ordinary Shares because the accelerated vesting condition was achieved.

The following table sets forth the summary of restricted shares activities of Relx Inc. (*):

	Number of Restricted Shares Granted	Weighted-Average Grant Date Fair Value US\$
Outstanding as of January 1, 2020	65,571,473	0.09
Granted	—	—
Vested	(40,982,171)	0.09
Forfeited	—	—
Outstanding as of December 31, 2020	24,589,302	0.09
Granted	—	—
Vested	(24,589,302)	0.09
Forfeited	—	—
Outstanding as of December 31, 2021	—	—

(*) The share-based compensation expenses discussed below only include the expenses attributable to the Group.

The number of Relx Inc.'s Restricted Ordinary Shares vested during the years ended December 31, 2022, 2023 and 2024 were nil, nil and nil, respectively.

For the years ended December 31, 2022, 2023 and 2024, share-based compensation expenses recognized and associated with the Beijing Wuxin's Restricted Ordinary Shares or Relx Inc.'s Restricted Ordinary Shares attributable to the Group were nil, nil and nil, respectively.

In order to determine the fair value of Relx Inc.'s Restricted Ordinary Shares, the Group first determined Relx Inc.'s equity value and then allocated the equity value to each element of Relx Inc.'s capital structure (preferred shares and ordinary shares) using a combination of the probability-weighted expected return method and the option pricing method. In determining the equity value of Relx Inc., the Group used the discounted cash flow (DCF) method of the income approach as the primary valuation approach, and to cross-check the reasonableness of results derived under the income approach by the market approach. The DCF analysis is performed using the projected cash flows developed by Relx Inc. based on its best estimates as of the valuation date. The determination of fair value requires complex and subjective judgments to be made regarding projected financial and operating results, unique business risks, the liquidity of shares and operating history and prospects at the time of valuation. The major assumptions used in the DCF analysis are discount rate and discount for lack of marketability (DLOM). The discount rates applied in the DCF analysis are based on the weighted average cost of capital (WACC) determined after considering factors including risk-free rate, comparative industry risk, equity risk premium, company size and non-systematic risk factors; while the DLOM was estimated based on the value of a put option determined by using the Finnerty model. The value of a put option serves as a proxy for the premium a willing buyer would pay to guarantee the marketability and price of the underlying asset in the future.

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21. Shareholders' equity

Ordinary shares

As of December 31, 2024, the issued share capital consisted of 1,570,790,570 ordinary shares at a par value of US\$ 0.00001 per share (previously US\$0.0001 per share before the Share split as detailed in Note 1), of which 1,262,075,580 shares were designated as Class A ordinary shares, 308,714,990 as Class B ordinary shares. The rights of the holders of Class A and Class B ordinary shares are identical, except with respect to voting and conversion rights. Each share of Class A ordinary shares is entitled to one vote per share and is not convertible into Class B ordinary shares under any circumstances. Each share of Class B ordinary shares is entitled to ten votes per share and is convertible into one Class A ordinary share at any time by the holder thereof. Upon any transfer of Class B ordinary shares by a holder thereof to any person or entity that is not an affiliate of such holder, such Class B ordinary shares would be automatically converted into an equal number of Class A ordinary shares. Nil and nil Class B ordinary shares were converted into an equal number of Class A ordinary shares in 2023 and 2024, respectively.

In January 2021, the Company completed its IPO, 133,975,000 American depositary shares ("ADSs"), representing 133,975,000 Class A Ordinary shares, were issued and sold to the public, with proceeds of approximately US\$1,553.0 million, net of underwriter commissions and relevant offering expenses.

Treasury stock

On December 8, 2021, the Company announced that its Board of Directors authorized a share repurchase program under which the Company may repurchase up to US\$500 million of its shares over a period until December 31, 2023.

In December 2023, the Company's Board of Directors authorized the extension of its existing share repurchase program established in December 2021 for an additional 24-month period through December 31, 2025.

As of December 31, 2024, the Company has cumulatively repurchased approximately 157.2 million ADSs (equivalent to approximately 157.2 million ordinary shares) for approximately US\$304.7 million under this program.

The Company accounts for repurchased ordinary shares under the cost method and includes such treasury stock as a component of the shareholders' equity.

Additionally, in order to lower the average cost of acquiring shares in the ongoing share repurchase program, the Company purchased a series of capped call options of US\$130.3 million for the repurchase of shares. Upon expiration of the option, if the closing market price of the Company's common share is at or above the pre-determined price (the "Strike Price"), the Company will have its initial investment returned with a premium in either cash or shares at the Company's election. If the closing market price is below the Strike Price, the Company will receive the number of shares specified in the agreement. As the outcome of these arrangements is based entirely on the Company's stock price and does not require the Company to deliver either shares or cash, other than the initial investment, the entire transaction is recorded in equity. As of December 31, 2024, the Company received approximate US\$45.8 million (approximately RMB325.8 million) of cash and approximate US\$69.4 million (approximately RMB493.2 million) of shares that was recorded in equity.

