

---

## BUSINESS

---

### OVERVIEW

We are a multi-brand cosmetics company, focusing on development, manufacturing and sales of skincare and maternity and childcare products. 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 domestic 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.

## BUSINESS

The following table summarizes certain key information of our three largest brands as of the Latest Practical Date:

	Brand Positioning	Launch Year
	A technology-empowered anti-aging brand focusing on resolving skin issues for Asian women	2003
	A clean beauty skincare brand for skin barrier repairing, exploring the beauty of natural plants	2014
	A professional maternity and childcare brand for Chinese babies and children	2015

Independent R&D capabilities are essential to our successful development and operation of multiple brands. We have also formed an outstanding supply chain management system, unique corporate culture and talent system to support our sustainable growth and ultimately fulfill our goal of becoming a world-class influential cosmetics company.

We deem R&D capabilities to be the backbone of our company, fueling our development and innovation. We started R&D in 2003 and have since insisted on product self-development. Our R&D centers are led by a team of internationally renowned scientists with profound experience in cosmetics industry. We have formed strong in-house independent R&D capabilities, underscored by our Sino-Japan dual R&D center deployment in Shanghai and Kobe. 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. After committing to fundamental R&D for years, we have achieved remarkable results in various areas, such as our advanced research results or patented technologies related to TIRACLE, a core ingredient developed by us using dual strain fermentation technology, AGSE, or Activated Grape Seed Extract, and Artemisia Naphtha Plus - AN+, an artemisia annua extract. See “– Research and Development – Research and Development Achievements.” In the six months ended June 30, 2022, our self-developed products contributed over 97% of our revenue.

We operate a full-cycle and comprehensive supply chain management system covering our whole production process, ensuring steady output of quality products and flexible production. Our two production bases, located in China and Japan, enable us to produce almost all of our products during the Track Record Period instead of outsourcing to third parties. We achieved rapid growth of online sales in the increasingly prominent e-commerce environment. Our online sales channels include both reputable e-commerce platforms as well as emerging media platforms. We maintain an extensive offline sales and distribution network, as we

---

## BUSINESS

---

believe offline channels remain important to retain stable performance and penetrate into potential markets. While the internet and media industry landscape have transformed significantly, we manage to remain nimble to the marketing channels and formats of latest popularity.

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.

In 2019, 2020 and 2021, our results of operations achieved stable growth. 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 of 2022 as a result of the impact of COVID-19 on our production and delivery in Shanghai. Our revenue increased 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. During the same period, 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 STRENGTHS

**A multi-brand Chinese domestic cosmetics company focusing on skincare and maternity and childcare products, which remains vibrant through evolutionary changes in China’s cosmetics industry.**

We believe the evolution of the global cosmetics industry proves that a multi-brand strategy is essential to building a world-class cosmetics company. With such tenet engraved in our minds, we started our business as a pioneer to adopt a multi-brand strategy in China’s cosmetics industry and have since remained dedicated to this. After operating for approximately 20 years, we have accumulated profound experience, industry-leading expertise and abundant resources for multi-brand development and operation. Solid performance of our brands has driven our steady growth over the years and consolidated our market position, disregarding the volatilities of the cosmetics market and macro-economic environment. We believe our persistence in adopting a multi-brand strategy gives us an advantage to timely grasp market opportunities and sets us apart from our peers.

We have successfully launched and developed a number of brands, among which *KANS*, *One Leaf* and *Baby Elephant* are widely recognized among consumers. According to the Frost & Sullivan Report, in 2021, we were the only Chinese domestic cosmetics company with two

---

## BUSINESS

---

skincare brands achieving annual retail sales of more than RMB1.5 billion. According to the same source, in terms of retail sales in 2021, we ranked third for Chinese domestic branded skincare products, first in Chinese domestic branded facial mask products and first in Chinese domestic branded maternity and childcare products in China.

**KANS:** Launched in 2003 and after development and upgrading for approximately 20 years, *KANS* focuses on addressing the evolving anti-aging needs of Asian females of various age groups and is positioned to be a go-to brand in the anti-aging skincare market, with a broad target customer base, including females aged from 25 to 40. TIRACLE, a core ingredient developed by us using dual strain fermentation technology, has been widely applied in products under *KANS*, which is proven to have unique efficacy in addressing certain skin issues. According to Kantar, *KANS* has been listed among Consumers’ Top Ten Preferred Brands – Skin Care Products in each of 2019 and 2020. In 2021, our Red Capsule series won the “Product Design 2021” award in Red Dot. According to the Frost & Sullivan Report, in 2021, the retail sales of *KANS* were over RMB3.4 billion.

**One Leaf:** We launched *One Leaf* in 2014. It is positioned as a clean beauty skincare brand for skin barrier repairing, exploring the beauty of natural plants. We are dedicated to combining active ingredients from plants with our patented technology to establish *One Leaf* as an environmental skincare brand for young consumers enabled by botanical science. Targeting young women aged from 18 to 35, *One Leaf* blends ingredients from nature using advanced techniques, creating effective and natural skincare products. *One Leaf* was recognized among the Consumers’ Top Ten Preferred Brands – Skin Care Products by Kantar in 2019 and 2020. According to the Frost & Sullivan Report, in 2021, the retail sales of *One Leaf* were over RMB1.7 billion.

**Baby Elephant:** We launched *Baby Elephant* in 2015, which is a professional maternity and childcare brand for Chinese babies and children applying technologies developed in our Japan Hondo R&D Center. Positioned as a brand to accompany each baby during its happy and healthy growth, *Baby Elephant* commits to using technology-based and additive-free natural ingredients. We have built strong brand recognition for *Baby Elephant* in the maternity and childcare market, which was awarded the Growth 50 by CBNDData in 2021. According to the Frost & Sullivan Report, in 2021, the retail sales of *Baby Elephant* were over RMB1.8 billion. In addition, according to the Frost & Sullivan Report, *Baby Elephant* maintained first in China market for Chinese domestic branded maternity and childcare products in terms of retail sales during the Track Record Period.

Accumulation of abundant multi-brand operating experience continues to fuel our launch of new brands which we have strategically deployed in a variety of promising market segments in recent years:

- We launched *BIO-G* in 2019, which is positioned as a mass skincare brand for sensitive skin using a moderate and additive-free formula.

---

## BUSINESS

---

- We launched *asnami* in 2019, which is positioned as a professional functional maternity skincare brand targeting the resolution of sensitive skin issues. It aims to be a reliable companion of pregnant women to address skin issues during pregnancy.
- We launched *KYOCA* in 2021 and primarily design, manufacture and market our shampoo and haircare products under this brand, which is positioned as a toiletries brand specializing in hair strengthening.
- We launched *newpage* in May 2022, which is a functional skincare brand focusing on sensitive skins of babies and children.
- We launched *ARMIYO* in June 2022, which is a professional skincare brand targeting sensitive skin issues in cooperation with the artemisinin research team.
- As of the Latest Practicable Date, we have also built a compelling new brand pipeline in line with our development plan of expanding into certain market segments with strong growth potential, such as *TAZU*, a high-end anti-aging skincare brand in cooperation with the scientist, Kosaku Yamada.

### **Superior R&D capabilities to constantly empower innovation and drive sustainable growth.**

We believe that independent R&D capability is the backbone for world-leading cosmetic companies. Being a pioneer among Chinese domestic cosmetics companies focusing on R&D activities, we started independent R&D activities in 2003. After approximately 20 years’ R&D efforts, we have accumulated profound experience and have formed a comprehensive and robust R&D system, featuring top-tier R&D scientists and young talents, industry-leading fundamental R&D capabilities, mature technology platforms and R&D management processes, and advanced equipment and instruments. Our R&D efforts and capabilities are underpinned by our Sino-Japan dual R&D centers located in Shanghai and Kobe, collaborating closely with each other. 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. With the establishment of our Japan Hondo R&D Center in Kobe in 2016, the “Biotechnology Silicon Valley” of Japan, we started our journey of fundamental research. According to the Frost & Sullivan Report, we were the first Chinese domestic cosmetics company to have a self-built overseas R&D center. With the joining of multiple internationally reputed scientists, our Japan Hondo R&D Center has significantly enhanced our fundamental R&D capabilities and expertise. It also serves as a bridge connecting us to the latest technological developments in the global cosmetics industry, facilitating our acquisition of R&D talents to strengthen our R&D team. Synergistic interactions between our Sino-Japan R&D centers effectively facilitate our utilization of advanced R&D results to address the evolving needs of Chinese consumers.

---

## BUSINESS

---

Our global R&D team is led by Dr. Li Wei, who is responsible for the overall management of all critical R&D activities of our Sino-Japan dual R&D centers and formulating R&D strategies. We have also formed a core R&D team of seven internationally reputed scientists, namely Dr. Hiroshi Huang Oh, Dr. Hu Xincheng, Dr. Fu Zihua, Uchikawa Keiichi, Kosaku Yamada, Toshiya Taniguchi and Itaya Kosei, with an average R&D experience of over 30 years in cosmetics-related areas. All members of our core R&D team are global leading researchers with proven R&D track records, demonstrated by the large number of patents and papers published in global leading journals. They all have performed senior R&D roles in international cosmetics conglomerates, and have led the R&D work of many renowned cosmetics brands or products. We also strive to attract and cultivate young talented R&D staff to build a multi-tier talent system. Thanks to the mentorship scheme adopted on R&D projects, we have built a team of excellent young research graduates from top-tier universities in China and overseas. 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.

We insist on product self-development and attach importance to fundamental R&D activities. In the six months ended June 30, 2022, our self-developed products contributed over 97% of our total revenue during the same period. We believe that fundamental R&D achievements enable us to master core ingredients and technologies, significantly empowering our product development and upgrading. Our first-in-class R&D capabilities, underscored by our outstanding scientist team, give us unique advantage over our peers in fundamental R&D projects. Years of efforts enable us to harvest a number of industry-leading techniques and formulas in various areas, among others, including those related to TIRACLE, AGSE and Artemisia Naphtha Plus. TIRACLE, a core ingredient developed by us, targets the genes that regulate inflammation, aging, and moisturizing functions, helping to achieve anti-aging, brightening and moisturizing effects. As of June 30, 2022, TIRACLE has been applied to over 500 of our products. In 2019, 2020, 2021 and the six months ended June 30, 2022, we incurred research and development expenses of RMB82.9 million, RMB77.4 million, RMB104.7 million and RMB51.9 million, respectively, accounting for 2.9%, 2.3%, 2.9% and 4.1%, respectively, of our revenue, which is higher than the industry average level.

We believe in the concept of open innovation and actively explore cooperation opportunities with leading Chinese and overseas academic institutions and research centers, which benefit our growth in the long term. We cooperated with Dr. Jeffrey B. Stock, a professor from the department of molecular biology of Princeton University, on technologies related to AGSE. We were frequently invited to participate in the formulation of national and organizational standards led by industry associations. We were certified as a Teaching Base of the National Medical Products Administration Institute of Executive Development, and by the Shanghai Intellectual Property Administration as a pilot patent enterprise in Shanghai.

