This summary aims to give you an overview of the information contained in this Document. As it is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be in conjunction with, the full text of this Document. You should read the entire [**REDACTED**] *before you decide to* [**REDACTED**] *in the* [**REDACTED**].

There are risks associated with any [**REDACTED**]. *Some of the particular risks in* [**REDACTED**] *in the* [**REDACTED**] *are set out in "Risk Factors" in this Document. You should read that section carefully before you decide to* [**REDACTED**] *in the* [**REDACTED**].

OVERVIEW

We are a multi-brand cosmetics company, focusing on development, manufacturing and sales of skincare and maternity and childcare products. During the Track Record Period, we have successfully launched a couple of cosmetics brands in China, with a focus on the mass market. We focus on the implementation of multi-brand strategy and have remained dedicated to it since our establishment. With an operational history of approximately 20 years, today we are one of the front runners in China's cosmetics industry, possessing comprehensive multi-brand development and operational capability and expertise, and we have successfully built a variety of popular cosmetic brands. Our decisive move originally to embark on and persist with a multi-brand strategy gives us an advantage to timely grasp market opportunities and sets us apart from our peers. According to the Frost & Sullivan Report, in 2021, we were the only Chinese domestic cosmetics company with two skincare brands each achieving annual retail sales of more than RMB1.5 billion. In addition, the retail sales of *Baby Elephant* exceeded RMB1.8 billion in 2021, maintaining first in the China market for Chinese branded maternity and childcare products. According to the same source, we have ranked among the top five Chinese domestic cosmetics companies in terms of retail sales for seven years from 2015 to 2021.

Based on the observation of global cosmetics industry development, we believe that a multi-brand strategy proves to be essential to building world-class cosmetics enterprises. Over the 20th century, several renowned international cosmetics groups committed to the multi-brand strategy had emerged, and while the global cosmetics industry has changed dramatically, they remain competitive to date. By adopting a multi-brand strategy, cosmetics companies can more effectively broaden the boundaries of their business and capture opportunities arising from different market segments. A multi-brand strategy also enables cosmetics companies to achieve more balanced development, alleviating category concentration risks and adverse impact by market volatilities. According to the Frost & Sullivan Report, in 2021, the ten largest cosmetics companies worldwide measured by retail sales are multi-brand companies.

We successfully established a number of household brands in China, such as *KANS*, *One Leaf* and *Baby Elephant*, and accumulated a broad customer base. According to the Frost & Sullivan Report, we were the only company with two brands, namely *KANS* and *One Leaf*, that ranked among the top ten Chinese domestic skincare brands in terms of brand awareness, purchase preference, popularity, likelihood of recommendation and willingness to repurchase based on consumer surveys in 2021; according to the same source, *Baby Elephant* ranked first in two surveys in 2021 on Chinese domestic maternity and childcare brands in terms of popularity and willingness to repurchase. Solid performance and continued success of our brands enable us to maintain sustainable growth and vibrant image through evolutionary changes of China's cosmetics industry over the past two decades. To address the evolving needs and preferences of consumers, we endeavor to develop and launch new brands focusing on various emerging cosmetics segments with huge growth potential. We continually adjust and enrich our product portfolio to stay attractive to our customers.

We endeavor to capture more opportunities in the fast-growing cosmetics market in China. According to the Frost & Sullivan Report, in terms of retail sales, the market size of China's cosmetics market reached RMB946.8 billion in 2021; it is expected to reach RMB1,482.2 billion in 2026 at a CAGR of 9.4% from 2021 to 2026, significantly higher than the global market's CAGR of 3.8% during the same period. The improvement of living standards in China continues to drive the increase in demand for high-quality products and evolution of needs for functional products, making China the fastest-growing cosmetics market among the major economies. In addition, the tailwinds of favorable governmental policies as well as the increasing popularity of Chinese domestic cosmetics brands among young consumers will benefit our development in the long run. For example, the "14th Five-Year Plan" has clearly pointed out that it is necessary to incubate premium Chinese domestic cosmetics brands and products. See "Industry Overview – Market Drivers." Currently, the Chinese cosmetics industry is mainly occupied by mass brands. In the Chinese mass cosmetics market, the international brands account for a relatively small proportion, the main competition is concentrated among domestic brands. We have a market share of 1.6% in the Chinese mass cosmetics market measured by retail sales in 2021. The proportion of domestic brands in Chinese cosmetics industry in terms of retail sales has increased from 44.0% in 2017 to 47.2% in 2021. Based on the consumer survey conducted by Frost & Sullivan in 2021, approximately 90% of the consumers who have increased the usage of domestic cosmetics products since 2020 were young group (aged between 25 and 40), which matches our target consumer positioning. According to the Frost & Sullivan Report, we ranked fourth in the Chinese domestic cosmetics market in China with retail sales of RMB7,556 million in 2021 and with a market share of 1.7% in the domestic cosmetics market. We ranked fourteenth place in overall cosmetics market in China in terms of retail sales and with a market share of 0.8% in 2021.

In 2019, 2020 and 2021, our results of operations achieved stable growth. Our revenue increased steadily by 17.6% from RMB2,874.3 million in 2019 to RMB3,381.6 million in 2020, and further increased by 7.0% to RMB3,618.9 million in 2021, primarily due to the increase of revenue of *KANS* and *Baby Elephant* as a result of their rising brand awareness and our expanded business scale on online sale channels. Our revenue decreased by 31.1% from RMB1,831.7 million in the six months ended June 30, 2021 to RMB1,262.4 million in the six months ended June 30, 2022, primarily as a result of the impact of COVID-19 on our production and delivery in Shanghai. Our gross profit increased by 25.0% from RMB1,749.4 million in 2019 to RMB2,186.6 million in 2020 and further increased by 8.0% to RMB2,360.6 million in 2021 primarily in line with the increase of our revenue. Our gross profit decreased by 32.8% from RMB1,219.8 million in the six months ended June 30, 2021 to RMB819.5 million in the six months ended June 30, 2022, primarily in line with the decrease of our revenue. Our adjusted profit (Non-IFRS measures) for the year increased significantly from RMB114.3 million in 2019 to RMB264.9 million in 2020, and further increased by 47.4% to RMB390.5 million in 2021 primarily due to the increase in the net profit as a result of the strong performance of *KANS* and *Baby Elephant*. Our adjusted profit (Non-IFRS measures) for the period decreased by 59.2% from RMB205.4 million in the six months ended June 30, 2021 to RMB83.9 million in the six months ended June 30, 2022.

OUR BRANDS AND PRODUCTS

We currently offer a wide range of cosmetics products under various brands, primarily including *KANS*, *One Leaf* and *Baby Elephant*. During the Track Record Period, we primarily generated revenue from these three brands, which in aggregate contributed 86.6%, 91.8%, 92.2% and 93.0% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively.

The following table sets forth our revenue by brands for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
	(RMB in millions, except percentage)						*(Unaudited)*			
KANS	919.7	32.0	1,332.5	39.4	1,631.1	45.1	796.8	43.5	603.6	47.8
One Leaf	1,050.7	36.6	1,007.4	29.8	830.7	23.0	468.3	25.6	264.5	21.0
Baby Elephant	517.2	18.0	765.6	22.6	871.2	24.1	404.9	22.1	306.1	24.2
Other brands[1]	386.7	13.4	276.1	8.2	285.9	7.8	161.7	8.8	88.2	7.0
Total	2,874.3	100.0	3,381.6	100.0	3,618.9	100.0	1,831.7	100.0	1,262.4	100.0

Note:

(1) Other brands primarily consist of *BIO-G*, *asnami* and *KYOCA*.

To cater to the different needs of the changing market, we consistently incubate and develop new brands, targeting different groups of consumers. In recent years, we continued to refresh our product portfolio through introducing new products under new brands. To address the heightened demands of consumers for high-quality functional products, we launched *BIO-G*, *asnami* and *KYOCA*, expanding our offerings for sensitive skincare, middle and high-end maternity skincare and hair product categories. We own all of the cosmetics brands we operated during the Track Record Period. As of the Latest Practicable Date, our new brands and brand pipeline included *newpage, ARMIYO* and *TAZU*. Our new brands *newpage* and *ARMIYO* were launched in May 2022 and June 2022, respectively. *Newpage* is positioned as a functional skincare brand focusing on sensitive skins of babies and children. *ARMIYO* is a professional skincare brand targeting sensitive skin issues cooperating with artemisinin research team. Our pipeline brand *TAZU* is positioned as a high-end anti-aging skincare brand, developed in cooperation with the scientist, Kosaku Yamada. We expect to release *TAZU* in 2023. During the Track Record Period, our products were mainly focused on the mass market. We currently manufacture and offer skin care products, maternity and childcare products and toiletries products, with some other categories as a supplement:

Note: Luxury brands target at middle-to-high-income groups, with high brand loyalty and price insensitivity, mainly sold as direct sales in first- and second-tier cities. Mid-to-high brands target at upper-middle-income and moderately price-sensitive groups with high brand loyalty, mainly sold in first- and second-tier cities, supplemented by third- and fourth-tier cities, with a high proportion of direct sales. Mass brands target at lower-middle-income and high price-sensitive groups, and are mainly franchised and distributed in first- to fourth-tier cities. Frost & Sullivan confirmed that our classification of brands is consistent with the industry practice.