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21. Shareholders' equity (Continued)

Retained earnings

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. As a result of these and other restrictions under PRC laws and regulations, the Company's subsidiaries, the VIE and VIE's subsidiaries incorporated in the PRC are restricted in their ability to transfer a portion of their net assets to the Company either in the form of dividends, loans or advances. Amounts of net assets restricted include paid-in capital and statutory reserve funds of the Company's PRC subsidiaries and the net assets of the VIEs in which the Company has no legal ownership, totaling RMB71,724 and RMB73,621 (US\$ 10,086) as of December 31, 2023 and 2024, respectively. Even though the Company currently does not require any such dividends, loans or advances from the PRC entities for working capital and other funding purposes, the Company may in the future require additional cash resources from them due to changes in business conditions, to fund future acquisitions and development, or merely to declare and pay dividends or distributions to its shareholders. Except for the above, there is no other restriction on the use of proceeds generated by the Company's subsidiaries, the VIE and VIE's subsidiaries to satisfy any obligations of the Company.

In November 2023, the Company announced that its Board of Directors approved a cash dividend of US\$0.01 per ordinary share, or US\$0.01 per ADS, to holders of ordinary shares and holders of ADSs, respectively, as of the close of business on December 1, 2023 Beijing/Hong Kong Time and New York Time, respectively, payable in U.S. dollars. The majority of cash dividend was paid in December 2023 to shareholders. The aggregate amount of the dividend is approximately RMB93,265.

In November 2024, the Company announced that its Board of Directors approved a cash dividend of US\$0.01 per ordinary share, or US\$0.01 per ADS, to holders of ordinary shares and holders of ADSs, respectively, as of the close of business on December 6, 2024 Beijing/Hong Kong Time and New York Time, respectively, payable in U.S. dollars. The majority of cash dividend was paid in December 2024 to shareholders. The aggregate amount of the dividend is approximately RMB98,139 (US\$ 13,654).

For the year ended December 31, 2024, the Company performed a test on the restricted net assets of its consolidated subsidiaries and VIE (the "restricted net assets") in accordance with Securities and Exchange Commission Regulation S-X Rule 4-08 (e) (3) "General Notes to Financial Statements" and concluded that the restricted net assets do not exceed 25% of the consolidated net assets of the Company as of December 31, 2024 and the condensed financial information of the Company are not required to be presented.

22. Net income per ordinary share

Basic net income per ordinary share is the amount of net income available to each share of ordinary shares outstanding during the reporting period, computed by dividing net income attributable to ordinary shareholders by the weighted average number of outstanding ordinary shares, adjusted for treasury stock.

Diluted net income per ordinary share is the amount of net income available to each share of ordinary shares outstanding during the reporting period adjusted to include the effect of potentially dilutive ordinary equivalent shares. For the calculation of diluted net income per ordinary share, net income attributable to ordinary shareholders for basic net income per ordinary share is adjusted by the effect of dilutive securities, including share-based awards, under the treasury stock method.

Pursuant to the Second Reorganization Agreements, the Company effected a share split by issuing additional 143,681,555 shares to Relx Inc. on November 25, 2020. On January 11, 2021, the Company effected a share split to subdivide each of its authorized ordinary shares into ten ordinary shares (Refer to Note 1(b)(iii)). The effects of the share splits in November 2020 and January 2021 were retrospectively presented on January 2, 2018 (date of inception), including in calculating the net income per ordinary share.

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22. Net income per ordinary share (Continued)

For the years ended December 31, 2022, 2023 and 2024, the basic and diluted net income per ordinary share reflecting the effects of the share splits are presented as follows.

	For the year ended		
	December 31, 2022 (As adjusted) RMB	December 31, 2023 RMB	December 31, 2024 RMB
Numerator:			
Net income attributable to RLX Technology Inc.	1,441,219	534,328	551,837
Numerator for basic and diluted net income per ordinary share	<u>1,441,219</u>	<u>534,328</u>	<u>551,837</u>
Denominator:			
Weighted average number of ordinary shares	1,319,732,802	1,311,401,901	1,232,148,531
Denominator used for net income per ordinary share - basic	<u>1,319,732,802</u>	<u>1,311,401,901</u>	<u>1,232,148,531</u>
Adjustments for dilutive options and RSUs	8,411,290	29,043,752	56,763,252
Denominator for net income per ordinary share - diluted	<u>1,328,144,092</u>	<u>1,340,445,653</u>	<u>1,288,911,783</u>
Net income per ordinary share			
- Basic	1.092	0.407	0.448
- Diluted	1.085	0.399	0.428