---

## BUSINESS

---

### **An extensive and dynamic sales and distribution network achieving an effective reach of consumers.**

We manage an extensive sales and distribution network covering a variety of online and offline channels, to effectively achieve consumer coverage and market penetration. We have focused on developing and optimizing sales and distribution networks, and have acquired valuable channel management abilities and experience along with the fast growth and expansion of our sales networks. We are able to dynamically adjust our sales channel strategies for various channels corresponding to the changing market. Despite the significant changes in the commercial environment and consumers’ purchasing behavior, we stay at the frontier of sales channel evolution and manage to efficiently adapt to the fast evolving market. Particularly, the profound experience accumulated in the past enables us to quickly identify the promising sales channels preferred by consumers, especially the young generation, and quickly establish our presence on such channels.

We have successfully increased the online exposure of our brands and products in the increasingly prominent e-commerce market. Apart from the major e-commerce platforms, such as *Tmall* and *JD.com*, with which we have cooperated for a long time, we also proactively exploit new growth potential on emerging media platforms which are popular among young consumers. With the rise of content live streaming platforms, we have formulated and upgraded branding and marketing strategies and have established a dedicated live streaming team to capture the opportunities arising from top platforms such as *Douyin* and *Kuaishou*. We have achieved strong growth on emerging media platforms. During 2021, our monthly GMV on *Douyin* grew from approximately RMB5.0 million to RMB160.0 million, with *KANS* topping its daily sales chart multiple times. Our strong performance on online sales channels became a key driver for our steady growth during the Track Record Period. The revenue derived from online sales 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. We ranked among the top three Chinese domestic cosmetics brand companies in terms of online retail sales in 2021.

Offline sales and distribution networks remain critical to our business as they help to enhance our brand image in the market through providing more face-to-face shopping experience. We also value the consumer feedback collected from offline channels which provide us with insight into consumers’ needs and concerns. Offline sales and distribution networks also enable us to effectively reach consumers irrespective of fluctuations in internet traffic. Our extensive offline sales and distribution networks primarily include offline retailers and distributors. Offline retailers we cooperated with are mainly reputable supermarkets and cosmetics chain stores such as *Watsons*. As one of *Watsons*’ most important business partners in the cosmetics field, as of June 30, 2022, we placed and sold our products through over 4,000 *Watsons* stores, which further increases the exposure and enhances the awareness of our brands. For the six months ended June 30, 2022, we also worked with 429 offline distributors, covering all provinces, municipalities and autonomous regions across China. We adopted comprehensive mechanisms for distributors to maintain the competitiveness and sustainable growth of our sales channels.

---

## BUSINESS

---

### **Continuous innovation of marketing strategies to raise brand power and enhance brand image.**

We believe that strong brand power and youthful brand image are critical to our success. We have focused on increasing our brand awareness and recognition among young people, which lays down a solid foundation for forming and enlarging our consumer base. Although China’s media industry landscape has changed significantly over the years, we have managed to remain nimble to the latest popular media and marketing formats, continually upgrading our marketing models, and developing strong capabilities to perform new and invigorating marketing campaigns. Our strong track record of marketing performance can be traced back to previous TV or traditional big screen was the mainstream media channel. Our title sponsorship of popular variety shows broadcasted on premium TV channels swiftly turned *KANS*, *One Leaf* and *Baby Elephant* into household names among consumers across China. During the time when long videos became popular, we proactively collaborated with a number of highly rated web series or internet variety shows to more effectively reach the young generation, and refresh our brand image, which were deeply rooted in their minds. Leveraging our deep understanding on young consumers’ preference for media platforms, we manage to efficiently identify the most suitable media channels to attract and stay close to young consumers.

In the era of omni-channel marketing, we have adopted a full-cycle close-loop marketing strategy, focusing on the breadth, depth and conversion effect of marketing activities. Our unique and innovative universal marketing model covers our whole marketing process, including advertisement placement on major media platforms, omni-channel content marketing, performance-based marketing, e-commerce marketing, live streaming marketing and customer promotion. We encourage effective marketing and excel in acquiring, converting and retaining consumers through our innovative marketing activities, achieving enhancement of brand awareness, marketing performance as well as sales results. With the rise of emerging media platforms, we seek to enhance our brand awareness among young people and establish trust relationship with them through omni-channel content marketing. We actively cooperate with KOLs to carry out content marketing activities to promote our brands and products on emerging media platforms such as *Xiaohongshu*, *Kuaishou* and *Douyin*, to improve the power of our brands and achieve more effective sales leads generation and conversion. We also take advantage of innovative marketing methods such as live streaming to create a more immersive shopping experience. We are committed to providing high-quality products and services to maintaining and enlarging our customer base. As of the Latest Practicable Date, the *Tmall* flagship stores of *KANS*, *One Leaf* and *Baby Elephant* have a total of over 22 million registered followers. We continue to carry out marketing campaigns themed around trendy topics preferred by young generations to enforce the fresh and youthful image of our brands in consumers’ mindset, with many of such campaigns featured in headline news on top Chinese media. In 2021, as an official partner to the Chinese national swimming team (中國國家游泳隊官方合作夥伴), *KANS* collaborated with the team to carry out a variety of omni-channel marketing activities, ranging from content marketing, brand campaign marketing to live streaming promotion, which were spread quickly across the whole nation. Those marketing activities managed to promote discussions on internet platforms like Hot Hub of *Weibo*, which significantly enhanced the brand image of *KANS* as a Chinese domestic brand.



---

## BUSINESS

---

### **Outstanding cross-border supply chain management capabilities ensuring product quality and flexible production.**

We started investing in construction of our production plant in 2006, and after 16 years’ efforts we have established a comprehensive supply chain system that is critical to stable production of quality products and steady business growth. Our supply chain system has successfully integrated valuable resources and reputable business partners along the value chain of the cosmetics industry, from raw material procurement, ingredients preparation, product production, packaging, quality inspection to warehousing and logistics. Our extensive supply chain management experience and expertise accumulated over the years enable us to achieve effective control at different stages of our business process and realize flexible production of a wide range of products, supporting our continuous efforts to adapt to the changing markets. Our outstanding cross-border supply chain system is highlighted by our two self-owned and operated digital production plants located in China and Japan. Those two production plants collaborate closely with each other, with both playing pivotal roles in our cross-border supply chain system. 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.

Our two digital production plants are equipped with advanced flexible production lines and were able to produce almost all of our products during the Track Record Period instead of outsourcing to third parties, ensuring stable output of quality products. Our Fengxian plant in China is located in the “Oriental Beauty Valley (東方美谷)” of Shanghai, with an aggregate designed capacity of 47,370.2 tons of ingredients for 2021. It deploys an industry-leading production management system, enabling accurate control of raw materials, intelligent complex ingredient preparation and digital production, which has significantly improved per capita productivity of our staff. Our Japanese plant in Okayama was put into production in 2019, with a designed production capacity of approximately 1,102.0 tons of ingredients for 2021. Our Okayama plant fully adopts stringent production standards and procures ingredients directly from local suppliers to ensure that its products meet the strict Japanese production standards for export cosmetics products. Such high standards have raised our overall expectation for product quality and control, continuing to bring us forward.

We maintain long-term and stable business relationships with reputable enterprises operating in different industries. To enhance the efficacy of our formula, we aim to source the most suitable ingredients from reputable suppliers in China and overseas. For certain signature products, we work closely with packaging suppliers to produce packaging designs exclusively for our products, maintaining their uniqueness and originality of design. We also cooperate with leading logistics and warehousing service providers in China, enabling us to deliver our products to customers efficiently and safely.

---

## BUSINESS

---

### **An experienced and visionary management team committed to multi-brand strategy and an energetic corporate culture.**

Mr. Lyu Yixiong, our Controlling Shareholder and Chairman of the board, is a highly respected entrepreneur in the Chinese domestic cosmetics brand industry. He started our business 20 years ago with the vision to build a world-class influential cosmetics company that makes popular products enjoyed by consumers around the world. We have a visionary senior management team with extensive experience in the cosmetics industry or other consumer sectors, with many of them having been with us for many years. Their valuable experience combined with their deep understanding of and passion for the cosmetics industry make them effective leaders for our business as they are fully committed to our mission and corporate culture. Under the leadership of Mr. Lyu and our senior management team, we aspire to create greater success in the future.

Our powerful corporate culture and effective talent system fueled our growth in the past and will do so in the future. Talent recruitment and training is of strategic importance to our long-term growth. We have established a multi-tier talent identification, employment and management mechanism, striving to introduce graduates from top universities such as 985, 211 and QS200 universities in China and overseas. We carry out our management trainee program in collaboration with the School of Management of Fudan University and Antai College of Economics-Management of Shanghai Jiao Tong University to attract and train young talents to enhance our management capability. We are pleased to provide young talents with more exposure and encourage them to be passionate for what they do through fulfilling our corporate culture, “Because We Love.” As of June 30, 2022, the average age of our employees at Shanghai headquarters was approximately 29. The increasing proportion of post-90s and post-95s generation project leaders has enabled us to stay close to the market trends, infuse new energy in us and make our brands remain appealing to young consumers.

### **OUR STRATEGIES**

We expect to implement the following business strategies and expansion plans with our [REDACTED] from the [REDACTED] and alternative financial resources:

#### **Solidify the leading position of our three major brands to promote overall business growth**

Our three major brands, *Kans*, *One Leaf* and *Baby Elephant*, are key to our multi-brand strategy and long-term development. We will keep enhancing their brand awareness and maintain their attractiveness to existing and new customers. We are committed to conveying Chinese branding power to the world and promoting the brand image of Chinese domestic cosmetics products.

- **KANS:** We strive to consolidate the market position of *KANS* as a leading Chinese domestic scientific anti-aging brand to seize the market potential of anti-aging skincare products in China. We aim to develop more advanced technologies, as well as improve the quality and efficacy of our products under *KANS*.

---

## BUSINESS

---

- ***One Leaf***: With increasing awareness among young consumers of clean beauty skincare, we aim to build and upgrade *One Leaf* into a leading clean beauty skincare product brand in China enabled by botanical science, catering to the younger generation’s awareness and preference for organic skincare and ecology. We plan to conduct further R&D activities on plant extraction technologies and skin barrier repairing as the core technologies for *One Leaf*.
- ***Baby Elephant***: We seek to maintain the leading position of our *Baby Elephant* brand in the maternity and childcare segment in China. We intend to continue to offer skincare products suitable for the skin type of Chinese babies and children to adapt to the rising demand for high-quality maternity and childcare products. We aim to conduct R&D activities for additives-free, safe, organic, and simple products. We will devote resources to the standardization and advancement of the maternity and childcare industry.

### **Develop new brands to enrich our brand matrix and product portfolios**

Leveraging our strong independent R&D capabilities and expertise in executing multi-brand strategy, we aim to continue to closely monitor the development trends of market segments, and prudently plan development of new brands targeting emerging concerns, to meet diverse consumer demands, and ultimately create more growth opportunities.