The following table sets forth our revenue by product category for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
	(RMB in millions, except percentage)									
							(Unaudited)			
Skin care	2,254.8	78.4	2,577.6	76.2	2,679.7	74.0	1,391.9	76.0	929.7	73.6
Maternity and childcare	518.3	18.0	771.4	22.8	901.9	24.9	418.4	22.8	320.6	25.4
Others[1]	101.2	3.6	32.6	1.0	37.3	1.1	21.4	1.2	12.1	1.0
Total	2,874.3	100.0	3,381.6	100.0	3,618.9	100.0	1,831.7	100.0	1,262.4	100.0

Note:

(1) Others primarily consist of color cosmetics and toiletries.

RESEARCH AND DEVELOPMENT

Our strong independent R&D capabilities are critical to our success and will drive our sustainable development and innovation activities in the future. We started independent R&D activities in 2003 and have insisted on product self-development. Our approximately 20 years' accumulation of experience and expertise are underscored by our Sino-Japan dual R&D center system, which enables us to stay close to the latest technological developments in the global cosmetics industry. Our dual R&D centers are dedicated to building power platforms for advanced fundamental research and product development work. Staying close to consumers' needs, we focus on product development and new technology applications in response to the changing market. We strive to attract and cultivate talents and have formed a strong team with rich R&D experience. As of June 30, 2022, we had an R&D team of 204 staff members, among whom 81 members have a master's degree or above, representing approximately 39.7% of our R&D team. In the six months ended June 30, 2022, the revenue generated from our self-developed products contributed over 97% of our total revenue.

We attach significant importance to fundamental research, which we deem critical to the operation of our multi-brand strategy. With the establishment of our Japan Hondo R&D center in Kobe in 2016, we started our journey of fundamental research. According to the Frost & Sullivan Report, we are the first Chinese domestic cosmetics company to have a self-built overseas R&D center. Our Japan Hondo R&D Center help us acquire a number of international leading scientists, who have brought us advanced fundamental research experience.

OUR SALES CHANNELS

We distribute our products through our online channels and offline channels. Our comprehensive online and offline sales and distribution networks have enabled us to reach a broader consumer base and gain more exposure. The table below sets out a breakdown of our revenue by sales channels for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
	(RMB in millions, except percentages)						*(Unaudited)*			
Online channels	1,504.8	52.4	2,542.6	75.2	2,697.9	74.6	1,334.9	73.4	931.2	73.8
Online direct sales	890.8	31.0	1,578.1	46.7	1,532.6	42.4	750.7	41.0	485.7	38.5
Sales to Online Retailers	50.0	1.8	176.0	5.2	514.0	14.2	271.9	14.8	252.2	20.0
Sales to Online Distributors	564.0	19.6	788.5	23.3	651.3	18.0	322.3	17.6	193.3	15.3
Offline channels	1,313.7	45.7	770.2	22.8	829.4	22.9	439.4	24.0	310.9	24.6
Sales to Offline Retailers	662.9	23.1	386.5	11.4	471.4	13.0	240.7	13.1	179.5	14.2
Sales to Offline Distributors	650.8	22.6	383.7	11.4	358.0	9.9	198.7	10.9	131.4	10.4
Others[(1)]	55.8	1.9	68.8	2.0	91.6	2.5	47.4	2.6	20.3	1.6
Total	2,874.3	100.0	3,381.6	100.0	3,618.9	100.0	1,831.7	100.0	1,262.4	100.0

Note:

(1) Others primarily consist of our ODM business. During the Track Record Period, we provided design and manufacture services of cosmetics products for third-party cosmetics companies in order to optimize the usage of production facilities to achieve economic benefits. Please see "Business – Our Supply Chain – Our Production Bases."

Our online channels include online direct sales, sales to online retailers and sales to online distributors. Under our online direct sales model, we sell products directly to end-consumers through our self-operated online stores on third-party e-commerce platforms, primarily including *Tmall*, *Douyin*, *JD.com* and *Kuaishou*. Under the model of sales to online retailers, we sell products to online retailers, which will in turn sell products to end-customers. While our online retailer customers include major e-commerce platforms, such as *Tmall Supermarket*, *JD.com* and *VIP.com*, and other third-party online stores, most of our sales under sales to online retailer model were made to e-commerce platforms. We experienced a strong growth in revenue derived from sales to online retailers in 2019, 2020 and 2021, primarily due to our enhancement of collaboration with online retailers to provide products that better address consumers' demands. Under the model of sales to online distributors, we normally sell our products to distributors, who operate through online platforms and further sell the products to e-commerce platforms or other online stores. See "Business – Our Sales Channels – Online Channels."

Our offline channels include sales to offline retailers and sales to offline distributors. Our offline retailers primarily consist of well-known supermarkets and cosmetic chain stores, who further sell the products to end-customers. For sales to offline distributors, we normally sell our products to local distributors in different areas, who further sell the products to retailers such as supermarkets and cosmetics stores. See "Business – Our Sales Channels – Offline Channels."

We sell our products to retailers either under sales and purchase arrangements or consignment arrangements. During the Track Record Period, the revenue generated from online retailers under consignment arrangements amounted to RMB12.3 million, RMB67.7 million, RMB171.5 million and RMB125.6 million, respectively, representing 24.6%, 38.5%, 33.4% and 49.8% of our sales to online retailers. During the same period, the revenue generated from offline retailers under consignment arrangements amounted to RMB533.2 million, RMB373.7 million, RMB420.3 million and RMB175.2 million, respectively, representing 80.4%, 96.7%, 89.1% and 97.6% of our sales to offline retailers. As of the Latest Practicable Date, we recorded an unsettled trade receivables of RMB24.0 million, which was primarily due from one of the offline retailers (the "Retailer X") with broad offline presence in China and was among our top five debtor in terms of trade and bills receivables in each period of the Track Record Period. We expect to settle such trade receivables by the end of 2022. In 2022, we changed our transaction model with Retailer X and notified Retailer X our intention to entered into the Exit Process. Please see "Financial Information – Discussion of Certain Key Balance Sheet Items – Trade and Bills Receivables." During the Track Record Period and up to the Latest Practicable Date, we had not entered into procedures similar to the Exit Process with other major customers.

PRICING

We implement a competitive and effective pricing policy which complies with the relevant laws and regulations. We price our products based on various factors, such as product positioning, production costs and market competition. We adopt a uniformed pricing system for our various sales channels. We provide a similar recommended retail price range for the same type of product across sales channels to facilitate the standardization and stability of our sales network. To ensure an orderly market for our products across different channels, we have implemented discounting and pricing management policies for retailers and distributors, requiring them to first discuss with us the planned price reduction so both sides can reach mutual agreement before carrying out relevant discounting activities. We conduct thorough market research on a regular basis in order to compete more effectively with our competitors. Our sales staff regularly monitor our product prices sold by retailers and our online stores to review and evaluate our pricing. We assess the information collected and engage in discussions with the parties involved in our sales and distribution network and update our pricing and sales policies as necessary.

CUSTOMERS AND SUPPLIERS

Our customers consist of individual customers and corporate customers, which primarily include online distributors, online retailers such as major e-commerce platforms, and offline retailers such as well-known supermarkets and cosmetic chain stores, and offline distributors. See "Business – Our Sales Channels." We have a large customer base and we do not rely on any single customer. Revenue generated from our top five customers in each period during the Track Record Period amounted to RMB996.1 million, RMB893.2 million, RMB1,016.0 million and RMB446.0 million, respectively, representing 34.7%, 26.4%, 28.1% and 35.3% of our revenue in the respective period. Revenue generated from our largest customer, Company A, which is an offline retailer, in each period during the Track Record Period amounted to RMB494.2 million, RMB363.5 million, RMB417.4 million and RMB173.9 million, respectively, representing 17.2%, 10.7%, 11.5% and 13.8% of our revenue in the respective period.

Our major suppliers are suppliers of raw materials, marketing services, construction services and logistics services. Purchase from our five largest suppliers in each period during the Track Record Period amounted to RMB597.5 million, RMB631.8 million, RMB862.2 million and RMB257.6 million, respectively, representing 28.3%, 24.2%, 35.0% and 29.6%, of our total purchase amount in the respective period. Purchase from our largest supplier, Company G, in each period during the Track Record Period amounted to RMB299.6 million, RMB281.4 million, RMB433.9 million and RMB110.7 million, respectively, representing 14.2%, 10.8%, 17.6% and 12.7% of our total purchase amount in the respective period.