23. Related party transactions

The table below sets forth the major related parties and their relationships with the Group:

Related parties	Relationship with the Group
Relx Inc. and entities within Relx Inc.'s operations	Under common control of beneficial owner
Sunnyheart Inc. and entities within Sunnyheart Inc.'s operations	Under common control of beneficial owner
Ms. Ying (Kate) Wang	Shareholder of Relx Inc., shareholder of Sunnyheart Inc., Chief Executive Officer of the Group

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23. Related party transactions (Continued)

(a) Major related parties' transactions were as follows:

	For the year ended		
	December 31, 2022 (As adjusted) RMB	December 31, 2023 RMB	December 31, 2024 RMB
Expenses allocated (to)/ from related parties:			
- Expenses allocated to Relx Inc.'s operations ⁽ⁱ⁾	(4,883)	(13,370)	(41,842)
- Expenses allocated from Relx Inc.'s operations ⁽ⁱ⁾	399	2,696	22,954
Sales to related parties:			
- Entity within Relx Inc.'s operations ⁽ⁱⁱ⁾	66,752	293,530	1,038,224
Purchase from related parties:			
- Entity within Relx Inc.'s operations ⁽ⁱⁱⁱ⁾	—	71,156	5,986
- Others	—	1,212	7,434
Other transactions with related parties:			
- Redemption of long-term investments by Relx Inc. and Sunnyheart Inc. ^(iv)	—	588,872	—
Total	<u>62,268</u>	<u>944,096</u>	<u>1,032,756</u>

- (i) Certain employees concurrently worked for the Group and Relx Inc.'s operations, staff costs and related expenses were shared by the Group and Relx Inc.'s operations. A portion of these staff costs and related expenses was allocated to/from Relx Inc.'s operations.
- (ii) Since June 2021, the Group has sold certain raw materials and finished goods to entities within Relx Inc.'s operations, in the ordinary course of the Group's operating activities.
- (iii) Since 2023, the Group has purchased certain finished goods from entities within Relx Inc.'s operations, in the ordinary course of the Group's operating activities.
- (iv) In September 2023, the Group purchased certain shares of its affiliated entities from several third-party selling shareholders. In December 2023, along with the updates in the Group's international expansion plan, the previously acquired share investments were redeemed by its two affiliated entities. The difference between consideration received and the carrying amount of equity investments disposed was recognized as investment income in the consolidated statements of comprehensive income.

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23. Related party transactions (Continued)

(b) The Group also received financing from and provided financing to related parties as follows:

	For the year ended		
	December 31, 2022 (As adjusted)	December 31, 2023	December 31, 2024
	RMB	RMB	RMB
Financing (received from)/provided to related parties:			
- Financing proceeds received from Relx Inc.'s operations and Sunnyheart Inc.'s operations ⁽ⁱ⁾	—	(41,107)	—
- Repayment of financing proceeds received from Relx Inc.'s operations and Sunnyheart Inc.'s operations ⁽ⁱ⁾	—	—	41,107
- Others	—	(327)	—
Total	—	(41,434)	41,107

(i) In 2023, prior to the business combination (refer to Note 1 (e)), entities within Relx Inc.'s operations and Sunnyheart Inc.'s operations provided certain fundings to SS North Asia, Sunnyheart and Relx Indonesia to support their business. Such related party transactions of the acquired businesses were included in the Group's consolidated financial statements retrospectively. The Group paid back these fundings in 2024.

(c) Major balances with related parties were as follows:

	As of December 31,	
	2023	2024
	RMB	RMB
Amounts due from related parties		
Current		
- Expenses allocated to Relx Inc.'s operations	7,980	11,671
- Receivables from sales of products and related transactions	97,326	334,431
- Others ⁽ⁱ⁾	13,430	30
Total	118,736	346,132
Amounts due to related parties		
Current		
- Expenses allocated from Relx Inc.'s operations	(5,411)	(17,000)
- Purchase from related parties	(55,311)	(10)
- Funds received from related parties	(41,107)	—
- Dividend payable	—	(9,037)
- Others	(98)	(1,354)
Total	(101,927)	(27,401)

(i) Others mainly include claimed amount for obsolete goods sold by entities within Relx Inc.'s operations in 2023.

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24. Fair value measurement

The fair value guidance describes three main approaches to measure the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

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.

The Group adopted ASU 2018-13 Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement (the “ASU 2018-13”) on January 1, 2020. The adoption of ASU 2018-13 had no significant impact on the Group’s consolidated financial statements.

The Group did not have any other financial instruments that were required to be measured at fair value on a recurring basis as of December 31, 2023 and 2024 except for short-term investments and available-for-sale debt securities.