We intend to focus on development of the new brands:

- ***Skincare***: We will further grow our business in response to the growing market of functional skincare products. We will continue to collaborate with a professional artemisinin research team on R&D projects with respect to upgrade of formulas of *ARMIYO* products. We plan to consolidate the market position of *BIO-G* in the mass market for functional skincare products. As anti-aging products become increasingly popular among younger consumers, we will continue to collaborate with our skincare principal scientist at Japan Hondo R&D Center, Kosaku Yamada, to launch a high-end anti-aging skincare brand, *TAZU*.
- ***Maternity and childcare***: To capture the opportunities embedded within the trend of consumption upgrade in the maternity and childcare market, we plan to expand our product categories under this segment at different price ranges. In addition, we intend to expand product mix and prolong the product life cycle, expand the sales network, and conduct marketing activities for our rapidly growing brand *asnami*, a professional maternity skincare brand. To meet the demands of consumers for quality baby and child skincare products, we also plan to launch new products for *newpage*, our functional skincare brand for babies and children.

---

## BUSINESS

---

- **Haircare:** We plan to strategically expand our presence in the toiletries category through investing in the development of hair products. We plan to continue to expand our offerings of hair products based on or research of the scalp condition and lifestyle of Chinese consumers. We have already launched hair strengthening and scalp soothing products under our brand, *KYOCA*, which has received wide recognition in the market.

### **Continue to invest in R&D to drive product innovations and remain responsive to market**

Leveraging our advanced R&D and production capabilities in China and Japan, we will continue to invest in the following areas to drive product innovations and strengthen our production capabilities globally.

We will enhance our academic and fundamental research capabilities by expanding our independent R&D capability and strengthening R&D cooperation with leading research institutions, universities and colleges, and business organizations to introduce advanced skincare technologies and innovative products. We also plan to increase investments in fundamental research projects on trendy core ingredients in the skincare area. For example, we plan to further invest in the development of anti-aging technologies. We also plan to conduct research on technologies of skin barrier repairing; and we also aim to deepen our R&D work on the area of skin micro-ecological. We will continue to conduct pilot projects for new brands and new products to improve consumer experience. To enhance our product development and design capability, we intend to recruit additional R&D staff experienced in development of personal care products. We will also build top-level laboratories and purchase advanced equipment.

### **Enhance and expand sales and distribution networks and conduct holistic marketing activities through innovative channels**

We plan to take the following measures to increase the breadth and depth of our channel sales to enhance the penetration of our products. We will continue to strengthen our collaboration with major e-commerce platforms such as *Tmall* and *JD.com*. Meanwhile, we plan to apply our successful experience with respect to the cooperation between *KANS* and emerging media platforms, such as *Douyin* and *Kuaishou*, to our other brands. We intend to continue to enhance our in-house live streaming team to support our expanded business scale. To achieve balanced deployment and development of our sales networks, we will devote ourselves to long-term innovation and investment in developing our offline channels to reach potential consumers more effectively. We will increase collaboration with leading and emerging offline chain stores for cosmetic and skincare products, maternity and childcare products and toiletries products. In addition, we intend to build self-owned channels such as lifestyle experience flagship stores to increase interaction with consumers, synergies between online and offline channels and facilitate customer promotion. Meanwhile, we will enhance the breadth and depth of our sales network to increase the penetration rate in all tiers of cities and increase exposure for our brands.

---

## BUSINESS

---

We plan to carry out holistic marketing activities to reach consumers more effectively from multiple perspectives. Adhering to the consumer-centric principle, we seek to identify consumers’ preference for media and aim to utilize the method and format preferred by them to conduct marketing activities. We will utilize Direct-to-Consumer channels to encourage more mutual communication with consumers. Also, we will expand hiring of professionals specialized in brand building, marketing content production, and innovative marketing strategies to continue to raise our brand power, which will improve the efficiency and effectiveness of our marketing campaigns on various media platforms.

### **Accelerate digitalization and deploy advanced infrastructure to improve our operating and production efficiency**

We will continue to recruit talents and invest in technology infrastructures to drive the digitalization of our business. To achieve effective precision marketing, we will continue to build our membership system and Direct-to-Consumer sales channel. We plan to build up new consumer-oriented IT infrastructure and establish digital centers to enhance our digitalization analysis capabilities, facilitating our analysis of customer preference, R&D activities, product development, marketing, and sales channel upgrade.

We will continue to automate and intelligentize our production and supply chain system to enhance efficiency, accuracy, and rapidness during the whole production process. In addition, we will enhance our digitalization analysis and prediction capabilities to achieve delicacy management of our production and supply chain, to reduce production and management expenses.

We aim to install more advanced flexible production facilities and upgrade production lines to increase our production efficiency. We also plan to enhance our warehousing and logistics management capabilities.

### **Reinforce roots in China and expand our international reach**

Based in China, we will implement our globalization strategies through overseas market expansion and exploring acquisition opportunities.

We also actively explore business opportunities in overseas markets, through discovering and cooperating with suitable local business partners. We also plan to collaborate with more reputable research institutions to form our global innovation network. Meanwhile, we plan to raise our brand awareness and influence internationally to facilitate our entering into overseas markets. Relying on our experience in operating our Japan Hondo R&D Center, we plan to further expand our overseas R&D capabilities through setting up R&D centers equipped with advanced research laboratories in Europe and the United States. European and American cosmetics companies are currently among the top-tier players in the global cosmetics industry, representing the forefront R&D capabilities, product design and development trend as well as operational model. Large cosmetics companies often have multiple different research centers in Europe and the U.S. focusing, for example, on fundamental research, product development, market research and regulatory compliance. We believe that establishing R&D centers in

---

## BUSINESS

---

Europe and the U.S. can help us to acquire advanced R&D management expertise, stay close to the latest developments in technologies within the cosmetics industry, attract local talents to enhance our R&D capabilities, and raise our global visibility.

To accomplish our deployment in international markets and to fulfill our long-term development goal, we plan to prudently search for investment, collaboration, and M&A opportunities with overseas companies operating cosmetics brands with growth potential and synergies to our business in the future. We have established subsidiaries in overseas jurisdictions to bring in advanced overseas technologies, laying down the foundation for future global expansion. As of the Latest Practicable Date, we have not identified any potential investment or acquisition target or entered into any agreements in respect thereof. Through developing our international R&D capabilities, business presence and brand awareness, we aim to become a world-class cosmetics group.

### **Continue to attract, train, and retain young and high-quality talents**

We believe talents with excellent management or technical skills are valuable assets to us, driving continuous innovation and provision of high-quality products to customers. By holding our corporate value of “diversity, optimism, innovation and legacy,” we intend to keep improving our corporate structure and corporate culture to remain appealing to talents.

We will continue to focus on improving our recruitment and training system, through recruiting talents with global vision, such as graduates from 985, 211 and QS200 colleges, and setting up collaboration training programs with universities and colleges, to identify suitable talents more effectively. Meanwhile, we intend to further raise the proportion of post-90s and post-95s project managers.

We seek to provide industry-leading remuneration and benefits to remain competitive in the recruitment market. We will adopt transparent promotion and scientific assessment and incentivization mechanisms. By employing a flat and effective management structure, we strive to encourage the release of creativity from frontline employees, and maintain the proactiveness and stability of management and technical staff.

## **OUR BRANDS AND PRODUCTS**

### **Overview**

We are a leading multi-brand cosmetics company in China and operate a number of well-recognized household brands, targeting various groups of consumers with different needs. 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, respectively.

## BUSINESS

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 percentages)									
	(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 <sup>(1)</sup>	386.7	13.4	276.1	8.2	285.9	7.8	161.7	8.8	88.2	7.0
<b>Total</b>	<b>2,874.3</b>	<b>100.0</b>	<b>3,381.6</b>	<b>100.0</b>	<b>3,618.9</b>	<b>100.0</b>	<b>1,831.7</b>	<b>100.0</b>	<b>1,262.4</b>	<b>100.0</b>

Note:

(1) Other brands primarily consist of *BIO-G*, *asнами* 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*, *asнами* and *KYOCA*, expanding our offerings for sensitive skincare, middle and high-end maternity skincare and hair product categories. As of the Latest Practicable Date, our new brands and brand pipeline included *newpage*, *ARMIYO* and *TAZU*. 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.

## BUSINESS

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
	<i>(RMB in millions, except percentages)</i>									
	<i>(Unaudited)</i>									
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 <sup>(1)</sup>	101.2	3.6	32.6	1.0	37.3	1.1	21.4	1.2	12.1	1.0
<b>Total</b>	<b>2,874.3</b>	<b>100.0</b>	<b>3,381.6</b>	<b>100.0</b>	<b>3,618.9</b>	<b>100.0</b>	<b>1,831.7</b>	<b>100.0</b>	<b>1,262.4</b>	<b>100.0</b>

*Note:*

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

The following table sets forth sales volume and average selling prices of our products by brands for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Average Sales Volume <sup>(2)</sup>	Average Selling Price	Average Sales Volume <sup>(2)</sup>	Average Selling Price	Average Sales Volume <sup>(2)</sup>	Average Selling Price	Average Sales Volume <sup>(2)</sup>	Average Selling Price	Average Sales Volume <sup>(2)</sup>	Average Selling Price
	<i>(Unit in millions)</i>									
	<i>(RMB per unit)</i>									
KANS	33.3	27.6	41.4	32.2	52.0	31.3	25.2	31.6	17.8	33.9
One Leaf	44.9	23.4	41.8	24.1	34.0	24.4	18.5	25.3	10.9	23.9
Baby Elephant	29.0	17.9	42.5	18.0	50.5	17.2	22.1	18.3	17.9	17.1
Other brands <sup>(1)</sup>	18.3	21.2	15.6	17.7	17.9	16.0	9.7	16.7	4.5	19.2
<b>Total</b>	<b>125.4</b>	<b>22.9</b>	<b>141.3</b>	<b>23.9</b>	<b>154.4</b>	<b>23.4</b>	<b>75.6</b>	<b>24.2</b>	<b>51.1</b>	<b>24.6</b>

*Notes:*

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

(2) Sales volume represents the number of products we sold to our customers, excluding the samples and gifts. To unify the measurement of the sales volume of different types of products at various specifications, unit could stand for piece, bottle or set/box (e.g. skincare sets comprising of several items ranging from, among others, cleansing cream, facial masks, toner, essence, lotions, to facial cream at different combination). Each piece, bottle or set/box is counted as one unit in this table.