OUR SUPPLY CHAIN

To ensure the quality of our products, during the Track Record Period, we produced most of our products through our own production plants. As of the Latest Practicable Date, we had one plant in Shanghai, China and one plant in Okayama, Japan. Our production plants in China and Japan adopt international strict quality inspection systems, to ensure that the quality of all of our products meet international standards. See "Business – Our Supply Chain – Our Production Bases."

Our raw materials involved in the production of our products consist of packaging materials and ingredients. Ingredients used in our production primarily include, among others, moisturizers, active substances and oils. Packaging materials mainly include paper boxes, pump heads, plastic and glass bottles and aluminum foil bags. In 2019, 2020, 2021 and the six months ended June 30, 2022, the total cost of raw materials amounted to RMB914.4 million, RMB991.2 million, RMB1,053.9 million and RMB368.9 million, respectively, which accounted for 81.3%, 82.9%, 83.8% and 83.3% of our total cost of sales, respectively. See "Business – Our Supply Chain – Raw Materials."

COMPETITIVE STRENGTHS AND BUSINESS STRATEGY

We believe that the following competitive strengths contribute to our success and differentiate us from our competitors: (i) as a leading multi-brand Chinese domestic cosmetics company, we have insisted on implementation of a multi-brand strategy since establishment. We have achieved steady development of a number of brands, despite the volatilities of the cosmetics market and macro-economic environment; (ii) thanks to our approximately 20 years' of R&D efforts, we have accumulated superior R&D capabilities, constantly empowering development of new products and upgrading of existing products; (iii) we manage an extensive sales and distribution network covering a variety of online and offline channels, to effectively achieve consumer coverage and market penetration; (iv) continuous innovation of marketing strategies to adapt to the evolving media platforms to raise brand power and enhance brand image; (v) possession of outstanding cross-border supply chain management capabilities and self-owned production facilities ensuring product quality and flexible production, and (vi) an experienced and visionary management team committed to multi-brand strategy and an energetic corporate culture. See "Business – Our Strengths."

We intend to implement the following strategies: (i) solidify the leading position of our three major brands, namely *KANS*, *One Leaf* and *Baby Elephant*, through launching new products and upgrading existing products, to promote the overall business growth of us; (ii) we aim to continue to closely monitor the development trends of market segments, and develop new brands to enrich our brand matrix and product portfolios; (iii) continue to invest in R&D to enhance our independent R&D capabilities to facilitate our product development process; (iv) we intend to continue to monitor the development of sales channels and media platforms, and correspondingly enhance and expand our sales and distribution networks and conduct holistic marketing activities through innovative channels; (v) accelerate digitalization of our business operations and deploy advanced infrastructure to improve our operating and production efficiency; (vi) while we are committed to maintain our presence in China market, we intend to explore business opportunities in overseas markets; and (vii) continue to attract, train, and retain young and high-quality talents. See "Business – Our Strategies."

RISK FACTORS

There are certain risks relating to an investment in our Shares. These risks can be characterised as (i) risks relating to our business and industry; (ii) risks relating to conducting operations in China, and (iii) risks relating to the [**REDACTED**]. We believe that the most significant risks we face include the following: (i) our business and future growth prospects rely on consumer demand for our products. Any shift in consumer demand, or any unexpected situation with a negative impact on consumer demand, may materially and adversely affect our business and results of operations, (ii) our business depends on market recognition of our brands. Any damage to our reputation or brands may materially and adversely affect our business, financial condition and results of operations, (iii) failure to compete effectively may materially and adversely affect our business, financial condition, results of operations and prospects, (iv) our sales and marketing strategies may not be able to adapt to market changes, which could harm our business, financial condition and results of operations, (v) our marketing activities may not be cost-effective in attracting consumers, which may in turn adversely affect our results of operations, (vi) any quality issues related to our products or the cosmetics industry could result in a loss of customers and sales and, if related to our products, may subject us to product liability claims, (vii) our efforts in developing, launching and promoting new brands and products, and diversifying our brand and product portfolio, may not be successful. See "Risk Factors."

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables present our summary historical financial information for the periods or as of the dates indicated. This summary has been derived from our historical financial information set forth in the Accountant's Report in Appendix I to this document. The summary historical financial data set forth below should be read together with, and is qualified in its entirety by reference to, the historical financial information included in the Accountant's Report in Appendix I to this document, including the accompanying notes, and the information set forth in "Financial Information." Our historical financial information was prepared in accordance with IFRS.

Summary of Consolidated Statements of Profit or Loss

	Year ended December 31,			Six months ended June 30,	
	2019	**2020**	**2021**	**2021**	**2022**
	(RMB in millions)				
				(Unaudited)	
Revenue	2,874.3	3,381.6	3,618.9	1,831.7	1,262.4
Cost of sales	(1,124.9)	(1,195.0)	(1,258.2)	(611.9)	(442.9)
Gross profit	1,749.4	2,186.6	2,360.6	1,219.8	819.5
Profit before tax	52.9	279.6	408.1	204.1	78.4
Income tax credit/(expense)	6.5	(76.4)	(69.4)	(29.8)	(15.6)
Profit for the year/period	59.4	203.2	338.8	174.3	62.8
Attributable to:					
Owners of the parent	62.6	203.5	338.9	174.6	65.3
Non-controlling interests	(3.2)	(0.3)	(0.1)	(0.3)	(2.6)
	59.4	203.2	338.8	174.3	62.8

Our profit for the year increased significantly from RMB59.4 million in 2019 to RMB203.2 million in 2020, and further increased by 66.7% from RMB203.2 million in 2020 to RMB338.8 million in 2021, primarily in line with the increase of revenue under *KANS* and *Baby Elephant* during the Track Record Period as the result of (i) increased market demands from higher brand awareness in relation to our increased marketing activities, and (ii) increased sales from online channels including online direct sales and sales to online retailers, and (iii) the increase in gross profit margin, mainly reflecting increase in revenue in terms of percentage from sales channels with high gross profit margin such as online direct sales and sales to online and offline retailers, during the same years. Our profit for the period decreased by 64.0% from RMB174.3 million in the six months ended June 30, 2021 to RMB62.8 million in the six months ended June 30, 2022, primarily in line with the decrease of revenue under the impacts of COVID-19 on our production and delivery. See "Financial Information – Period-To-Period Comparison of Results of Operations." We expect to record a substantial decrease in our profit for the year in 2022.

NON-IFRS FINANCIAL MEASURE

To supplement our consolidated financial statements, which are presented in accordance with IFRS, we also use adjusted net profit as additional financial measure, which is not required by, or presented in accordance with IFRS. We believe this non-IFRS measure facilitates comparisons of operating performance from period to period and company to company by eliminating potential impacts of certain items. We believe this measure provides useful information to investors and others in understanding and evaluating our combined results of operations in the same manner as they help our management. However, such non-IFRS financial measure we presented may not be directly comparable to similar measures presented by other companies. The use of this non-IFRS measure should not be considered as substitute for analysis of, our results of operations or financial condition as reported under IFRS.

We define adjusted profit for the year/period as profit for the year/period adjusted by adding back share-based compensation expenses, interest on other liabilities and [**REDACTED**]. The following table reconciles our adjusted profit for the year/period presented to the most directly comparable financial measures calculated and presented in accordance with IFRS, which is profit for the year/period:

	Year ended 31 December			Six months ended June 30,	
	2019	**2020**	**2021**	**2021**	**2022**
	(RMB in millions)			*(Unaudited)*	
Profit for the year/period	59.4	203.2	338.8	174.3	62.8
Add:					
Share-based compensation expenses(1)	9.0	53.0	41.4	31.1	2.3
Interest on other liabilities(2)	45.9	8.7	–	–	–
[**REDACTED**](3)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Adjusted profit for the year/period	114.3	264.9	390.5	205.4	83.9

Notes:

(1) Share-based compensation relates to the share rewards we granted to our employees, which was non-cash in nature.

(2) Interest on other liabilities represents the interest expenses on the equity investments from Series A investors with redemption rights, which was non-cash in nature.

(3) [**REDACTED**] represent professional fees, [**REDACTED**] and other fees incurred in connection with the [**REDACTED**].