The following table summarizes the Group’s assets that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy as of December 31, 2023 and 2024:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	RMB	RMB	RMB
As of December 31, 2024			
Short-term investments_ Fair value option ⁽ⁱ⁾	—	642,822	—
Long-term investment securities, net_ Available-for-sale ⁽ⁱⁱ⁾	—	208,823	—
As of December 31, 2023			
Short-term investments_ Fair value option ⁽ⁱ⁾	—	2,183,862	—
Short-term investments, net_ Available-for-sale ⁽ⁱⁱ⁾	—	561,940	—

(i) The Group classifies the short-term and long-term investment securities as held-to-maturity or available-for-sale, whose classification determines the respective accounting methods stipulated by ASC 320. For certain investment securities, the Company elects the fair value option at the date of initial recognition and carries these investments subsequently at fair value.

(ii) The Group values these investment securities classified as available-for-sale with fair value option elected based on quoted prices of similar products provided by banks at the end of each year, and accordingly, the Group classifies the valuation techniques that use these inputs as Level 2.

Apart from the short-term investments, net and long-term investment securities, net, the Group’s financial instruments consist of cash and cash equivalents, restricted cash, short-term bank deposits, net, long-term bank deposits, net, accounts and notes receivable, net, receivables from online payment platforms, amounts due from related parties, prepayments and other current assets, net, accounts and notes payable, short-term loan, accrued expenses and other current liabilities and amounts due to related party.

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24. Fair value measurement (Continued)

As of December 31, 2023 and 2024, the Group had no financial assets or financial liabilities that are measured at fair value on a non-recurring basis apart from the long-term investments, which were measured using significant unobservable inputs (Level 3) and written down from their respective carrying values to fair values with impairment charges incurred and recorded in the consolidated statements of comprehensive income. The fair values of long-term investments were measured under the income approach, based on the Group's best estimation. Significant inputs used in the income approach primarily included future estimated cash flows and discount rate, derived from a review of the investee's operation results, expected growth rates and cost of capital, which are highly judgmental due to the subjectivity of the unobservable inputs (Level 3) used in the valuation methodologies used to determine fair value. Many of the factors used in assessing fair value are outside the control of management, and these assumptions and estimates may change in future periods.

The Group's non-financial assets, such as intangible assets, fixed assets and goodwill, would be measured at fair value on a non-recurring basis whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. The fair values of non-financial long-lived assets were measured under income approach, based on the Company's best estimation. Significant inputs used in the income approach primarily included future estimated cash flows and discount rate.

Impairment recorded for long-term investments for the years ended December 31, 2022, 2023 and 2024 was RMB4,000, nil and nil, respectively. Impairment recorded for the acquired intangible assets, fixed assets based on management's assessment for the years ended December 31, 2022, 2023 and 2024 was RMB29,938, RMB5,008 and nil.

25. Commitments and contingencies

(a) Commitments

As of December 31, 2024, future minimum commitments under non-cancelable agreements were as follows:

	<u>Rental</u> <u>RMB</u>
2025	3,704

The operating commitments as of December 31, 2024 presented above mainly consist of the short-term lease commitments and leases that have not yet commenced but that created significant rights and obligations for the Company, which are not included in operating lease right-of-use assets and lease liabilities.

(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 has not recorded any material liabilities in this regard as of December 31, 2023 and 2024.

RLX TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(All amounts in thousands, except for number of shares and per share data, or otherwise noted)

26. Segment information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the CODM, or decision-making group, in deciding how to allocate resources and in assessing performance. The Group's CODM has been identified as the Chief Executive Officer, who reviews the consolidated results of operations and uses consolidated net income as reported on the consolidated statements of comprehensive income when making decisions about allocating resources and assessing performance of the Group as a whole; hence, the Group has only one operating segment and derives revenues primarily from sale of e-vapor products to offline distributors. The accounting policies of the single segment are the same as described in the significant accounting policies.

The measure of segment assets is reported on the consolidated balance sheet as total consolidated assets. Since the Company operates in one segment, segment revenue, profit or loss required by "Segment Reporting" is disclosed in the consolidated statements of comprehensive income. The Company determines that the cost of revenues are the significant segment expenses.

The following table presents revenue by geography area, China and international markets, based on the geography location for the year ended December 31, 2022, 2023 and 2024.

	For the year ended		
	December 31, 2022 (As adjusted)	December 31, 2023	December 31, 2024
	RMB	RMB	RMB
Total Revenue:			
China	5,332,779	1,357,884	2,039,743
International	—	228,513	708,833
	<u>5,332,779</u>	<u>1,586,397</u>	<u>2,748,576</u>

As of December 31, 2023 and 2024, substantially all of the Group's long-lived assets of the Group are located in China.

27. Subsequent events

In March 2025, the Group entered into an investment agreement involving a company ("Target") based in Europe, further enhancing our footprint in the European market and supporting our long-term internationalization strategy. The investment remains conditional upon regulatory approvals and the satisfaction of certain closing conditions, which have not been met as of the date of this report. Upon completion of the investment, the Group expects to consolidate the financial results of the Target into the consolidated financial statements.