## BUSINESS

The following table sets forth sales volume and average selling prices of our products by sales channels for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Average		Average		Average		Average		Average	
	Sales	Selling	Sales	Selling	Sales	Selling	Sales	Selling	Sales	Selling
	Volume <sup>(2)</sup>	Price	Volume <sup>(2)</sup>	Price	Volume <sup>(2)</sup>	Price	Volume <sup>(2)</sup>	Price	Volume <sup>(2)</sup>	Price
	(Unit in	(RMB	(Unit in	(RMB	(Unit in	(RMB	(Unit in	(RMB	(Unit in	(RMB
	millions)	per unit)	millions)	per unit)	millions)	per unit)	millions)	per unit)	millions)	per unit)
<b>Online channels</b>	59.4	25.3	100.4	25.3	110.5	24.4	53.0	25.4	35.2	26.4
Online direct										
sales	27.7	32.2	46.9	33.6	53.9	28.4	26.5	28.3	14.8	32.9
Sales to online										
retailers	2.9	17.2	9.1	19.3	17.8	28.9	8.4	32.2	8.8	28.7
Sales to online										
distributors	28.8	19.6	44.4	17.8	38.9	16.7	18.1	17.8	11.7	16.6
<b>Offline</b>										
<b>    channels</b>	59.5	22.1	34.1	22.6	37.7	22.0	19.6	22.4	14.4	21.2
Sales to offline										
retailers	21.3	31.1	12.1	31.9	13.5	34.9	7.4	32.5	4.9	35.4
Sales to offline										
distributors	38.2	17.0	22.0	17.5	24.2	14.8	12.2	16.3	9.5	13.9
<b>Others<sup>(1)</sup></b>	6.6	8.5	6.8	10.1	6.2	14.8	2.9	16.3	1.5	13.9
<b>Total</b>	<b>125.4</b>	<b>22.9</b>	<b>141.3</b>	<b>23.9</b>	<b>154.4</b>	<b>23.4</b>	<b>75.6</b>	<b>24.2</b>	<b>51.1</b>	<b>24.6</b>

*Notes:*

- (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.”
- (2) Sales volume represents the number of products we sold to our customers, excluding the samples and gifts. To unify the measurement of the sales volume of different types of products at various specifications, unit could stand for piece, bottle or set/box (e.g. skincare sets comprising of several items ranging from, among others, cleansing cream, facial masks, toner, essence, lotions, to facial cream at different combination). Each piece, bottle or set/box is counted as one unit in this table.

## BUSINESS

### **KANS**

We launched *KANS* in 2003 and have established a strong brand awareness for *KANS*. In 2020, the retail sales of *KANS* exceeded RMB2.9 billion. Focusing on addressing the evolving anti-aging needs of Asian females of various age groups, *KANS* is positioned to be a go-to brand in the scientific anti-aging skincare market, with a broad target customer base, including the millennials, Generation Z and the females aged from 25 to 40. We take pride in the technologies and premium substance applied in *KANS*' products. Our R&D team successfully created *KANS*' exclusive patented and award-winning ingredient from *thermus thermophilus*, *TIRACLE*, which targets four key Asian skin aging problems to improve the skin of Asian females more effectively. In recognition of the brand name and popularity of *KANS* among consumers, we have received various awards and honors, including being an official partner to the Chinese national swimming team in 2021, and “Consumers’ Top Ten Preferred Brands – Skin Care Products” by Kantar in 2019 and 2020. In 2021, our Red Capsule series won the “Product Design 2021” award in Red Dot.

We offer a vast and compelling portfolio of products that span various categories such as toners, essence, lotions, facial masks and facial creams. Our broad product offerings aim to address a wide range of skin issues for different groups of consumers. The price for the key products of *KANS* normally ranges from RMB100 to RMB400. Below sets forth the details of some of our popular product series by primary function under *KANS*.

#### ***Anti-aging & Firming***

To help our customers create a lifted look, we launched Luxury Lifting Collection and Black Gold Collection, among other, resolving various anti-aging related skincare problems such as loss of elasticity, fine lines and wrinkles, which help improving the visible signs of aging. Our products for anti-aging cover lotions, facial creams, toners, eye creams, serums and facial masks.



#### ***Luxury Lifting Collection***

The Luxury Lifting Collection with yeast extracts and collagen can be absorbed instantly to promote a resilient complexion. The 98% real gold flecks applied in the Luxury Lifting Collection impart a rich glow and help make the skin healthy, youthful and radiant. The recommended retail price for Luxury Lifting Collection is RMB1,250 per set.

## BUSINESS

### *Black Gold Collection*

The Black Gold Collection is a premium collection featuring anti-oxidants, anti-blue-ray and anti-sugar, and is our effective performance collection formulated with honey and coffea arabica seed extracts to help preserve the youthfulness and beauty of the skin. The recommended retail price for Black Gold Collection is RMB1,099 per set.



### *Double Serum*

Our Double Serum is a retinol essence designed to fight the signs of aging for Asian female skins. Our Double Serum is effective in making skin feel firmer and look radiant. The recommended retail price for Double Serum is RMB399/36ml.

### *Gold Honeycomb Active Mask*

Our Gold Honeycomb Active Facial Mask is one of our best-selling single items. This facial mask contains 24 key nutrients, which treats skin to a deeply soothing experience. The mask features a double-layered film cloth design (honeycomb gold film and soft carbon black film). It helps reduce wrinkles and improve firmness. The recommended retail price for Gold Honeycomb Active Facial Mask is RMB299 per five sheets.



---

## BUSINESS

---

### *Anti-aging & Moisturizing*

We offer our Red Capsule Collection for customers with basic moisturization and anti-aging needs.



### *The Red Capsule Collection*

Red Capsule Collection is our star collection with demonstrated effects on moisturizing. The recommended retail price for Red Capsule Collection is RMB899 per set.

### *The Hydra-replumping Toner*

One of our most popular items under the Red Capsule Collection, Hydra-replumping Toner, is a highly effective toner that keeps skin moisturized. This award-winning toner contains our proprietary ingredient, TIRACLE. The recommended retail price for Hydra-replumping Toner is RMB295/95ml.



## BUSINESS

### *Anti-aging & Brightening*

In order to address the skincare concerns of dullness and unevenness, we offer our Silver Capsule Collection which aims at brightening the skin.



### *Silver Capsule Collection*

Harnessing the powers of niacinamide, the Silver Capsule Collection improves skin's radiance while guarding against future spots. Silver Capsule Collection is formulated with TIRACLE and fructus embaldii extracts and has been proven to lighten the look of blemishes and discoloration. The recommended retail price for Silver Capsule Collection is RMB459 per set.

### *Luminous White Essential Serum*

As a certified special cosmetic by NMPA, our Luminous White Essential Serum is effective in lightening spot. It contains whitening ingredients such as nicotinamide, which is effective in reducing skin's hidden and visible spot formations to reveal a spot-free glow. Infused with yeast essence, our Luminous White Essential Serum also helps keep skins moisturized. The recommended retail price for Luminous White Essential Serum is RMB199/30ml.



### *ONE LEAF*

With the experience we gained from operating KANS and our insights into the facial mask market in China, we launched *One Leaf* in 2014. *One Leaf* is a leading brand of botanical skincare products focusing on natural elements and combining active ingredients from plants with our patented technology. *One Leaf* is positioned as a clean beauty skincare brand for skin barrier repairing, exploring the beauty of natural plants. After continuous efforts in formula upgrade, product mix expansion as well as brand operation, we establish *One Leaf* as an environmental skincare brand for young consumers enabled by botanical science. Targeting young consumers aged from 18 to 35, *One Leaf* blends ingredients from nature using techniques, creating effective performance and natural skincare products. It is also dedicated

## BUSINESS

to exploring the vitality and wisdom of nature so as to rejuvenate the skin through the use of natural ingredients in cosmetic products. *One Leaf* was recognized among the Consumers’ Top Ten Preferred Brands – Skin Care Products by Kantar for two consecutive years in 2019 and 2020.

Under *One Leaf*, we offer a variety of product series with different featured functions, such as hydrating, brightening and oil control to address customers’ skincare concerns based on ingredients extracted from different plants. Our offerings under *One Leaf* range from toners, lotions, eye creams, facial serums, facial creams to multiple facial masks. The price for the key products of *One Leaf* normally ranges from RMB80 to RMB290.

Set forth below are some of our popular selected skincare collections under *One Leaf*.

### *Avocado Collection*

Formulated with avocado fruit extracts and sodium hyaluronate, the Avocado Collection leaves skin feeling nourished while helping decrease water loss by sealing in moisture. With a refreshing texture inspired by a fresh, ripe avocado, our Avocado Collection is suitable for young consumers and has demonstrated effectiveness in keeping skin moisturized and replenished. The recommended retail price for Avocado Collection is RMB289 per set.



### *Tremella Collection*

Harnessing the power of tremella extracts, the Tremella Collection is perfect for combating dryness and strengthening the skin barrier. The recommended retail price for Tremella Collection is RMB379 per set.



## BUSINESS

### *White Truffle Collection*



Our White Truffle Collection contains white truffle with 99% high concentration nicotinamide.

Our White Truffle Collection contains compound ingredients including sunflower oil, thermus thermophilus ferment and raspberry fruit extracts, which stabilize the skin barrier and brighten skin tone. The White Truffle Collection helps brighten skin tone while keeping the skin hydrated. The recommended retail price for White Truffle Collection is RMB479 per set.

Apart from the skincare collections, *One Leaf* has also successfully launched a variety of signature facial masks, such as Fresh Tender Moisturizing Lightening Mask Set and Silver Birch Soothing Mask, which are well received by the market.

### *Fresh Tender Moisturizing Lightening Mask Set*



Our Fresh Tender Moisturizing Lightening Mask Set is designed to clean, moisturize and brighten the skin. This mask features Binchotan Charcoal black film and plant fiber film. Formulated with multi-effect enzyme essence and green tea extracts, this effective mask set moisturizes the skin, preserves water. Meanwhile, the rose extracts and nicotinamide effectively brighten the skin tone. The recommended retail price for Fresh Tender Moisturizing Lightening Mask Set is RMB265 per 21 sheets.

## BUSINESS

### *Silver Birch Soothing Mask*

Our Silver Birch Soothing Mask contains natural ingredients instead of traditional synthetic ingredients. This mask helps nurture and quench dry, dehydrated and sensitive-feeling skin with a cool burst of refreshment. The recommended retail price for Silver Birch Soothing Mask is RMB129 per five sheets.



Recently, in order to further update One Leaf into a leading clean beauty skincare brand, we launched a series of new products, such as Repair and Embellish Cream, Repair and Embellish Essence, and Repair and Embellish Moisturizing Mask.



### *Repair and Embellish Moisturizing Mask*

Our Repair and Embellish Moisturizing Mask, rich in olea europaea leaf extract, is highly effective for redness repair. With a concentration of Panthenol, a core moisturizing ingredient, this product facilitates the regeneration of skin epidermal barrier, repairs damaged skin texture and provides in-depth hydration. The recommended retail price for Repair and Embellish Moisturizing Mask is RMB159 per five sheets.

### *Repair and Embellish Cream*

Our Repair and Embellish Cream, containing olea europaea leaf extract, natural ceramides and Panthenol, offers repair for skin barrier. This product is light in texture and targets all skin types to deal with redness, sensitivity and skin barrier damage caused by mask wearing, heat, etc. The recommended retail price for Repair and Embellish Cream is RMB269/45g.





## BUSINESS



### *Repair and Embellish Essence*

Our Repair and Embellish Essence, also called “Small White Box for Double Repair”, is offered for skin barrier repairing. Formulated with olea europaea L. leaf extract and panthenol, with a light weight texture, this product leaves skin feeling nourished, has an effect on skin barrier repairing and reducing redness. The recommended retail price for Repair and Embellish Essence is RMB359/45ml.