Gross profit and gross profit margin by brands

The following table sets forth a breakdown of our gross profit and gross profit margin by brands for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Gross Profit	Gross Profit Margin (%)	Gross Profit	Gross Profit Margin (%)	Gross Profit	Gross Profit Margin (%)	Gross Profit	Gross Profit Margin (%)	Gross Profit	Gross Profit Margin (%)
	(RMB in millions, except percentages)						*(Unaudited)*			
KANS	548.3	59.6	891.2	66.9	1,083.0	66.4	539.1	67.7	401.5	66.5
One Leaf	648.4	61.7	643.9	63.9	543.8	65.5	315.1	67.3	165.7	62.6
Baby Elephant	337.3	65.2	519.1	67.8	599.7	68.8	285.4	70.5	202.7	66.2
Other brands[1]	215.4	55.7	132.4	48.0	134.1	46.9	80.2	49.6	49.6	56.2
Total	1,749.4	60.9	2,186.6	64.7	2,360.6	65.2	1,219.8	66.6	819.5	64.9

Note:

(1) Other brands primarily consist of *BIO-G*, *asnami* and *KYOCA*.

Our gross profit increased by 25.0% from RMB1,749.4 million in 2019 to RMB2,186.6 million in 2020 and further increased by 8.0% to RMB2,360.6 million in 2021. Our gross profit decreased by 32.8% from RMB1,219.8 million in the six months ended June 30, 2021 to RMB819.5 million in the six months ended June 30, 2022, primarily in line with the decrease of our revenue. Our gross profit margins was 60.9%, 64.7%, 65.2%, 66.6% and 64.9% in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively, primarily reflecting the changes in gross profit margins of *KANS*, *One Leaf*, and *Baby Elephant*. Gross margin of other brands fluctuated with brands such as *BIO-G* and *asnami* during the Track Record Period.

KANS. Gross profit margin increased from 59.6% in 2019 to 66.9% in 2020, primarily due to the increase in revenue in terms of percentage generated from channels with high gross profit margin such as online direct sales. Gross profit margin decreased from 66.9% in 2020 to 66.4% in 2021, primarily due to increasing promotion activities with temporarily low gross profit margin in line with market practice we conducted on certain emerging e-commerce platforms, including *Douyin* and *Kuaishou* to rapidly capture more market shares, which was partly offset by the increase of revenue in percentage attributable to sales channels with higher gross profit margin such as sales to online and offline retailers. Gross profit margin was 67.7% in the six months ended June 30, 2021 and 66.5% in the six months ended June 30, 2022, which remained relatively stable.

One Leaf. Gross profit margin increased from 61.7% in 2019 to 63.9% in 2020, primarily due to the increase in revenue in terms of percentage generated from channels with high gross profit margin such as online direct sales. Gross profit margin increased from 63.9% in 2020 to 65.5% in 2021, primarily due to the increase in revenue in terms of percentage from sales to online and offline retailers with high gross profit margin in relation to our enhanced collaboration with online and offline retailers to provide products that better addressed consumers' demands from these channels. Gross profit margin decreased from 67.3% in the six months ended June 30, 2021 to 62.6% in the six months ended June 30, 2022 primarily due to (i) decrease in gross profit margin under sales to online retailers as a result of the promotion activities we conducted to enhance collaboration with certain online retailers, and (ii) the decrease in revenue in percentage attributable to sales channels with higher gross profit margin such as online direct sales including platforms such as *Tmall* mainly in relation to the impact of COVID-19 on our delivery in Shanghai, as we are responsible for product delivery directly from our warehouses under such business model.

Baby Elephant. Gross profit margin increased from 65.2% in 2019 to 67.8% in 2020, primarily due to the increase in revenue in terms of percentage generated from channels with high gross profit margin such as online direct sales and sales to online retailers. Gross profit margin increased from 67.8% in 2020 to 68.8% in 2021, primarily due to the increase in revenue in terms of percentage from sales to online and offline retailers with high gross profit margin in relation to our enhanced collaboration with online and offline retailers to provide products that better addressed consumers' demands from these channels. Gross profit margin decreased from 70.5% in the six months ended June 30, 2021 to 66.2% in the six months ended June 30, 2022 primarily due to (i) decrease in gross profit margin under sales to online retailers as a result of the promotion activities we conducted to enhance collaboration with certain online retailers, and (ii) the decrease in revenue in percentage attributable to sales channels with higher gross profit margin such as online direct sales including platforms such as *Tmall* mainly in relation to the impact of COVID-19 on our delivery in Shanghai, as we are responsible for product delivery directly from our warehouses under such business model.

Gross profit and gross profit margin by sales channels

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Gross Profit	Gross Profit Margin (%)	Gross Profit	Gross Profit Margin (%)	Gross Profit	Gross Profit Margin (%)	Gross Profit	Gross Profit Margin (%)	Gross Profit	Gross Profit Margin (%)
	(RMB in millions, except percentages)									
							(Unaudited)			
Online channels	944.0	62.7	1,690.0	66.5	1,775.4	65.8	901.6	67.0	600.3	64.5
Online direct sales	627.8	70.5	1,185.1	75.1	1,099.0	71.7	542.8	72.3	351.4	72.3
Sales to online retailers	28.7	57.5	111.7	63.5	353.1	68.7	195.6	71.9	160.0	63.4
Sales to online distributors	287.5	51.0	393.2	49.9	323.3	49.6	163.2	50.6	88.9	46.0
Offline channels	810.2	61.7	482.1	62.6	554.1	66.8	300.8	68.5	210.7	67.8
Sales to offline retailers	506.4	76.3	295.1	76.4	374.7	79.5	191.2	79.4	145.5	81.1
Sales to offline distributors	303.8	46.7	187.0	48.7	179.4	50.1	109.6	55.2	65.2	49.6
Others[(1)]	(4.8)	(8.6)	14.5	21.1	31.1	34.1	17.4	36.7	8.5	41.9
Total	1,749.4	60.9	2,186.6	64.7	2,360.6	65.2	1,219.8	66.6	819.5	64.9

Note:

(1) Others primarily consist of our ODM business. During the Track Record Period, we provided design and manufacture services of cosmetics products for third-party cosmetics companies in order to optimize the usage of production facilities to achieve economic benefits. Please see "Business – Our Supply Chain – Our Production Bases."

Gross profit generated from our online channels increased by 79.0% from RMB944.0 million in 2019 to RMB1,690.0 million in 2020 and by 5.1% to RMB1,775.4 million in 2021, and decreased by 33.4% from RMB901.6 million in the six months ended June 30, 2021 to RMB600.3 million in the six months ended June 30, 2022. Gross profit generated from our offline channels decreased by 40.5% from RMB810.2 million in 2019 to RMB482.1 million in 2020 and increased by 14.9% to RMB554.1 million in 2021, and decreased by 30.0% from RMB300.8 million in the six months ended June 30, 2021 to RMB210.7 million in the six months ended June 30, 2022.

Online direct sales. Gross profit margin increased from 70.5% in 2019 to 75.1% in 2020, primarily due to the increase of gross profit margins on platforms such as *Tmall* as the result of high demands of our products from online channels and our reduced discounting activities on such platforms. Gross profit margin decreased from 75.1% in 2020 to 71.7% in 2021, primarily due to increasing promotion activities with temporarily low gross profit margin in line with market practice we conducted on certain emerging e-commerce platforms, including *Douyin* and *Kuaishou* to rapidly capture more market shares. Gross profit margin remained stable at 72.3% in the six months ended June 30, 2021 and 2022.

Sales to online retailers. Gross profit margin increased from 57.5% in 2019 to 63.5% in 2020 and further increased to 68.7% in 2021, primarily due to our enhanced collaboration with online retailers to provide products that better addressed consumers' demands. Gross profit margin decreased from 71.9% in the six months ended June 30, 2021 to 63.4% in the six months ended June 30, 2022, primarily due to the promotion activities we conducted to enhance collaboration with certain online retailers.

Sales to online distributors. Gross profit margin was 51.0%, 49.9% and 49.6% in 2019, 2020 and 2021, respectively, which remained relatively stable. Gross profit margin decreased from 50.6% in the six months ended June 30, 2021 to 46.0% in the six months ended June 30, 2022, primarily due to our dynamic adjustment of our online sales strategies to enhance our sales to online retailers to better capture consumer demands and respond to the market corresponding to the significant transformation of e-commerce industry.

Sales to offline retailers. Gross profit margin was 76.3%, 76.4%, 79.5%, 79.4% and 81.1% in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. The gross profit margin from sales to offline retailers primarily fluctuated with the changes in the amount of and the gross profit margins from sales to well-known supermarkets and cosmetic chain stores.

Sales to offline distributors. Gross profit margin increased from 46.7% in 2019 to 48.7% in 2020, and further increased to 50.1% in 2021, primarily due to our optimization of offline distribution network and enhanced distributor management. Gross profit margin decreased from 55.2% in the six months ended June 30, 2021 to 49.6% in the six months ended June 30, 2022, primarily because we supported our offline distributors during the first half of 2022 to carry out more promotion activities to mitigate the impact of COVID-19 pandemic.