List of Significant Subsidiaries and Consolidated Variable Interest Entity of RLX Technology Inc.**Subsidiaries**

Beijing Yueke Technology Co., Ltd.

Shanghai Wuke Information Technology Co., Ltd.

Mons Co., Ltd

Supersmooth Alpha HK Limited

Place of Incorporation

People's Republic of China

People's Republic of China

South Korea

Hong Kong

VIE

Beijing Wuxin Technology Co., Ltd.

Place of Incorporation

People's Republic of China

Subsidiaries of VIE

Shenzhen Wuxin Technology Co., Ltd.

Ningbo Wuxin Information Technology Co., Ltd.

Place of Incorporation

People's Republic of China

People's Republic of China

RLX TECHNOLOGY INC.

STATEMENT OF POLICIES
GOVERNING MATERIAL NON-PUBLIC INFORMATION AND
THE PREVENTION OF INSIDER TRADING

(AS ADOPTED BY THE BOARD OF DIRECTORS OF RLX TECHNOLOGY INC.
ON DECEMBER 29, 2023)

This Statement of Policies Governing Material Non-Public Information and the Prevention of Insider Trading (this “**Statement**”) applies to all directors, officers, employees and consultants of RLX Technology Inc. and its subsidiaries and affiliated entities (collectively, the “**Company**”).

This Statement consists of three sections: Section I provides an overview; Section II sets forth the Company’s policies prohibiting insider trading; and Section III explains insider trading.

I.
SUMMARY

Preventing insider trading is necessary to comply with United States securities laws and to preserve the reputation and integrity of the Company, as well as that of all persons affiliated with it. “Insider trading” occurs when any person purchases or sells any securities while in possession of inside information relating to the securities. As explained in Section III below, “inside information” is information which is considered to be both “material” and “non-public.”

The Company considers strict compliance with the policies set forth in this Statement (collectively, the “**Policy**”) to be a matter of utmost importance. Violation of the Policy could cause extreme reputational damage and possible legal liability to you and the Company. Knowing or willful violations of the letter or spirit of the Policy will be grounds for immediate dismissal from the Company. Violation of the Policy might expose the violator to severe criminal penalties, as well as civil liability to any person harmed by the violation. The monetary damages flowing from a violation could be multiple times the profit realized by the violator, not to mention the attorney’s fees of the persons harmed.

This Statement applies to all directors, officers, employees and consultants of the Company and extends to all of such persons’ activities within and outside their duties at the Company. Every director, officer, employee and consultant of the Company must review this Statement, and when requested by the Company, must execute and return the Certificate of Compliance attached hereto to the Compliance Officer for the Company (the “**Compliance Officer**”) within seven (7) days after receiving the request. Questions regarding this Statement should be directed to the Compliance Officer by e-mail at

II.
POLICIES PROHIBITING INSIDER TRADING

For purposes of this Statement, the terms “purchase” and “sell” of securities exclude the acceptance of options or other share-based awards granted by the Company and the exercise of options or vesting of other share-based awards, if applicable, that does not involve the sale of securities. Among other things, the cashless exercise of options does involve the sale of securities and therefore is subject to the policies set forth below. The Policy does not apply to the exercise of a tax withholding right pursuant to which you elect to have the Company withhold ordinary shares or American Depositary Shares (“ADSs”) subject to an option or other award to satisfy tax withholding requirements.

A. **No Trading** – No director, officer, employee or consultant of the Company may purchase or sell any ADSs, ordinary shares or other securities of the Company or enter into a binding security trading plan in compliance with Rule 10b5-1 under the U.S. Securities Exchange Act of 1934, as amended (a “Trading Plan”) while in possession of material non-public information relating to the Company or its ADSs, ordinary shares or other securities (the “Material Information”).

In the event that the Material Information possessed by you relates to the ADSs or other securities of the Company, the above policy will require waiting for in all events at least one full Trading Day on the stock exchange where the Company’s ADSs representing its ordinary shares are listed and traded (the “Stock Exchange”) following such public disclosure. The term “Trading Day” is defined as a day on which the Stock Exchange is open for trading. Except for public holidays in the United States, the Stock Exchange’s regular trading hours are from 9:30 a.m. to 4:00 p.m., New York City time, Monday through Friday.

In addition, no director, officer, employee or consultant of the Company may purchase or sell any securities of the Company or enter into a Trading Plan, without the prior clearance by the Compliance Officer, during any period designated as a “limited trading period” by the Company, regardless of whether such director, officer, employee or consultant possesses any Material Information.