### **BABY ELEPHANT**

The maternity and childcare segment is one of the fastest growing in the cosmetic product industry. Growing at a CAGR of 15.1% from 2015 to 2021, the market size of maternity and childcare reached RMB53.5 billion in 2021, and is expected to reach RMB95.9 billion in 2026, according to the Frost & Sullivan Report. In 2015, to capture the opportunities arising from the increasing demand for maternity and childcare products in China, we launched *Baby Elephant*, a professional maternity and childcare brand for Chinese babies and children, inspired by the spirit of mother elephants, considered to be a demonstration of the greatest maternal love in the animal world. We have built strong brand recognition for *Baby Elephant* in the maternity and childcare market, which was awarded the Growth 50 by CBNDData in 2021 and 2021 JD Industry Pioneer of Maternity and Baby Toiletries. In 2021, the retail sales of *Baby Elephant* exceeded RMB1.8 billion. In addition, according to the Frost & Sullivan Report, *Baby Elephant* maintained first for Chinese domestic branded maternity and childcare products in China in terms of retail sales during the Track Record Period. The price for the key products of *Baby Elephant* normally ranges from RMB60 to RMB260.

## BUSINESS

Our *Baby Elephant* offers four main product lines, namely the baby & child toiletries product line, baby & child skincare product line, expectant and breastfeeding mothers product line and general product line to address the needs of young mothers and their children.



### *Baby & Child Toiletries Product Line*

Our baby & child toiletries product line primarily includes shampoo, shower gel and two-in-one shampoo & shower gel for babies and children. By combining botanical ingredients, our baby & child toiletries products are effective in strengthening hair and moisturizing the skin surface.

### *Baby & Child Skincare Product Line*

Our baby & child skincare products include body lotion, facial cream, sunscreen, facial foaming cleanser, hand cream, massage oil, diaper cream and so on. We provide babies and children with more natural and safer skin care products.



### *Expectant and Breastfeeding Mother Product Line*

We also offer skincare and toiletries products for expectant and breastfeeding mothers, which include facial skincare products, body oil and sunscreen that are all gentle for daily use.

## BUSINESS

### *General Product Line*

Apart from the abovementioned product lines, we also offer cleaning products such as detergents, wet wipes and bottle cleaners, oral care products such as toothbrushes and toothpastes, and summer products such as mosquito repellent products. Using enzyme formulas, our cleaning products remove stains from infant clothes. The oral products are rich in amino acid and xylitol, which can prevent dental caries. Our summer products can effectively prevent mosquito bites.



the cleaning products



the oral products



the summer products

Apart from the product lines, *Baby Elephant* has also successfully launched a variety of signature products, such as Ultra Protection Cream and Two-in-One Shampoo & Shower Gel, which are well received by the market.



### *Ultra Protection Cream*

Our Ultra Protection Cream contains nine ingredients in total. Powered by proven soothing properties, Bisabolol, with organic natural extracts from our Brazil, each Ultra Protection Cream is vacuum packed and can soothe irritated skin and strengthen the skin barrier. The recommended retail price for Ultra Protection Cream is RMB179/50g.

## BUSINESS

### *Two-in-One Shampoo & Shower Gel*

The Two-in-One Shampoo & Shower Gel has been formulated with grapefruit extracts and olive fruit oil extracts to gently wash babies' skin, hair, and scalp. This gel can effectively clean baby's delicate hair and skin, particularly, convenient and suitable for babies. The recommended retail price for Two-in-One Shampoo & Shower Gel is RMB89 per two bottles with 786ml volume.



### **Other Brands**

In addition to our three major brands, we also have successfully launched and developed a number of new brands to address consumers' evolving needs for high-quality products.

### **BIO-G**

We launched *BIO-G* in 2019, which is positioned as a mass skincare brand for sensitive skin using moderate and additive-free formula. *BIO-G* embodies the theory of scientific skincare and upholds the principles of professionalism and effectiveness. Co-developed by our research centers in Japan and Shanghai, *BIO-G* equips itself with proven effective biotechnology patents and is committed to providing customized skincare solutions for sensitive skin. It offers a full line of skincare products, including cleanser, toner, moisturizer, serum, etc. The recommended retail price for the key products of *BIO-G* normally ranges from RMB80 to RMB400.



So Gentle collection

## BUSINESS

### *asnami*

We launched *asnami* in 2019, which is positioned as a professional functional maternity skincare brand. It aims to be a reliable companion of pregnant women to resolve skin issues during pregnancy. We provide a variety of products for pregnant women including cleaning foam, toner, moisturizer, treatment oil, cream and mask. The price for the key products of *asnami* normally ranges from RMB170 to RMB420.



SO Moisture collection



Adenosine Amino Acid Wash Set

### *KYOCA*

We launched *KYOCA* in 2021, which is positioned as a toiletries brand specializing in hair strengthening. *KYOCA* strives for excellence to provide consumers with powerful solutions for hair strengthening. Characterized by professionalism, efficiency, simplicity, ingenuity and science, *KYOCA* uses Scalrele to strengthen strands and firm hair roots. The price for the key products of *KYOCA* normally ranges from RMB160 to RMB210.

## BUSINESS

### Our New Brands and Brand Pipeline

As of the Latest Practicable Date, our new brands and brand pipeline included *newpage*, *ARMIYO* and *TAZU*.



#### *newpage*

We launched *newpage* in May 2022, which is positioned as a functional skincare brand focusing on sensitive skins of babies and children. By bridging the gap between the research and clinical practice, *newpage* strives to provide scientific, safe and effective baby skincare solutions for families with babies. We provide a series of products that are clean and eco-friendly for infants and babies, including balancing cream, shampoo & body wash, massage oil and cleansing foam, etc. The price range of key products and pipeline products for *newpage* is expected to be RMB99 to RMB569.

#### *ARMIYO*

We launched *ARMIYO* in June 2022, which is positioned as a professional skincare brand targeting sensitive skin issues cooperating with artemisinin research team. Focusing on solving skin problems caused by micro-ecological imbalance of sensitive skin and its resulting inflammatory reaction, *ARMIYO* forges a new path for artemisia naphtha in the field of cosmetics. The price for the key products of *ARMIYO* normally ranges from RMB119 to RMB439.



#### *TAZU*

*TAZU* is positioned as a high-end anti-aging skincare brand, developed in cooperation with the scientist, Kosaku Yamada in our pipeline. We expect to release *TAZU* in 2023.

---

## BUSINESS

---

### Product Lifecycle

According to the Frost & Sullivan Report, generally, product lifecycle consists of four stages, including introduction, growth, maturity and decline. In the case of the cosmetics industry, the introduction period begins from the launch of a product, and generally lasts about half a year to one year. While for the other stages, there is no fixed period of time as the lifecycle of a cosmetic product is affected by various factors including consumers preference, market competition, development and innovation of technology, management and marketing methods, etc. These factors are difficult to quantify.

We normally take the following steps to monitor and manage our product lifecycle, including:

- We have established a team to analyse market data regularly and proactively monitor market demand of different market segments in the cosmetics industry and assess the necessities of developing a product.
- After a new product is launched at the introduction period, we normally take a period of time to closely monitor its market feedbacks and collect relevant sales data.
- By analysing the sales data, we would normally (i) increase the production if the product becomes popular and is deemed as entered into the growth stage, or (ii) continue to sell the product and maintain its production at a stable level while exploring new generations of such product on a case by case basis, if it becomes mature, or (iii) introduce new generations or stop the production of such product if the sales is declining or below expectation.

### 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.

---

## BUSINESS

---

We maintained high and effective R&D investment during the Track Record Period. In 2019, 2020, 2021 and the six months ended June 30, 2022, we incurred R&D expenses of RMB82.9 million, RMB77.4 million, RMB104.7 million and RMB51.9 million, respectively, accounting for 2.9%, 2.3%, 2.9% and 4.1% of our revenue, respectively. According to Frost & Sullivan, our R&D expenses as a percentage of the revenue during the Track Record Period is near the high end of the spectrum among our peers. According to Frost & Sullivan, we ranked the second place among domestic listed cosmetics groups in terms of R&D expenses as a percentage of revenue in 2021. As of the Latest Practicable Date, we had approximately 200 patents, including 29 invention patents. We value the substance of R&D achievements over the number of patents. Apart from the invention patents, our R&D achievements over the years resulted from our persistent R&D investment are also underscored by a number of industry-leading formulas, process technology, ingredients and trade secrets. Our R&D investments and achievements remain significant to our development and have contributed to our growth during the Track Record Period in the following aspects: (i) our self-developed core ingredients, formula and technologies, such as TIRACLE that has been applied to more than 500 products of ours as of June 30, 2022, have improved the effectiveness of our products, contributing to the acquisition of new consumers and enhancement of brand awareness, (ii) in an era when consumers are becoming increasingly focused on efficacy and ingredients of cosmetics products, our strong R&D capabilities have laid a solid foundation for our sustainable product development and upgrades to adapt to rapidly changing markets, (iii) under the leadership of our top-tier scientist team, our R&D activities in a variety of promising segments of the cosmetics industry facilitate our building of a strong and diverse brand pipeline, and (iv) in the six months ended June 30, 2022, our self-developed products, of which the formulas or ingredients are self-designed or developed and mass produced in our own production plants, contributed over 97% of our total revenue during the same period. The products which have applied our core technologies, TIRACLE and AGSE, have contributed to 35.2%, 51.9%, 57.1% and 60.0% of our revenue in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively.

### **Our Fundamental Research**

We attach significant importance to fundamental research, which we deem critical to the operation of our multi-brand strategy. Fundamental research provides us with the essential knowledge on and deep insights in frontier technologies and theories in cosmetics as well as characteristics and effectiveness of innovative ingredients and formulas. These could be applied to improvement of our existing products and development of new products, giving us unique advantages over our competitors which cannot be replicated. 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. We commit to build an open work environment for fundamental research and encourage our research personnels to publish scientific articles on



---

## BUSINESS

---

high-profile journals, such as the *Journal of Investigative Dermatology*, the *Journal of the Pharmaceutical Society of Japan* and the *Annals of Dermatological Research*. We have been a member of the International Federation of Societies of Cosmetic Chemists Member since 2019.

### **Our Core Research and Development Team**

Our R&D team is led by Dr. Li Wei, the vice president of our Company and the head of our global R&D center. He leads our R&D team and is responsible for the overall management of all R&D activities of our Sino-Japan dual R&D centers. After performing various critical roles in our global R&D system for over seven years, he is primarily responsible for monitoring R&D development trends in the cosmetics industry, formulating general R&D strategies and managing key R&D projects. Dr. Li received his bachelor’s degree and doctoral degree in chemical engineering and processing from Tsinghua University in 2002 and 2007, respectively. He has worked in the cosmetics industry for approximately 15 years. He used to serve as a senior R&D manager at *Procter & Gamble* and has extensive experience in new ingredients, formulas and product development.

The Japan Hondo R&D center is located in Kobe, namely the “Biotechnology Silicon Valley” of Japan, which is Japan’s largest biotechnology hub with about 370 companies, universities and research institutes, and specialized hospitals. Establishment of the Japan Hondo R&D center facilitates our acquaintance, approach and acquisition of world-class leading scientists in the cosmetics sector in Japan. In addition, our Japan Hondo R&D center has increased our attractiveness to local talents by offering them the opportunities to work in their home country. For example, four out of our seven scientists, including Dr. Fu Zihua, Kosaku Yamada, Toshiya Tanguchi and Itaya Kosei, were recruited in Japan. The Japan Hondo R&D center also offers us more visibility and brand exposure to facilitate our future recruitment in Japan.