Gross Profit and Gross Profit Margin by Product Category

The following table sets forth our gross profit and gross profit margin by product category for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Gross Profit	Gross Profit Margin (%)	Gross Profit	Gross Profit Margin (%)	Gross Profit	Gross Profit Margin (%)	Gross Profit	Gross Profit Margin (%)	Gross Profit	Gross Profit Margin (%)
	(RMB in millions, except percentages)									
							(Unaudited)			
Skin Care	1,375.2	61.0	1,650.2	64.0	1,715.2	64.0	910.3	65.4	601.6	64.7
Maternity and Childcare	337.4	65.1	523.2	67.8	625.2	69.3	296.2	70.8	215.0	67.1
Others[(1)]	36.8	36.4	13.2	40.5	20.2	54.2	13.3	62.1	2.9	24.0
Total	1,749.4	60.9	2,186.6	64.7	2,360.6	65.2	1,219.8	66.6	819.5	64.9

Note:

(1) Others primarily consist of makeups and toiletries.

Gross profit generated from our skin care products increased by 20.0% from RMB1,375.2 million in 2019 to RMB1,650.2 million in 2020 and further increased by 3.9% to RMB1,715.2 million in 2021, and decreased by 33.9% from RMB910.3 million in the six months ended June 30, 2021 to RMB601.6 million in the six months ended June 30, 2022. Gross profit generated from our maternity and childcare products increased by 55.1% from RMB337.4 million in 2019 to RMB523.2 million in 2020 and further increased by 19.5% to RMB625.2 million in 2021, and decreased by 27.4% from RMB296.2 million in the six months ended June 30, 2021 to RMB215.0 million in the six months ended June 30, 2022. Gross profit generated from our other products decreased significantly from RMB36.8 million in 2019 to RMB13.2 million in 2020 and further increased by 53.0% to RMB20.2 million in 2021, and decreased by 78.2% from RMB13.3 million in the six months ended June 30, 2021 to RMB2.9 million in the six months ended June 30, 2022.

Summary of Consolidated Balance Sheets

	As of December 31,			As of June 30,
	2019	2020	2021	2022
		(RMB in millions)		
Current assets	1,355.7	1,194.8	1,323.1	1,221.7
Current liabilities	2,224.7	1,370.0	1,100.1	1,144.1
Net current assets/(liabilities)	(869.0)	(175.2)	223.0	77.6
Non-current assets	968.1	1,029.5	951.5	914.3
Non-current liabilities	292.8	269.9	219.4	170.7
Net (liabilities)/assets	(193.7)	584.4	955.0	821.3
Equity attributable to owners of the parent				
Share capital	180.0	360.0	360.0	360.0
(Deficits)/reserves	(366.9)	219.0	590.0	450.9
	(186.9)	579.0	950.0	810.9
Non-controlling interests	(6.7)	5.4	5.0	10.4
Total equity	(193.7)	584.4	955.0	821.3

Our total equity changed from net liabilities of RMB193.7 million as of December 31, 2019 to net assets of RMB584.4 million as of December 31, 2020, and increased to net assets of RMB955.0 million as of December 31, 2021, and then decreased to RMB821.3 million as of June 30, 2022. We recorded net liabilities as of December 31, 2019 primarily due to our accumulated loss of RMB556.5 million as of January 1, 2019. See "Financial Information – Overview." We recorded net assets of RMB584.4 million as of December 31, 2020 primarily due to the increase in our profit for the year and that our other liabilities was deemed capital contribution from the shareholder in 2020 as our obligation to repurchase equity held by Series A Investors was terminated in 2020. See note 29 in the Accountant's Report in Appendix I to this Document. Our net assets as of December 31, 2021 increased to RMB955.0 million primarily due to the increase in our profit for the year. Our net assets as of June 30, 2022 decreased to RMB821.3 million primarily due to our declaration of cash dividend of RMB200.0 million to all shareholders on April 2, 2022. See "Consolidated Statements of Changes in Equity" in the Accountant's Report in Appendix I to this Document.

We had net current liabilities of RMB869.0 million as of December 31, 2019 and RMB175.2 million as of December 31, 2020, while we had net current assets of RMB223.0 million as of December 31, 2021 and RMB77.6 million as of June 30, 2022. We recorded net current liabilities of RMB869.0 million as of December 31, 2019 primarily due to (i) our RMB717.9 million trade and bills payables; (ii) our RMB507.5 million other liabilities in relation to our obligation to repurchase equity held by Series A investors in our Company, which was terminated in 2020. See "– Financial Information – Other liabilities"; and (iii) our RMB348.9 million interest-bearing bank and other borrowings. We recorded net current liabilities of RMB175.2 million as of December 31, 2020 primarily due to (i) our RMB549.1 million trade and bills payables; (ii) our RMB500.2 million other payable and accruals; and (iii) our RMB271.0 million interest-bearing bank and other borrowings.

Our net current liabilities decreased from RMB869.0 million, as of December 31, 2019 to RMB175.2 million as of December 31, 2020, primarily due to the decrease of our total current liabilities from RMB2,224.7 million to RMB1,370.0 million, mainly reflecting (i) a decrease in our other liabilities in 2020 as our obligation to repurchase equity held by Series A Investors in our Company was terminated in 2020, and (ii) the decrease in trade and bills payables. We had net current liabilities of RMB175.2 million as of December 31, 2020 compared to net current assets of RMB223.0 million as of December 31, 2021, primarily due to the decrease of our total current liabilities from RMB1,370.0 million to RMB1,100.1 million primarily reflecting (i) a decrease in our interest-bearing bank and other borrowings, (ii) a decrease in our other payables and accruals. Our net current assets decreased from RMB223.0 million as of December 31, 2021 to RMB77.6 million as of June 30, 2022, primarily due to (i) the decrease of our total current assets from RMB1,323.1 million to RMB1,221.7 million mainly reflecting (a) a decrease in our trade and bills receivables mainly resulted from the decrease in our revenue, and (b) a decrease in our inventories mainly resulted from the decrease in our finished goods, and (ii) the increase of our total current liabilities from RMB1,100.1 million to RMB1,144.1 million mainly reflecting (a) an increase in our interest bearing bank and other borrowings, and (b) an increase in our other payables and accruals, partially offset by a decrease in our trade and bills payables.

Summary of the Consolidated Statements of Cash Flows

The following table sets forth our cash flows for the periods indicated:

	Year Ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	(RMB in millions)				
				(Unaudited)	
Net cash generated from/ (used in) operating activities	77.4	266.0	335.2	174.1	(74.6)
Net cash used in investing activities	(71.5)	(6.9)	(55.3)	(50.7)	(62.3)
Net cash generated from/ (used in) financing activities	60.1	(239.9)	(289.6)	(163.9)	106.5
Net increase/(decrease) in cash and cash equivalents	66.0	19.1	(9.6)	(40.5)	(30.4)
Cash and cash equivalents at beginning of year/period	60.8	132.4	154.2	154.2	145.2
Effect of foreign exchange rate changes, net	5.6	2.7	0.7	(0.2)	0.2
Cash and cash equivalents at end of year/period	132.4	154.2	145.2	113.5	115.0

Our cash and cash equivalents in 2021 decreased compared to that in 2020 primarily due to the cash outflow from financing activities in relation to our repayment of bank loans of RMB285.4 million.

We recorded RMB74.6 million of net cash used in operating activities in the six months ended June 30, 2022, compared to RMB174.1 million net cash generated from operating activities in the six months ended June 30, 2021 primarily due to (i) the 31.1% decrease in our revenue mainly in relation to (a) the impact of COVID-19 on our production and delivery in Shanghai, from RMB1,831.7 million in the six months ended June 30, 2021 to RMB1,262.4 million in the six months ended June 30, 2022. See "Financial Information – Period-To-Period Comparison of Results of Operations – Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021." (b) our marketing efficiencies as our sales and marketing staff's capabilities to conduct offline marketing activities, such as customer visit and market research, were limited due to travel restrictions; and (c) our new product development and existing product upgrades as our R&D activities were affected during the same time; (ii) our accelerated settlement with trade and bills payables with our suppliers for supplier management maintenance and enhancement during the same time and (iii) the increase in our tax paid as we settled certain tax payables as of December 31, 2021. We plan to improve our cash flow from operating activities by increasing our revenue by expanding our sales channels, launching online and offline marketing campaigns and offering high-quality services with our production, sales and logistics gradually recovering from the impact of COVID-19. We will also settle trade and bills payables at a pace comparable to the level prior to the six months ended June 30, 2022.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios for the periods indicated:

	Year ended/As of December 31,			Six months ended/As of June 30,
	2019	**2020**	**2021**	**2022**
Gross profit margin[1]	60.9%	64.7%	65.2%	64.9%
Net profit margin[2]	2.1%	6.0%	9.4%	5.0%
Return on total assets[3]	2.6%	8.9%	15.1%	NM[4]
Return on equity[5]	NM[6]	34.8%[6]	44.0%	NM[4]
Gearing ratio[7]	NM[6]	93.1%	29.9%	54.3%
Current ratio[8]	0.6	0.9	1.2	1.1
Quick ratio[9]	0.4	0.5	0.6	0.6

Notes:

(1) Gross margin equals gross profit for the period divided by revenues for the period and multiplied by 100%.