Furthermore, all transactions in the securities of the Company (including without limitation, acquisitions and dispositions of the ADSs, the sale of ordinary shares issued upon exercise of options or vesting of other share-based awards and the execution of a Trading Plan, but excluding the acceptance of options or other share-based awards granted by the Company and the exercise of options or vesting of other share-based awards that does not involve the sale of securities) by directors, officers and key employees designated by the Company from time to time must be pre-approved by the Compliance Officer.

Please see Section III below for an explanation of the Material Information.

B. **Trading Window** – Assuming none of the “no trading” restrictions set forth in Section II-A above applies, no director, officer, employee or consultant of the Company may purchase or sell any securities of the Company or enter into a Trading Plan other than during a Trading Window.

A “**Trading Window**” is the period in any fiscal quarter of the Company commencing at the close of business on the date of the Company’s public disclosure of its financial results for the prior year or quarter (in the case of pre-market financial results announcement) or at the close of business on the second Trading Day following the date of the Company’s public disclosure of its financial results for the prior year or quarter (in the case of post-market financial results announcement), as applicable, and ending on January 10, April 10, July 10 or October 10, as the case may be.

In other words,

(1) beginning on January 11 of each year, no director, officer, employee or consultant of the Company may purchase or sell any securities of the Company or enter into a Trading Plan until the close of business on the date (in the case of pre-market financial results announcement) or on the second Trading Day following the date (in the case of post-market financial results announcement), as applicable, of the Company’s public disclosure of its financial results for the fiscal year ended on December 31 of the prior year, and

(2) beginning on April 11, July 11 and October 11 of each year, respectively, no director, officer, employee or consultant of the Company may purchase or sell any securities of the Company or enter into a Trading Plan until the close of business on the date (in the case of pre-market financial results announcement) or on the second Trading Day following the date (in the case of post-market financial results announcement), as applicable, of the Company’s public disclosure of its financial results for the fiscal quarter ended on March 31, June 30 and September 30 of that year, respectively.

If the Company’s public disclosure of its financial results for the prior period occurs on a Trading Day more than four hours before the Stock Exchange closes, then such date of disclosure shall be considered the first Trading Day following such public disclosure.

Please note that trading in any securities of the Company during the Trading Window is not a “safe harbor,” and all directors, officers, employees and consultants of the Company should strictly comply with the Policy.

When in doubt, do not trade! Check with the Compliance Officer first.

Notwithstanding the foregoing, sale of securities of the Company pursuant to an existing Trading Plan which was entered into in accordance with the Policy and in compliance with applicable law is not subject to the restrictions on trading in Sections II-A and II-B above.

C. **No Tipping** – No director, officer, employee or consultant of the Company may directly or indirectly disclose any Material Information to anyone who trades in securities (so-called “tipping”).

D. **Confidentiality** – No director, officer, employee or consultant of the Company may communicate any Material Information to anyone outside the Company under any circumstances unless approved by the Compliance Officer in advance, or to anyone within the Company other than on a need-to-know basis.

E. **No Comment** – No director, officer, employee or consultant of the Company may discuss any internal matters or developments of the Company with anyone outside the Company, except as required for the performance of regular corporate duties. Unless you are expressly authorized to the contrary, if you receive any inquiries about the Company or its securities by the financial press, research analysts or others, or any requests for comments or interviews, you are required to decline comment and direct the inquiry or request to the Company’s officer who is responsible for coordinating and overseeing the release of information of the Company to the investing public, analysts and others in compliance with applicable laws and regulations.

F. **Corrective Action** – If you become aware that any potential Material Information has been or may have been inadvertently disclosed, you must notify the Compliance Officer immediately so that the Company can determine whether or not corrective action, such as general disclosure to the public, is warranted.

III. EXPLANATION OF INSIDER TRADING

As noted above, “**insider trading**” refers to the purchase or sale of a security while in possession of “material” “non-public” information relating to the security. “Securities” include not only stocks, bonds, notes and debentures, but also options, warrants and similar instruments. “Purchase” and “sale” are defined broadly under the U.S. federal securities laws. “Purchase” includes not only the actual purchase of a security, but any contract to purchase or otherwise acquire a security. “Sale” includes not only the actual sale of a security, but any contract to sell or otherwise dispose of a security. These definitions extend to a broad range of transactions, including conventional cash-for-stock transactions, the grant and exercise of stock options and acquisitions and exercises of warrants or puts, calls or other options related to a security. It is generally understood that “**insider trading**” includes the following:

- trading by insiders while in possession of material non-public information;
- trading by persons other than insiders while in possession of material non-public information where the information either was given in breach of an insider’s fiduciary duty to keep it confidential or was misappropriated; and
- communicating or tipping material non-public information to others, including recommending the purchase or sale of a security while in possession of material non-public information.