We have a core R&D team of seven internationally reputed scientists, namely Dr. Hiroshi Huang Oh, Dr. Hu Xingcheng, Dr. Fu Zihua, Uchikawa Keiichi, Kosaku Yamada, Toshiya Taniguchi and Itaya Kosei, with an average experience of over 30 years in cosmetics-related areas. In addition, we strive to construct a multi-tier talent system by attracting and cultivating promising young R&D members. We implement a mentorship scheme on R&D projects, benefiting the career development of our young R&D talents. As of June 30, 2022, we had an R&D team of 204 staff members, among whom 81 members hold a master’s degree or above, representing approximately 39.7% of our R&D team. Our R&D team members have diverse backgrounds, including biology, chemistry, pharmacy and chemical engineering.

## BUSINESS

---

### ***Dr. Hiroshi Huang Oh***

Dr. Hiroshi Huang Oh is our global principal scientist and has working experience in the cosmetics industry for nearly 28 years. He has previously served as a principal scientist at *Procter & Gamble* and has extensive experience in new product development, development of new ingredients, formulas and processing and efficacy evaluation. Dr. Hiroshi Huang Oh has led the research platform of galactomyces ferment filtrate since he joined us. He also provides theoretical support for the upgrade of core brands, including raw material development, formulas research, and clinical testing method research, and the development of new brands. He is currently responsible for the overall management and strengthening of our fundamental research capabilities and leading research and innovation.

### ***Dr. Hu Xincheng***

Dr. Hu Xingcheng is currently the director of our global R&D center and has working experience in the cosmetics industry for nearly 27 years. He has previously served at *Procter & Gamble*, and successively served as section head of skincare product development of its Kobe and Beijing R&D centers. Dr. Hu has focused on development of new ingredients, formulas and processing since he joined us. Dr. Hu Xincheng has carried out a variety of important fundamental research and formula research projects, and participated in the application of our nine patents and the publishing of three academic papers.

### ***Dr. Fu Zihua***

Dr. Fu Zihua is the director of Japan Hondo R&D Center. He has working experience in the cosmetics industry for nearly 27 years. Dr. Fu has successively served as an Asia Skincare Section Head at *Procter & Gamble* and as the Global Processing Director of *Unilever*. He is also the technical consultant of National Project Research and Development of Ministry of Economy and Industry of Japan. Dr. Fu is currently responsible for the improvement and innovation of our core formulas, fundamental research on ingredients as well as building our R&D capabilities in Japan. He has also participated in a number of fundamental research projects. Dr. Fu Zihua has participated and acted as a core member in the research of TIRACLE, as well as the application of three patents, publishing of one academic paper and six conference papers.

### ***Uchikawa Keiichi***

Mr. Uchikawa Keiichi is the principal scientist at China R&D Center. Mr. Keiichi served as a manager at Shiseido Global Innovation Center for 35 years. He specializes in emulsification technology, skincare product formation development, and hair care product formulation development. Since joining us, he has been responsible for works related to development, research and guidance provision on formulation innovation. He currently leads the design, development and testing of new cleansing products demonstrating the clean-beauty skincare concept for *One Leaf*.

---

## BUSINESS

---

### *Kosaku Yamada*

Mr. Kosaku Yamada is the skincare principal scientist at Japan Hondo R&D Center. He has over 30 years’ experience in cosmetics industry, mainly in *Procter & Gamble*. He has previously served as a scientist for skincare products of *SK-II* brand at *Procter & Gamble* Singapore. As our skincare principal scientist, he is responsible for fundamental research and skincare formulas and processing. After joining us, he has successfully developed formulas with enhanced whitening effects, which has been applied in a number of our skincare products. Currently, Mr. Kosaku Yamada is leading the formula design and research of his namesake brand *TAZU*.

### *Toshiya Tanguchi*

Mr. Toshiya Tanguchi is the deputy director and color cosmetics principal scientist at Japan Hondo R&D Center, who has worked in the cosmetics industry for nearly 40 years. He was a senior scientist at *Procter & Gamble*. After joining us, he has been responsible for guiding and providing training to young researchers in our China and Japan R&D centers to carry out R&D activities on formulas and processing of color cosmetics products. He has participated in the formula development and upgrade of liquid foundation, and participated in the launch of multiple liquid foundation products.

### *Itaya Kosei*

Mr. Itaya Kosei is the toiletries principal scientist at Japan Hondo R&D Center and has working experience in the cosmetics industry since 1987. He used to work as a professional researcher at *Kanebo Cosmetics*, specialising in various Japanese skincare and cosmetics products. Mr. Itaya Kosei is now involved in the formulation of a series of facial cleansing products. He is now responsible for providing guidance on the ingredients fundamental research and toiletries technique development as well as technical support on the Japanese regulations on pharmaceutical and production equipment. He holds internal trainings, sharing R&D experience from time to time.

### **Research and Development Infrastructure**

Our R&D capabilities are underpinned by our Sino-Japan dual R&D centers, collaborating closely with each other. Our China R&D Center has a total area of over 7,000 square meters and is equipped with advanced research equipment and instruments. It primarily focuses on product development and new technology application as well as new ingredients and new technology development. Staying close to the market, our R&D center in Shanghai enables our R&D staff to react efficiently to the changing market. Our Japan Hondo R&D Center was established in 2016 in Kobe, Japan. It serves as a key platform for our fundamental R&D activities and product innovation and a portal for us to closely follow latest technology development in the cosmetics industry. The Japan Hondo R&D Center and China R&D Center collaborate with each other on a number of R&D projects. These two centers conduct meetings on a regular basis to update project progress and maintain frequent communications on R&D achievements and latest developments in cosmetics industry. The Sino-Japan dual R&D centers work as an integrated system to support our product development and production activities. Our R&D team is primarily responsible for: (i) identifying the technological development trends in the relevant industry and determining the upgrade and development strategies for our products and formulas, (ii) ingredients and formula assessment and development, including

---

## BUSINESS

---

assessment of the efficiency, safety and environmental impact of different ingredients, and maintenance and upgrade of existing ingredient combinations, (iii) research and development of packaging materials and technologies, including industrial design and research on the quality and environmental impact of different packaging materials, and (iv) developing the assessment standards and the relevant quality control standards for our products, and conducting the overall assessment of product quality, functionality and safety of all products.

### **Research and Development Achievements**

#### ***TIRACLE – Dual Strain Fermentation***

After our attempts on and optimizations of fermentation, we successfully obtained the first generation of fermentation, TIRACLE, which is known as an exclusive dual strain fermentation ingredient. According to cell research, TIRACLE could reduce the inflammatory factors such as Interleukin-1 $\alpha$  (IL-1 $\alpha$ ), Interleukin-6, Interleukin-8 (IL-8), tumor necrosis factor- $\alpha$  (TNF- $\alpha$ ); and can significantly promote the expression of Collagen I, Collagen III, Collagen IV, Elastin gene, Fibrillin-1 gene, Has-1, MMP-1 gene. We have also developed the second generation of fermentation, TIRACLE PRO, which is able to promote autophagy, i.e. can promote anti-aging. Clinical trial results show that TIRACLE PRO has outstanding performance on increasing the ITA $^{\circ}$  value of skin tone, reducing skin transdermal water loss rate, enhancing skin water content, and reducing the wrinkles. TIRACLE and TIRACLE PRO have been used in stability formulations according to all in-vitro and in-vivo test results.

We began the study of dual strain fermentation ingredients with high activity in 2017. TIRACLE, the dual strain fermentation product of this project, has been successfully applied to the products of several cosmetics brands and sold in the market. We have obtained five patents in China and Japan and published one scientific paper and three academic conference posters detailing our relevant research. As of June 30, 2022, TIRACLE has been successfully used in more than 500 products.

#### ***AGSE – Activated Grape Seed Extract***

We are in cooperation with Dr. Jeffrey B. Stock, a professor from the department of molecular biology of Princeton University, on research works on AGSE. We enriched the flavonoids that can activate PP2A in grape seed extract through molecular biology technology, greatly improving the activity of PP2A and developed a new plant extract – Activated Grape Seed Extract, which also known as AGSE.

We have innovatively adopted liposome/cyclodextrin encapsulation technology and resolved the problems of low stability, low bioavailability and poor solubility of active ingredients. As the research results shows, AGSE encapsulation is more effective in enhancing PP2A activity than AGSE. At the same time, in-vitro tests prove that AGSE encapsulation has significant effects in promoting the expression of Collagen I and Elastin and the expression of Collagen III gene, which can significantly reduce the level of melanin. According to the

---

## BUSINESS

---

clinical tests, products containing AGSE are significantly more effective in increasing the individual typology angle (ITA) values of our skins, reducing the rate of Transepidermal Water Loss (TEWL), hydrating our skins, reducing wrinkles and increasing skin tolerance value from the lactate sting testing.

We have applied two invention patents in relation to AGSE and AGSE encapsulation. We have also published two conference papers on this subject on the *Journal of Investigative Dermatology*.

### ***Artemisia Naphtha Plus - AN+***

In 2019, we started to carry out research on the application of artemisia annua volatile oil in cosmetics, exploring the quality control, function, formula application and other properties of artemisia naphtha, creating a new direction for artemisia naphtha in the field of cosmetics. We found that artemisia naphtha can regulate the expression of filaggrin genes and inhibit the release of inflammatory factors and inflammatory mediators such as interleukin-6 (IL-6) interleukin-8 (IL-8) nitric oxide (NO). Study shows that artemisia annua volatile oil can inhibit malassezia furfur and propionibacterium acnes.

We have filed applications for two invention patents in relation to artemisia naphtha. We have published one paper in the *Annals of Dermatological Research*.

### **Research and Development Process**

We adopt an integrated research and development management system to combine the force of multiple departments to respond promptly to the changing market:

- we usually start our research and development process based on our insights into consumers' demand. We identify potential business opportunities by conducting market trends analysis and interactions with our consumers, including qualitative and quantitative research. We then determine our product design based on the analysis and brand positioning;
- we adopt innovative strategies to resolve key technical issues. Our R&D centers have extensive experience and resources to solve existing technical issues. For new technical challenges, we will build research platforms and conduct long-term fundamental research to provide solutions; and
- our marketing department is responsible for establishing the projects for new products, while our R&D centers are responsible for addressing technical issues. In addition, we cooperate with the procurement department and marketing department for production preparation.

## BUSINESS

### 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 channel 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
	<i>(RMB in millions, except percentages)</i>									
	<i>(Unaudited)</i>									
<b>Online channels</b>	1,504.8	52.4	2,542.6	75.2	2,697.9	74.6	1,344.9	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
<b>Offline channels</b>	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
<b>Others<sup>(1)</sup></b>	55.8	1.9	68.8	2.0	91.6	2.5	47.4	2.6	20.3	1.6
<b>Total</b>	<b>2,874.3</b>	<b>100.0</b>	<b>3,381.6</b>	<b>100.0</b>	<b>3,618.9</b>	<b>100.0</b>	<b>1,831.7</b>	<b>100.0</b>	<b>1,262.4</b>	<b>100.0</b>

*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.”