(2) Net profit margin equals profit for the period divided by revenues for the period and multiplied by 100%.

(3) Return on total assets equals profit for the period divided by the average of the beginning and ending total assets multiplied by 100%.

(4) The six months to year comparison is not meaningful.

(5) Return on equity equals net profit divided by average of total equity for the period multiplied by 100%.

(6) Our total equity as of December 31, 2019 is negative, so gearing ratio and return on equity were not meaningful for 2019. Return on equity for 2020 is calculated as net profit divided by total equity as of December 31, 2020 multiplied by 100%.

(7) Gearing ratio equals total interest-bearing debt (including interest-bearing bank and other borrowings, lease liabilities, and other liabilities) divided by total equity and multiplied by 100%.

(8) Current ratio equals total current assets divided by total current liabilities.

(9) Quick ratio equals total current assets less inventories divided by total current liabilities.

Gross profit margin

See "– Period to Period Comparison of Results of Operations" for a discussion of the factors affecting our gross profit margin during the Track Record Period.

Net profit margin

See "– Period to Period Comparison of Results of Operations" for a discussion of the factors affecting our net profit margin during the Track Record Period.

Return on total assets

Our return on total assets ratio for the six months ended June 30, 2022 was not meaningful for comparison with figures for the full year.

Our return on total assets ratio increased from 8.9% in 2020 to 15.1% in 2021, primarily due to the increase of profit in 2021. Our return on total assets ratio increased from 2.6% in 2019 to 8.9% in 2020, primarily due to the increase of profit in 2020.

Return on equity

Our return on equity for the six months ended June 30, 2022 was not meaningful for comparison with figures for the full year.

Return on equity increased from 34.8% as of December 31, 2020 to 44.0% as of December 31, 2021, primarily due to the increase of net profit in 2021.

Our return on equity for 2019 was not meaningful as our total equity as of December 31, 2019 was negative.

Gearing ratio

Our gearing ratio increased from 29.9% as of December 31, 2021 to 54.3% as of June 30, 2022, primarily due to the increase of total interest-bearing bank and other borrowings from RMB190.1 million as of December 31, 2021 to RMB360.9 million as of June 30, 2022 mainly in response to the impacts of the COVID-19 Outbreak while reserves decreased from RMB590.0 million as of December 31, 2021 to RMB450.9 million as of June 30, 2022.

Our gearing ratio decreased from 93.1% as of December 31, 2020 to 29.9% as of December 31, 2021, primarily due to the decrease of total interest-bearing bank and other borrowings from RMB435.5 million as of December 31, 2020 to RMB190.1 million as of December 31, 2021 and the decrease of total lease liabilities from RMB108.6 million as of December 31, 2020 to RMB95.0 million as of December 31, 2021 while the increase of reserves from RMB219.0 million as of December 31, 2020 to RMB590.0 million as of December 31, 2021.

Our gearing ratio for 2019 was not meaningful as our total equity as of December 31, 2019 was negative.

USE OF [REDACTED]

Assuming an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**] (being the mid-point of the stated range of the [**REDACTED**] of between HK$[**REDACTED**] and HK$[**REDACTED**] per [**REDACTED**]), we estimate that we will receive net [**REDACTED**] of approximately HK$[**REDACTED**] from the [**REDACTED**] after deducting the [**REDACTED**] commissions and other estimated expenses in connection with the [**REDACTED**] and assuming that the [**REDACTED**] is not exercised. In line with our strategies, we intend to use our [**REDACTED**] from the [**REDACTED**] for the purposes and in the amounts set forth below:

- Approximately [**REDACTED**] or HK$[**REDACTED**], for branding activities to continue to enhance the brand image and raise brand awareness of our existing brands, as well as to establish the brand images of our new brands;

- Approximately [**REDACTED**] or HK$[**REDACTED**], for enhancing our R&D capabilities by strengthening our fundamental research and product development, to maintain the continuous innovation of our brands;

- Approximately [**REDACTED**] or HK$[**REDACTED**] will be used to strengthen our production and supply chain capabilities, mainly involving the renovation of our production facilities, upgrading our automation equipment, and the expansion of production capacities in the Fengxian Plant;

- Approximately [**REDACTED**] or HK$[**REDACTED**] will be used for increasing the breadth and depth of our sales networks to enhance the penetration of our products;
- Approximately [**REDACTED**] or HK$[**REDACTED**] will be used for enhancing our digitization and information infrastructure;
- Approximately [**REDACTED**] or HK$[**REDACTED**] will be used for working capital and other general corporate purposes.

OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, Mr. Lyu Yixiong was directly interested in approximately 40.96% and (through Hongyin Investment, Shanghai Kans, Nanyin Investment and Shanghai Shengyan) indirectly interested in approximately 50.31% of the total issued share capital of our Company. Accordingly, our Controlling Shareholders are Mr. Lyu Yixiong, Hongyin Investment, Shanghai Kans, Nanyin Investment and Shanghai Shengyan. Immediately following the completion of the [**REDACTED**], Mr. Lyu Yixiong will be interested in approximately [**REDACTED**]% of our total share capital (assuming the [**REDACTED**] is not exercised) or approximately [**REDACTED**]% of our total share capital (assuming the [**REDACTED**] is exercised in full). Mr. Lyu Yixiong, Hongyin Investment, Shanghai Kans, Nanyin Investment and Shanghai Shengyan will remain as our Controlling Shareholders upon the [**REDACTED**].

[REDACTED]

The statistics in the following table are based on the assumptions that the [**REDACTED**] has been completed and [**REDACTED**] H Shares are issued pursuant to the [**REDACTED**].

	Based on an [REDACTED] of HK$[REDACTED] per Share	**Based on an [REDACTED] of HK$[REDACTED] per Share**
Market capitalization of our Shares(1)	HK$[**REDACTED**]	HK$[**REDACTED**]
Unaudited pro forma adjusted consolidated net tangible assets per Share(2)	HK$[**REDACTED**]	HK$[**REDACTED**]

Notes:

(1) The calculation of market capitalization is based on [**REDACTED**] Shares expected to be in issue immediately upon completion of the [**REDACTED**], assuming the [**REDACTED**] is not exercised.

(2) The pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share is calculated after making the adjustments referred to in "Financial Information – Unaudited Pro Forma Statement of Adjusted Net Tangible Assets" and on the [**REDACTED**] Shares expected to be in issue immediately after completion of the [**REDACTED**].

IMPACT OF COVID-19 OUTBREAK

Since the end of December 2019, the outbreak of a novel strain of coronavirus named COVID-19 has materially and adversely affected the global economy. Since early 2020, mainland China and certain other regions and countries where we operate have been affected by the COVID-19 outbreak and, in response, restrictive measures have been implemented, including restrictions on mobility and travel and cancellation of public activities, to contain the spread of the virus. Consumers have transformed how they purchase cosmetics as offline business activities were affected by COVID-19 outbreak, resulting in a decrease in revenue from offline channels from 2019 to 2020. However, leveraging our comprehensive online sales networks and marketing capabilities, our revenue through online channels increased by 69.0% from RMB1,504.8 million in 2019 to RMB2,542.6 million in 2020 and further increased by 6.1% to RMB2,697.9 million in 2021.

There remain significant uncertainties surrounding the COVID-19 outbreak. Since the beginning of 2022, there have been sporadic outbreaks of the Omicron, a COVID-19 variant, in multiple regions of China, such as Shanghai, Shenzhen and Beijing, and various restrictions have been imposed on business and social activities to contain the spread of virus, including restrictions on travel, production and logistics, and other emergency quarantine measures. In particular, during the first half of 2022, we suffered more significant disturbance to our sales and supply chain than our peers as our headquarter and major production plant, Fengxian Plant, is located in Shanghai. We had to temporarily suspended our production activities and change production schedule in Shanghai from late March to May to comply with requirements under restrictive measures against the COVID-19 Outbreak. Our sales and logistics arrangements were disrupted and adversely affected during the same period as well. Following the lift of restriction measures in Shanghai from June 1, 2022, our business activities started to resume normal. Since June 30, 2022, we have taken the initiative to take a variety of measures to ensure the recovery of our sales performance to a normal level.