As noted above, for purposes of this Statement, the terms “purchase” and “sell” of securities exclude the acceptance of options or other share-based awards granted by the Company and the exercise of options or vesting of other share-based awards that does not involve the sale of securities. Among other things, the cashless exercise of options does involve the sale of securities and therefore is subject to the Policy.

What Facts are Material?

The materiality of a fact depends upon the circumstances. A fact is considered “material” if there is a substantial likelihood that a reasonable investor would consider it important in making a decision to buy, sell or hold a security or where the fact is likely to have a significant effect on the market price of the security. Material information can be positive or negative and can relate to virtually any aspect of a company’s business or to any type of security, debt or equity.

Examples of material information include (but are not limited to) information concerning:

- dividends;
- corporate earnings or earnings forecasts;
- changes in financial condition or asset value;
- negotiations for the mergers or acquisitions or dispositions of significant subsidiaries or assets;
- significant new contracts or the loss of a significant contract;
- significant new products or services;
- significant marketing plans or changes in such plans;
- capital investment plans or changes in such plans;
- material litigation, administrative action or governmental investigations or inquiries about the Company, any of its affiliated companies, or any of its officers or directors;
- significant borrowings or financings;
- defaults on borrowings;
- new equity or debt offerings;
- significant personnel changes;
- changes in accounting methods and write-offs; and
- any substantial change in industry circumstances or competitive conditions which could significantly affect the Company’s earnings or prospects for expansion.

A good general rule of thumb: **when in doubt, do not trade.**

What is Non-public?

Information is “**non-public**” if it is not available to the general public. In order for information to be considered public, it must be widely disseminated in a manner making it generally available to investors through such media as Dow Jones, Reuters Economic Services, The Wall Street Journal, Bloomberg, Associated Press, PR Newswire or United Press International. Circulation of rumors, even if accurate and reported in the media, does not constitute effective public dissemination.

In addition, even after a public announcement, a reasonable period of time must lapse in order for the market to react to the information. Generally, one should allow in all events at least one full Trading Day following publication as a reasonable waiting period before such information is deemed to be public.

Who is an Insider?

“**Insiders**” include directors, officers, employees and consultants of a company and anyone else who has material non-public information about a company. Insiders have independent fiduciary duties to their company and its shareholders not to trade on material non-public information relating to the company’s securities. All directors, officers, employees and consultants of the Company are considered insiders with respect to material non-public information about business, activities and securities of the Company. The directors, officers, employees and consultants of the Company may not trade the Company’s securities while in possession of material non-public information relating to the Company or tip (or communicate except on a need-to-know basis) such information to others.

It should be noted that trading by household members of a director, officer, employee or consultant can be the responsibility of such director, officer, employee or consultant under certain circumstances and could give rise to legal and Company-imposed sanctions.

Trading by Persons Other than Insiders

Insiders may be liable for communicating or tipping material non-public information to a third party (a “**tippee**”), and insider trading violations are not limited to trading or tipping by insiders. Persons other than insiders also can be liable for insider trading, including tippees who trade on material non-public information tipped to them or individuals who trade on material non-public information which has been misappropriated.

Tippees inherit an insider’s duties and are liable for trading on material non-public information tipped to them by an insider. Similarly, just as insiders are liable for the insider trading of their tippees, so are tippees who pass the material non-public information along to others who trade on such information. In other words, a tippee’s liability for insider trading is no different from that of an insider. Tippees can obtain material non-public information by receiving overt tips from others or through, among other things, conversations at social, business, or other gatherings.

Penalties for Engaging in Insider Trading

Penalties for trading on or tipping material non-public information can extend significantly beyond any profits made or losses avoided, both for individuals engaging in the unlawful conduct and their employers. The United States Securities and Exchange Commission and the United States Department of Justice have made the civil and criminal prosecution of insider trading violations a top priority. Enforcement remedies available to the government or private plaintiffs under the U.S. federal securities laws include:

- administrative sanctions;
- sanctions by self-regulatory organizations in the securities industry;

- civil injunctions;
- damage awards to private plaintiffs;
- disgorgement of profits gained by the violator;
- civil fines for the violator of up to three times the amount of profit gained or loss avoided by the violator;
- civil fines for the employer or other controlling person of a violator (i.e., where the violator is an employee or other controlled person) of up to the greater of US\$1,000,000 or three times the amount of profit gained or loss avoided by the violator;
- criminal fines for individual violators of up to US\$5,000,000 (US\$25,000,000 for an entity); and
- jail sentences of up to 20 years.

In addition, insider trading could result in serious sanctions by the Company, including immediate dismissal. Insider trading violations are not limited to violations of the U.S. federal securities laws. Other U.S. federal and state civil or criminal laws, such as the laws prohibiting mail and wire fraud and the Racketeer Influenced and Corrupt Organizations Act (RICO), also may be violated upon the occurrence of insider trading.