### Online Channels

During the Track Record Period, our sales through online channels contributed a large portion of our revenue and experienced a fast growth. We believe that online channels enable us to more effectively reach consumers and promote our products and enhance our brand awareness. Our revenue generated from online channels in 2019, 2020, 2021 and the six months ended June 30, 2022, amounted to RMB1,504.8 million, RMB2,542.6 million, RMB2,697.9 million and RMB931.2 million, respectively, accounting for approximately 52.4%, 75.2%, 74.6% and 73.8%, respectively, of our total revenue in the same periods.

---

## BUSINESS

---

### *Online direct sales*

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*. Consumers can place orders for our products in our self-operated online stores and make payments via online payment channels provided by such platforms. Under our online direct sales model, we are responsible for the logistics, fulfillment and after-sales services of the orders. In 2019, 2020, 2021 and the six months ended June 30, 2022, revenue generated from our self-operated online stores on third-party online platforms amounted to RMB890.8 million, RMB1,587.1 million, RMB1,532.6 million and RMB485.7 million, respectively, accounting for approximately 31.0%, 46.7%, 42.4% and 38.5%, respectively, of our total revenue in the same periods.

### *Sales to online retailers*

During the Track Record Period, we gradually expanded our sales to online retailers. Under this model, 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. As of December 31, 2019, 2020, 2021 and June 30, 2022, we had 89, 136, 108 and 59 online retailers, respectively. In 2019, 2020, 2021 and the six months ended June 30, 2022, revenue generated from sales to online retailers amounted to RMB50.0 million, RMB176.0 million, RMB514.0 million and RMB252.2 million, respectively, accounting for approximately 1.8%, 5.2%, 14.2% and 20.0%, respectively, of our total revenue in the same periods. 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.

We typically enter into standard agreements, under either sales and purchase arrangements or consignment arrangements, with online retailers. Under sales and purchase arrangements, we have a buyer-seller relationship with online retailers and we recognize revenue when they accept our products upon delivery, while under consignment arrangements, we recognize revenue when end-consumers confirm acceptance on the relevant e-commerce platforms. As of December 31, 2019, 2020, 2021 and June 30, 2022, we had six, three, four and two online retailers under consignment arrangements, respectively. 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.

The salient terms of the standard agreements with e-commerce platforms under the model of sales to online retailers during the Track Record Period are set out below:

- *Duration.* The duration of the agreements is typically one year.
- *Minimum purchase requirements.* We generally do not set any minimum purchase requirements.

---

## BUSINESS

---

- *Sales and performance targets.* We generally do not set sales targets for e-commerce platforms. We provide e-commerce platforms that purchase over the agreed amount with marketing reimbursement to incentivize the marketing and display of products.
- *Pricing policy.* We sell our products through e-commerce platforms at price levels that have been mutually agreed by us and the e-commerce platforms.
- *Payment and credit terms.* We deliver our products to our e-commerce platforms before our e-commerce platforms make payments to us. Depending on the specific arrangements with the e-commerce platforms, we generally grant a credit period to online retailers of 45 to 90 days for sales and purchase arrangements. For consignment arrangements, e-commerce platforms typically make their payment for procured products within five working days upon receipt of the settlement statements or invoices from us.
- *Logistics.* We are responsible for delivering our products to locations agreed between e-commerce platforms and us.
- *Transfer of risks.* For sales and purchase arrangements, the risks transfer to e-commerce platforms after they complete the inspection and confirm the receipt of our products. For consignment arrangements, the title to products and legal risks do not transfer to end-consumers until the products are sold and delivered to end-consumers and end-consumers confirm receipt of products.
- *Wholesale restriction.* Our online retailers are not allowed to engage in any wholesale activities unless otherwise specifically confirmed by us.
- *Return arrangements.* For sales and purchase arrangements, e-commerce platforms are entitled to return products to us. For consignment arrangements, e-commerce platforms are required to accept returned goods according to relevant laws and regulations, as well as the related protocols under the online platform. The goods will be put on the shelf for the second time if they satisfy certain on-shelf standards. We accept all returned goods from e-commerce platforms if they fail to satisfy the above standard.
- *Termination.* Either party has the right to terminate the contract with the other party, if the other party breaches the agreement and fails to rectify such breach within a reasonable period of time.

### *Sales to online distributors*

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. In 2019, 2020, 2021 and the six months ended June 30, 2022, revenue generated from sales to online distributors model amounted to RMB564.0 million, RMB788.5 million, RMB651.3 million and RMB193.3 million, respectively, accounting for approximately 19.6%, 23.3%, 18.0% and 15.3%, respectively, of our total revenue in the same periods.



---

## BUSINESS

---

We typically enter into standard online distribution agreements with our online distributors. The salient terms of our standard online distribution agreements used during the Track Record Period are set out below:

- *Duration.* The duration of the distribution agreements is typically one year.
- *Designated distribution platform.* The online distributors are generally not allowed to sell our products outside of their designated third-party e-commerce platforms, or the specific online stores at such third-party e-commerce distribution platforms.
- *Minimum purchase requirements.* We generally do not have minimum purchase requirements for online distributors.
- *Performance targets.* We set monthly, quarterly and annual performance targets in terms of advance payment for online distributors. Our online distributors are required to report their performance to us. We have the right to terminate such distribution agreements if the online distributors fail to meet such performance targets.
- *Pricing policy.* We sell to our online distributors at a discount to the recommended retail price. We also provide recommended retail prices to our online distributors.
- *Payment and credit terms.* We generally require our online distributors to make payment before the delivery of products. We provide credit terms to certain online distributors on a case-by-case basis, among which most are online distributors selling products to large online retailers.
- *Logistics.* We assign independent third-party logistics companies to deliver our products to online distributors by train or road. Our online distributors may specify other modes of transportation and shall bear the logistics costs if they so specify.
- *Transfer of risks.* The risks transfer to online distributors once we deliver the products to the independent third-party logistics companies.
- *Return arrangements.* Our online distributors are entitled to inspect the quality of our products upon delivery and may raise requests for product returns if the volume, product types, packaging, specifications or quality of the products delivered do not match those on the sales order within three days after the delivery. After the receipt of the products, we generally only accept product returns due to product defects.
- *Sub-distribution.* In general, our online distributors are not allowed to engage sub-distributors, or assign their rights or obligations to any third party, without our written consent.
- *Termination.* We have the right to terminate the agreement with online distributors who breach the distribution agreement. Conditions that may result in breach of contract are listed in the distribution agreements, including occasions where online distributors sell our products outside their designated distribution platforms, or fail to obtain the required qualifications, or fail to reach performance targets in terms of advance payment in accordance with the agreement for three months.

## BUSINESS

The table below sets out the total number of online distributors and their movements for the periods indicated:

	Year ended December 31,			Six months ended
	2019	2020	2021	June 30, 2022
Number of online distributors at the beginning of the period	108	166	140	128
Number of newly cooperated online distributors for the period	117	83	54	18
Number of terminated online distributors for the period <sup>(1)</sup>	59	109	66	71
Net increase (or decrease) in number of online distributors for the period	58	(26)	(12)	(53)
Number of online distributors at the end of the period	166	140	128	75

*Notes:*

- (1) We consider the business relationship with an online distributor to be terminated when such online distributor does not contribute any revenue in a given year or period.

During the Track Record Period, we adopted a dynamic strategy for our online distribution network, and developed a broad online distributor network to effectively cover potential consumers. Meanwhile, we also proactively sought for the optimal distribution management strategy that best fits for our business development. The fluctuations in the number of our online distributors during the Track Record Period were primarily due to the significant transformation of e-commerce industry and the rise of emerging media platforms such as live streaming platforms, as well as our dynamic adjustment of our online sales strategies corresponding to such changing market. The number of our newly cooperated online distributors in 2019 was 117 as we launched certain new cosmetics brands in 2019. In 2020, we terminated cooperation with 109 online distributors primarily because we optimized our online distribution network for those new cosmetics brands launched in 2019 as some online distributors did not meet our expectation. In the six months ended June 30, 2022, we recorded a net decrease of 53 online distributors primarily because of the impact of COVID-19 outbreak.

---

## BUSINESS

---

During the Track Record Period and up to the Latest Practicable Date, we had no material unresolved disputes or lawsuits with these terminated online distributors. For online distributors that have terminated their business relationship with us, if they still have inventory remaining, we will not accept product returns (except for quality issues) as stipulated in the distribution agreement. We have taken over a limited amount of remaining inventories from terminated distributors during the Track Record Period. For the remaining inventories that have been taken over from the terminated offline distributors, inventories (and the corresponding adjustment to cost of sales) is recognized. Trade and bills receivables related to the original sales of these inventories (and the corresponding adjustment to revenue) is also reduced. Terminated distributors are not allowed to continue to sell unsold products that they have already purchased from us. See “ – Our Sales Channels – Online Channels.” Due to our relatively stable market coverage, our sales network has and will remain stable, despite the termination of business relationships with some online distributors.

### **Offline Channels**

We have a nationwide sales and distribution network that deeply penetrates the China market. During the Track Record Period, we sold our products to both offline retailers as well as offline distributors. Our offline retailers primarily consist of large supermarkets and cosmetic chain stores, who sell our products to end-customers; our offline distributors mainly purchase products from us and sell them to other retailers.

#### *Sales to offline retailers*

Our offline retailers primarily consist of well-known supermarkets and cosmetic chain stores, who further sell the products to end-customers. We believe that cooperation with offline retailers is beneficial to consolidate our market share and more effectively penetrate local markets. Moreover, our products may be displayed and sold in the channels of such customers more efficiently. For example, we display and sell our products in over 4,000 Watsons stores, enabling us to increase the exposure of our products and enhance our brand image. We also send our beauty consultants to Watsons stores to provide guidance on display of our products and promotion activities. Such beauty consultants also answer inquiries from consumers on our products and can directly collect consumers’ feedback on our products in Watsons stores, which helps us to adjust our marketing strategies in a timely manner and guide the direction of research and development of our products.

We sell our products to offline retailers either under sales and purchase arrangements or consignment arrangements. Commercial arrangements of such two arrangements are largely similar, except that, under sales and purchase arrangements, we have a buyer-seller relationship with offline retailers and we recognize revenue when they accept our products upon delivery, while under consignment arrangements, we recognize revenue when end-consumers complete purchasing products from offline retailers. As of December 31, 2019, 2020, 2021 and June 30, 2022, we had 90, 64, 57 and 29 offline retailers, respectively. In 2019, 2020, 2021 and the six months ended June 30, 2022, revenue generated from sales to offline retailers amounted to RMB662.9 million, RMB386.5 million, RMB471.4 million and RMB179.5 million,

---

## BUSINESS

---

respectively, accounting for approximately 23.1%, 11.4%, 13.0% and 14.2%, respectively, of our total revenue in the same periods. As of December 31, 2019, 2020, 2021 and June 30, 2022, we had 16, 13, two and one offline retailers under consignment arrangements, respectively. 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.