Sales and Marketing

In relation to the impacts of the COVID-19 Outbreak, our revenue decreased by 31.1% from RMB1,831.7 million in the six months ended June 30, 2021 to RMB1,262.4 million in the same period in 2022 and our gross profit decreased by 32.8% from RMB1,219.8 million in the six months ended June 30, 2021 to RMB819.5 million in the same period in 2022. Please see ″Financial Information - Period-to-period Comparison of Results of Operations - Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021.″ Our sales performance during the third quarter of 2022 was subject to the residual effects of the disruption of COVID-19 on our business activities from March to May 2022, and declined compared to the same period of 2021, primarily because during such period:

- **Some of our consumers have switched to other brands due to the previous impacts of COVID-19 and it takes time for us to regain such consumers.**

  Some of our consumers have switched to other brands due to the temporary impacts of COVID-19 in the first half of 2022 on our supply chain, which led to certain customer demands being unmet for a short period of time as consumers had difficulties accessing our products.

- **We have moderated branding and marketing activities for certain key sales and marketing events.**

  We have moderated our branding and marketing activities for key sales and marketing events, including the "618" sales event, in the second and third quarter in 2022, because (i) we were prudently assessing the impacts of COVID-19 following the lift of relevant restrictive measures in Shanghai from June 1, 2022 and (ii) there have been sporadic restricted social activities in other provinces and cities since June 30, 2022. As a result, the online and offline exposure for our brands as well as the market demands for our products from such key sales and marketing events were lower compared to the same period in 2021.

- **Our plan to upgrade existing products and launch new products were temporarily delayed.**

  Our capabilities to develop new products have been crucial for our development. However, due to the temporary impacts of COVID-19, our plan to upgrade existing products and launch new products were temporarily delayed in the first half of 2022.

- **Regional resurgences of COVID-19 in China and the corresponding control measures have adversely affected the demands for and access to our products in relevant areas.**

  We have been subject to the regional resurgences of COVID-19 in China, which have adversely affected the access to our products in relevant areas. Since June 30, 2022 and up to the Latest Practicable Date, customers in certain cities that suffered from COVID-resurgence have experienced delay in product delivery and may consequently postpone purchasing our products.

- **We have experienced softening growth in the cosmetic industry, especially in July and August 2022.**

  Although the third quarter of 2022 has witnessed rebound in demands for cosmetics consumption from the level in the second quarter of 2022, the demands were lower when compared with the same period in 2021. According to the National Bureau of Statistics, the retail sales of cosmetics units above the designated size grew by 0.7% and -6.4% year-over-year in July and August 2022, respectively, which was down by 2.1% and 6.4% compared with that in the same periods in 2021, respectively. However, we have seen a trend of recovery with the negative growth rate narrowed to 3.1% and 3.7% in September and October 2022, respectively.

To mitigate the abovementioned impacts of COVID-19 Outbreak and in adherence to our dedication to build our strong brand power and youthful brand image, since June 30, 2022, we have proactively started a series of marketing and sales events on various channels to raise our brand awareness among consumers, mainly including:

- ***Collaboration with top-level KOLs.*** We have successfully carried out multiple sales and marketing events to promote our newly launched products in collaboration with top-level KOLs, which helped us attract traffic from audience and have laid down a solid foundation for achieving optimal sales results.

- ***Introduction of new brand ambassadors.*** We have introduced selected celebrities as new brand ambassadors to enhance our exposure and enforce our positive brand image, and ultimately strengthen the trust relationship with our consumers.

- ***Live streaming sales activities.*** Leveraging our in-house marketing capabilities, we have also carried out a variety of live streaming sales activities to further strengthen our presence on popular e-commerce platforms and to stay close to consumers.

Our Directors confirm that, since June 30, 2022 and up to the Latest Practicable Date, (i) there had been no material breach of contractual obligation as a result of our adjustment of business activities in response to the restrictive measures in relation to COVID-19 outbreak, (ii) we had not been subject to any material disputes or claims for breach of contracts brought by our customers, and (iii) no major customer has terminated business relationships with us as a result of our delay in delivery. We believe that the impact of the COVID-19 outbreak on our Group's business operations and financial performance will not be long-term as the restrictive measures imposed in Shanghai have been lifted.

Production

Our production activities have quickly restored to a normal level following the lift of Shanghai lockdown measures since June 1, 2022. However, we lowered our production utilization rate to 50.6%, 56.8%, 43.6%, and 46.5% in July, August, September and October in 2022, respectively, compared to 51.7%, 61.1%, 82.9%, and 77.6% in the same period in 2021. In particular, our production utilization rates were lower in September and October in 2022 compared with the same periods in 2021 primarily because, while we had actively ramped up our production utilization rate in September and October 2021 in preparation for the sales events and consumption occasions in the fourth quarter of 2021, we strategically moderated our production plan for the same sales events and consumption occasions in 2022 because (1) we had been prudently assessing the residual impacts of COVID-19 Outbreak and the impacts of the sporadic regional outbreaks in the second half of 2022 and (2) we expected that the short-term demands for our products in 2022 could be met at a lower production utilization rate compared with that in 2021 with our inventory level of products. We have adopted strict guidelines in our Fengxian Plant to ensure our working environments, sanitary conditions and employee management meet the requirements of restrictive measures. Since June 30, 2022, we have not experienced any disruptions to our production activities caused by COVID-19 outbreak. We have been closely monitoring the development of COVID-19 outbreaks and proactively taking measures to ensure our production plants' fulfilment of requirements of relevant restrictive measures.

Logistics

After the lockdown measures placed in Shanghai have been lifted, our logistic and delivery arrangements have generally resumed to normal. Since June 30, 2022 and up to the Latest Practicable Date, except that customers may have experienced delay in delivery in certain cities that suffer from COVID-19 resurgence, our delivery, logistic and warehousing system have not been disrupted or adversely affected by the pandemic, which resulted in order cancellation with amount of RMB8.7 million, accounting for approximately 1% of our revenue generated from the same period, we have not been subject to any material extra charges by logistics and warehousing service providers due to the delay of delivery. Through our cooperation with third-party warehouses located in different parts of China, we are able to transport our inventories among different warehouses to prevent shortage of supply in a specific area. As such, despite the resurgence of COVID-19 in certain cities in the PRC, our business did not suffer from any material adverse effects due to the transportation restrictions implemented as a result of the Outbreak since June 30, 2022 and up to the Latest Practicable Date.

Impacts on Our Profit in 2022

There is no guarantee that the prolonged pandemic will not affect the demands for our products and our operations in the future. Our results of operations and combined financial position for 2022 will depend on the future development of the outbreak, including its local and global severity and actions taken to contain it, which are highly uncertain and unpredictable. See "Risk Factors – Risks Relating to Our Business and Industry – Our business and operations may be materially and adversely affected by natural disasters, health epidemics and pandemics such as the COVID-19 pandemic."

Although we have gradually resumed business operations and improved our sales performance since June 30, 2022, to date we are still in the process of recovering our profitability to what we achieved for the same period in 2021. We expect that it would take a few months to regain the growth momentum in terms of profit. It takes time for our revenue to restore to the level of the same period in 2021 because (i) it is expected to be a lengthy process for us to acquire customers; (ii) we have moderated branding and marketing activities for certain key sales and marketing events; (iii) our plan to upgrade existing products and launch new products were temporarily delayed; (iv) regional resurgences of COVID-19 in China and the corresponding control measures have adversely affected the demands for and access to our products in relevant areas; and (v) we have experienced softening growth in the overall cosmetic industry. In addition, we have recorded and will continue to record significant marketing expenses to conduct various marketing and sales activities on different sales channels, which would impair our profit margin for the second half of 2022. We expect that our profit will decrease at a greater rate than revenue in 2022 primarily because our costs and expenses in 2022 will decrease at a lower rate compared with that of revenue in 2022. This is mainly because (1) we will incur fixed costs in 2022 and (2) we have recorded and will continue to record significant expenses, including for sales and marketing and R&D, in 2022 to enhance our market demands, and it will take time for the results to be reflected in revenue. In the first half of 2022, our net profit for the period decreased by 64.0% from RMB174.3 million to RMB62.8 million during the same period in 2021. Our profit for the second half of 2022 is expected to suffer a similar period-over-period decline as that for the first half of the year. As a result, we expect to experience a significant decrease in our profit for 2022 as compared to that of 2021.