Material Non-public Information Regarding Other Companies

This Policy and the guidelines described herein also apply to material non-public information relating to other companies, including the Company's customers, vendors and suppliers ("**Business Partners**"), particularly when that information is obtained in the course of employment with, or other services performed by, or on behalf of, the Company. Civil and criminal penalties, and discipline, including termination of employment for cause, may result from trading on material non-public information regarding the Company's Business Partners. Each individual should treat material non-public information about the Company's Business Partners with the same care required with respect to information related directly to the Company.

CERTIFICATION OF COMPLIANCE

TO: Compliance Officer

RE: STATEMENT OF POLICIES OF RLX TECHNOLOGY INC. GOVERNING MATERIAL NON-PUBLIC INFORMATION AND THE PREVENTION OF INSIDER TRADING

I have received, reviewed, and understand the policies set forth in the above-referenced Statement of Policies (such policies, as amended from time to time, the "**Policy**") and hereby undertake, as a condition to my present and continued employment at or association with RLX Technology Inc. or any of its subsidiaries or affiliated entities, to comply fully with the Policy.

I hereby certify that I have adhered to the Policy during the time period that I have been employed by or associated with RLX Technology Inc. or any of its subsidiaries or affiliated entities.

I hereby undertake to adhere to the Policy in the future.

Signature: _____

Name: _____

ID Card Number: _____

Title: _____

Date: _____

**Certification by the Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Ying (Kate) Wang, certify that:

1. I have reviewed this annual report on Form 20-F of RLX Technology 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 17, 2025

By: /s/ Ying (Kate) Wang

Name: Ying (Kate) Wang

Title: Chief Executive Officer

**Certification by the Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

Each of the undersigned certifies that:

1. I have reviewed this annual report on Form 20-F of RLX Technology 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 17, 2025

By: /s/ Chao Lu

Name: Chao Lu

Title: Chief Financial Officer

**Certification by the Principal Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of RLX Technology Inc. (the "Company") on Form 20-F for the year ended December 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ying (Kate) Wang, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 17, 2025

By: /s/ Ying (Kate) Wang

Name: Ying (Kate) Wang

Title: Chief Executive Officer

**Certification by the Principal Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of RLX Technology Inc. (the "Company") on Form 20-F for the year ended December 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 17, 2025

By: /s/ Chao Lu

Name: Chao Lu

Title: Chief Financial Officer

Our ref: JLH/778465-000001/32047176v1

RLX Technology Inc.
35/F, Pearl International Financial Center
No. 9 Jian'an First Road, Financial Street
Third District, Bao'an District
Shenzhen, Guangdong Province 518101
People's Republic of China

April 17, 2025

Dear Sirs

RLX Technology Inc.

We have acted as legal advisers as to the laws of the Cayman Islands to RLX Technology Inc., an exempted company incorporated with limited liability 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 2024 (the "**Form 20-F**").

We hereby consent to the reference of our name under the headings "Item 3. Key Information—Cash and Assets Flows Through Our Organization," "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Taxation—Cayman Islands" and "Item 10. Additional Information—E. Taxation—Cayman Islands Taxation" in the Form 20-F and further consent to the incorporation by reference of the summary of our opinion under those headings into the Company's registration statement on Form S-8 (File No. 333-260473) that was filed with the SEC on 25 October 2021.

We consent to the filing with the SEC of this consent letter as an exhibit to the Form 20-F. 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



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Chang An Avenue
Beijing 100738, P. R. China
Tel: +86 10 8525 5500 Fax: +86 10 6525 5511
/ 8525 5522
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www.hankunlaw.com

April 17, 2025

To: RLX Technology Inc. (the “Company”)

35/F, Pearl International Financial Center
No. 9 Jian’an First Road, Financial Street
Third District, Bao’an District
Shenzhen, Guangdong Province 518101
People’s Republic of China

Dear Sir/Madam

We hereby consent to the reference of our name under the headings “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure”, “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with Our Variable Interest Entity and Its Shareholders” and “Item 10. Additional Information—E. Taxation—People’s Republic of China Taxation” in the Company’s Annual Report on Form 20-F for the year ended December 31, 2024 (the “**Annual Report**”), which will be filed with the Securities and Exchange Commission (the “**SEC**”) in the month of April 17, 2025. We also consent to the filing of this consent letter with the SEC as an exhibit to the Annual Report. In addition, we further consent to the incorporation by reference of the summaries of our opinions that appear in the Annual Report into the registration statement on Form S-8 (File No. 333-260473) that was filed with the SEC on October 25, 2021.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Very truly yours,

/s/ Han Kun Law Offices

Han Kun Law Offices

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-260473) of RLX Technology Inc. of our report dated April 17, 2025 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 20-F.

By: /s/ PricewaterhouseCoopers Zhong Tian LLP

Name: PricewaterhouseCoopers Zhong Tian LLP

Date: April 17, 2025