RECENT DEVELOPMENT

Our Financial Performance since June 30, 2022

Despite our financial performance has fallen during the third quarter of 2022 compared to the same period in 2021, our results of operation have improved steadily from July to October 2022, and such decline for the third quarter has been narrowed as compared to what we have recorded for the second quarter. Our marketing and sales efforts have contributed to the improvement of our performance since June 30, 2022. In particular, though our revenue decreased by 30.7% from RMB2,595.6 million in the nine months ended September 30, 2021 to RMB1,798.4 million in the same period in 2022 and our gross profit decreased by 30.8% from RMB1,692.1 million in the nine months ended September 30, 2021 to RMB1,170.1 million in the same period in 2022, our results of operation improved in terms of revenue and gross profit from July to September 2022. We also recorded sizable increase in both revenue and gross profit in October 2022 compared to those in September 2022. The significant improvement in month-over-month revenue and gross profit of October 2022 were primarily driven by the strong performance in (i) sales to online retailers and online distributors as a result of our preparation for Single's Day; and (ii) online direct sales driven by our more active marketing campaigns and closer engagement with top KOLs. Our revenue decreased by 28.8% from RMB2,925.9 million for the ten months ended October 31, 2021 to RMB2,082.3 million for the same period in 2022. Our gross profit decreased by 29.1% from RMB1,912.1 million for the ten months ended October 31, 2021 to RMB1,355.9 million for the same period in 2022. Our gross profit margin was 65.3% and 65.1% for the ten months ended October 31, 2021 and for the same period in 2022, respectively, which remained relatively stable.

	July	August	September	October
	(RMB in millions, except for percentage)			
2022 Revenue	178.8	160.1	197.1	283.9
The fluctuation of 2022 revenue compared to that of 2021	around -27%	around -31%	around -31%	around -14%
2022 Gross Profit	111.3	104.5	134.8	185.7
The fluctuation of 2022 gross profit compared to that of 2021	around -28%	around -28%	around -22%	around -16%
2022 Gross Profit Margin	62.2%	65.3%	68.4%	65.4%
2021 Gross Profit Margin	62.7%	62.2%	60.8%	66.6%

The foregoing selected unaudited financial data in relation to our monthly revenue and gross profit during the period of four months ended October 31, 2022 is calculated from the revenue and gross profit amounts included in our unaudited interim financial statements for each of the period of seven months ended July 31, 2022, eight months ended August 31, 2022, nine months ended September 30, 2022, and ten months ended October 31, 2022, by deducting the revenue and gross profits amounts included in our audited financial statements for the six months ended June 30, 2022, our unaudited interim financial statements for each of the period of seven months ended July 31, 2022, eight months ended August 31, 2022, and nine months ended September 30, 2022, respectively. Our unaudited interim financial statements for the seven months ended July 31, 2022, eight months ended August 31, 2022, nine months ended September 30, 2022, and ten months ended October 31, 2022 have been reviewed by our reporting accountants in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Gross GMV recorded from online direct sales and sales to major e-commerce platforms since June 30, 2022

We believe GMV from online direct sales and sales to major e-commerce platforms is a meaningful indicator of our revenue in 2022 as online direct sales and sales to major e-commerce platforms have become the pillar in our sales and distribution network. Key differences between the amount of GMV and the amount of revenue include the amount of product return and taxes.

Although we have recorded decrease in GMV from online direct sales and sales to major e-commerce platforms from July to October when compared with that in the same periods in 2021, we have witnessed trend of recovery as the month-to-month decrease have narrowed from July 2022 to October 2022 with our continuous efforts, especially in sales and marketing, to enhance the market demands for our products. We continued our investment in those efforts in November 2022, especially for the Singles' Day event, which we believe is the defining sales event that contributed a significant portion of our sales for the month because (1) the Singles' Day event usually last approximately two weeks across platforms, accounting for a significant period of time in November and (2) as confirmed by the Industry Consultant, Singles' Day event is one of the most important sales events for companies in the cosmetic industry. We have achieved a good sales performance for the Singles' Day of 2022 after a series of sales and marketing campaigns. While we still recorded a decrease in the gross GMV for this year's Single's Day event from online direct sales and sales to major e-commerce platforms compared to that for 2021, we managed to narrow such decrease down to approximately 11%. Nevertheless, we expect that our profit will decrease at a greater level than revenue. See "– Impacts on our profits in 2022."

Industry Development

The COVID-19 outbreak from the start of 2022, and the corresponding measures taken to contain its spread, have cause disruptions and adverse impacts to business, production and social activities. As a result, consumers' willingness for discretionary consumption, including cosmetics products, have also fallen during the first half of 2022. See "Industry Overview – Impact of the Outbreak on Cosmetics Industry in Mainland China."

In the third quarter of 2022, following the lift of restrictive measures in Shanghai and less COVID-19 resurgence compared to the first half of 2022, manufacturing facilities, offline stores, and corporate offices in various regions maintained normal operations, and the supply chain and logistics has basically returned to the levels prior to the second quarter of 2022, driving a rebound in the demand for cosmetics consumption. In addition, as an increasing number of sales and promotion events on e-commerce platforms are held in the second half of 2022, the online purchase demand for cosmetics has further increased. Therefore, the overall growth rate of the cosmetics industry in the third quarter has rebounded significantly compared to the second quarter.

The CAC, the MITT, the Ministry of Public Security and the SAMR jointly released the Administrative Provisions on the Recommendation of Algorithms for Internet-based Information Services (《互聯網信息服務算法推薦管理規定》), which became effective on March 1, 2022. The SAMR released the Provisions on the Clear Marking of Prices and the Prohibition of Price Frauds (《明碼標價和禁止價格欺詐規定》) on April 14, 2022, which became effective on July 1, 2022. Please see "Regulatory Overview – Regulations Relating to Anti-unfair Competition – The Recent Regulatory Developments Relating to Anti-unfair Competition."

On July 1, 2022, the Cosmetics Production Quality Management Code (《化妝品生產質量管理規範》) was officially implemented, which set out the basic requirements for quality management of cosmetics registrants, filers, and entrusted producers from the production process. In August 2022, the National Medical Products Administration announced that since October 1, 2022, electronic registration certificates will be issued for special cosmetics and new cosmetic ingredients that have been approved for registration in accordance with the Administrative Measures for Registration and Filing of Cosmetics (《化妝品註冊備案管理辦法》), as well as special cosmetics that have been approved to change or extend the registration certificate. As a cosmetics registrant, filer and entrusted producer, we are subject to such regulatory development. As of the date of this Document, we had not encountered any material impediment to comply with these newly released regulatory requirements.

We seek to remain dedicated to our multi-brand strategy and continued devoting resources to our R&D activities and actively adjusting our sales and marketing strategies to remain competitive amid the uncertainties of cosmetics industry. Our Directors have confirmed that, up to the date of this Document, there has been no material adverse change in our financial or trading position since June 30, 2022.

DIVIDENDS

At our shareholder's general meeting held in April 2, 2022, we declared dividend of RMB200 million cash dividends to all shareholders. As of November 30, 2022, we had paid all of the cash dividends. Please see "Risk Factors – Subscribers of the [**REDACTED**] will not be entitled to our cash dividend declared at our shareholders' general meeting in 2022." Our directors are of the opinion that the cash dividend declared will have no material negative impacts on our working capital for our present requirements, that is for at least 12 months from the date of this Document.

Any dividends we pay will be determined at the absolute discretion of our Board, taking into account factors including our actual and expected results of operations, cash flow and financial position, general business conditions and business strategies, expected working capital requirements and future expansion plans, legal, regulatory and other contractual restrictions, and other factors that our Board deems to be appropriate. Our Shareholders in a general meeting may approve any declaration of dividends recommended by our Board.

[**REDACTED**]

[**REDACTED**] represent professional fees, [**REDACTED**] commissions and other fees incurred in connection with the [**REDACTED**]. We estimate that our [**REDACTED**] will be approximately HK$[**REDACTED**] (based on the mid-point of the indicative [**REDACTED**] range and assuming the [**REDACTED**] is not exercised), of which approximately HK$[**REDACTED**] will be directly attributable to the issue of our Shares to the public and will be deducted from the equity, and approximately HK$[**REDACTED**] has been or is expected to be expensed in 2021 and 2022. The [**REDACTED**] is expected to account for [**REDACTED**]% of gross [**REDACTED**] generated from the [**REDACTED**]. Our Directors do not expect such expenses to materially impact our results of operations in 2021 and 2022.

The following table sets forth the breakdown of [**REDACTED**] by nature.

[**REDACTED**] **breakdown**	**Total Amount**	
	(assuming the [REDACTED] is not exercised)	**(assuming the [REDACTED] is fully exercised)**
	(HKD in [**REDACTED**]*)*	
[**REDACTED**] expenses	[**REDACTED**]	[**REDACTED**]
Non-[**REDACTED**] expenses	[**REDACTED**]	[**REDACTED**]
Professional parties expenses[(1)]	[**REDACTED**]	[**REDACTED**]
Non-professional parties expenses	[**REDACTED**]	[**REDACTED**]

Note: Professional parties expenses primarily include legal advisor fees, reporting accountant fee, internal control consultant fee, industry consultant fee, and fees in relation to professional parties providing valuation, printer, public relation, and other services.