### **Internal Controls on Consignment Arrangements**

According to Frost & Sullivan, consignment arrangement is a common market practice for cosmetics companies when establishing business relationships with large supermarkets, cosmetics chain stores, and major e-commerce platforms. In line with such market practice, we typically enter into consignment arrangement with certain offline retailers, especially reputable supermarkets and cosmetics chain stores, who operates extensive sales channels and offline store networks across the nation. Therefore, given the strong bargaining power of such offline retailers, to leverage their extensive sales networks to increase our offline exposure, we generally agree to the consignment arrangements requested by them. In line with market practice, some online retailers would provide brand owners with a specified business model, while some online retailers would offer different mechanisms of sales and purchase arrangement or consignment arrangement with different commercial terms varying from logistics arrangement to price adjustment system. In the event where we have a choice, we normally take into account the commercial provisions provided by each of the online retailers and select the one that is in our best interests. Specifically, we opt for consignment arrangements with certain online retailers primarily because: (i) under consignment arrangements, for price adjustment under promoting and marketing campaigns, e-commerce platforms typically grant us more discretion and flexibility in price adjustment and implement less onerous approval procedures; and (ii) we are provided with more delivery options as under consignment model we are allowed to arrange delivery of products directly from our third-party warehouse to customers, while under sales and purchase arrangement provided by such online retailers, our products are typically delivered to warehouses owned by e-commerce platforms first for further distribution arrangement. Based on the above-mentioned commercial considerations, we entered into consignment arrangements with those e-commerce platforms to improve our business performance and profitability.

According to Frost & Sullivan, for retailer, consignment sales does not occupy capital and is less risky, which is conducive to mobilizing their business enthusiasm. For cosmetics companies, consignment arrangements is conducive to opening up markets, promoting new products, dealing with backlogs, and helping them to establish good business relationships with retailers. Our Industry Consultant confirms that our consignment arrangement is in line with industry practice.

---

## BUSINESS

---

Under the consignment arrangements, we retain the ownership of the goods until they are sold, despite the relevant online/offline retailers’ possession of the goods. In order to mitigate the risks in relation to consignment arrangements, we have implemented the following internal control procedures for sales to online and offline retailers under consignment arrangements:

- **Ordering:** taking into consideration factors such as the retailer’s sales experience, business track records, order amount, current inventory level and major sales and promotion activities such as Singles Day, we prepare sales forecasts regularly to understand our customers’ demand in order to avoid order surpluses;
- **Inventory management:** our retailers under the consignment arrangement normally have a real-time inventory management system, where we can login our accounts to monitor the inventory level of our product and track the amount of products delivered to the warehouse controlled by the online retailers under the consignment arrangements;
- **Payment:** the retailers are responsible for making a payment within an agreed period following receipt of the invoice issued by us; and
- **Unsold goods management:** for unsold goods, we have corresponding policies to facilitate the resale of unsold products. The products should be returned to us from the retailers within a certain time frame, prior to the expiration of the shelf life of products and so to avoid a backlog. In addition, we may also from time to time request our retailers to return unsold goods to be replaced with new products when products of new generations are introduced to the market. Such returned unsold good would normally be distributed to other sales channels if they are under resalable condition. Under consignment arrangements, we recognize revenue when end-consumers complete purchasing products from retailers. Therefore, these unsold goods returned to us will not be recognized as revenue. During the Track Record Period, the value of unsold goods returned from online retailers under consignment arrangements amounted to RMB4.1 million, RMB11.6 million, RMB10.9 million and RMB1.3 million, respectively, representing approximately 21.1%, 8.4%, 10.3%, and 3.3% respectively, of value of our goods shipped to online consignment retailers for the same periods. The returned unsold goods primarily came from *Tmall Supermarket*. During the Track Record Period, the value of unsold goods returned from offline retailers under consignment sales amounted to RMB80.8 million, RMB60.6 million, RMB25.9 million and RMB11.5 million, respectively, representing approximately 12.3%, 13.6%, 5.4% and 6.4%, respectively, of value of our goods shipped to offline consignment retailers for the same periods. The returned unsold goods primarily came from *Watsons*. The relatively high return rates for offline retailers under consignment arrangements in 2019 and 2020 were primarily due to the increasing amount of old products for *KANS* and *One Leaf* being replaced by new versions.

---

## BUSINESS

---

The salient terms of our standard offline retailer agreements with offline retailers during the Track Record Period are set out below:

- *Duration.* The duration of the offline retailer agreements is typically one year.
- *Minimum purchase requirements.* We generally do not set any minimum purchase requirements.
- *Sales and performance targets.* We generally do not set sales targets for offline retailers.
- *Pricing policy.* We sell our products to or through offline retailers at price levels that have been mutually agreed by us and the offline retailers. For consignment arrangements, provide recommended retail price to our offline retailers, which may adjust the recommended retail price upon agreement between us and such offline retailers.
- *Payment and credit terms.* We deliver our products to our offline retailers before our offline retailers make payments to us. Depending on the specific arrangements with the offline retailers, we generally grant a credit period to offline retailers of 45 to 90 days.
- *Logistics.* We are responsible for delivering our products to locations designated by our offline retailers.
- *Transfer of risks.* For sales and purchase arrangements, the risks transfer to offline retailers after they complete the inspection and confirm the receipt of our products. For consignment arrangements, the title to products and legal risks do not transfer to consignees until the products are sold and delivered to end-consumers and end-consumers confirm receipt of products.
- *Wholesale restriction.* Our offline retailers are not allowed to engage in any wholesale activities unless otherwise specifically confirmed by us.
- *Return arrangements.* We typically do not allow offline retailers to return products to us except for limited reasons, including product quality issues, products with shelf life of less than the agreed standard and unmarketable goods. During the Track Record Period, we allowed product returns for certain reputable supermarkets other than goods that cannot be returned or exchanged, such as goods that are not in a resalable condition. For sales and purchase arrangements, we are responsible for picking up the returned products upon the receipt of the return notice.
- *Termination.* If the other party breaches the distribution agreement and fails to rectify such breach within a reasonable period of time, either party has the right to terminate the agreement with the other party.

---

## BUSINESS

---

### *Sales to offline distributors*

We have established a broad distribution network to effectively cover the China market. We normally sell our products to local distributors in different areas, who further sell the products to retailers such as supermarkets and cosmetics stores. In 2019, 2020, 2021 and the six months ended June 30, 2022, revenue generated from offline distribution amounted to RMB650.8 million, RMB383.7 million, RMB358.0 million and RMB131.4 million, respectively, accounting for approximately 22.6%, 11.4%, 9.9% and 10.4%, respectively, of our total revenue in the same periods.

We typically enter into standard offline distribution agreements, which are sales and purchase agreements in nature, with our offline distributors. The salient terms of our standard offline distribution agreements used during the Track Record Period are set out below:

- *Duration.* The duration of the distribution agreements is typically one year.
- *Designated distribution area.* The offline distributors are not allowed to sell our products outside of their designated distribution areas.
- *Minimum purchase requirements.* We generally do not have minimum purchase requirements for offline distributors.
- *Performance targets.* We set monthly, quarterly and annual performance targets in terms of advance payment for offline distributors. Our offline distributors are required to report their performance to us. We have the right to terminate such distribution agreements if the offline distributors fail to meet such performance targets.
- *Pricing policy.* We sell to our offline distributors at a discount to the recommended retail price. We also provide recommended retail prices to our offline distributors.
- *Payment and credit terms.* We require our offline distributors to make payment before the delivery of products. We provide short-term credit terms to certain offline distributors on a case-by-case basis, among which most are offline distributors selling products to regional offline retailers.
- *Logistics.* We assign independent third-party logistics companies to deliver our products to offline distributors by train or road. Our offline distributors may specify other modes of transportation and shall bear the logistics costs if they so specify.
- *Transfer of risks.* The risks transfer to offline distributors once we deliver the products to the independent third-party logistics companies.
- *Return arrangements.* Our offline distributors are entitled to inspect the quality of our products upon delivery, and may raise requests for product returns if the volume, product types, packaging, specifications or quality of the products delivered do not match those on the sales order within three days after the delivery. After the receipt of the products, we generally only accept product returns due to product defects.

## BUSINESS

- *Sub-distribution.* We generally do not allow our offline distributors to set up or sell products to sub-distributors.
- *Termination.* We have the right to terminate the agreement with offline distributors who breach the distribution agreement. We list several conditions that may result in breach of contract in the distribution agreements, including occasions where offline distributors sell our products outside their designated distribution area, or fail to obtain the required qualifications, or fail to reach performance targets in terms of advance payment in accordance with the agreement for three months.

We believe that our standard offline distribution agreements enable us to sufficiently incentivize the distributors to actively market, promote and sell our products and provide us with sufficient control over the distribution network.

The table below sets out the total number of offline distributors and their movements for the periods indicated:

	<b>Year ended December 31,</b>			<b>Six months ended</b>
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>June 30, 2022</b>
Number of offline distributors at the beginning of the period	965	849	725	585
Number of newly cooperated offline distributors for the period	153	119	99	61
Number of terminated offline distributors for the period <sup>(1)</sup>	269	243	239	217
Net decrease in number of offline distributors for the period	(116)	(124)	(140)	(156)
Number of offline distributors at the end of the period	849	725	585	429

*Notes:*

- (1) We consider the business relationship with an offline distributor to be terminated when such offline distributor does not contribute any revenue in a given year or period.



---

## BUSINESS

---

In 2019, 2020, 2021 and the six months ended June 30, 2022, we commenced business relationships with 153, 119, 99 and 61 new offline distributors, respectively, primarily due to (i) our efforts to build distribution networks for certain new brands launched in or around 2019, and (ii) our efforts to optimize our offline distribution networks whose performance was impacted by the outbreak of COVID-19. In 2019, 2020, 2021 and the six months ended June 30, 2022, we terminated our partnerships with 269, 243, 239 and 217 offline distributors, respectively, primarily due to (i) the impact of COVID-19 on offline business activities and our sales strategy to adapt to the rise of online sales channels, especially emerging media platforms; and (ii) we ceased the operation of certain brands.

During the Track Record Period and up to the Latest Practicable Date, we had no material unresolved disputes or lawsuits with these terminated offline distributors. For offline distributors that have terminated their business relationship with us, if they still have inventory remaining, we will not accept product returns (except for quality issues) as stipulated in the distribution agreement. Although we do not have any legal obligation to handle the remaining inventories of the terminated offline distributors, we may help them to check with the other distributors in the nearby areas whether they are willing to take over the remaining inventories of those terminated distributors. In 2019, 2020, 2021 and the six months ended June 30, 2022, we have taken over from terminated distributors inventories in the amounts of RMB15.3 million, RMB9.0 million, RMB15.8 million and RMB27,966 respectively, among which nil, 80.1%, 82.6% and nil were taken over by us voluntarily from online distributors so as to develop certain major e-commerce platforms such as *JD.com* as our retailer customers. For the remaining inventories that have been taken over from the terminated offline distributors, inventories (and the corresponding adjustment to cost of sales) should be recognized, and trade and bills receivables related to the sales of such returned inventories (and the corresponding adjustment to revenue) should also be deducted from our revenue accordingly. Terminated distributors are not allowed to continue to sell unsold products that they have already purchased from us. See “– Our Sales Channels – Offline Channels.” Due to our relatively stable market coverage, our sales network has and will remain stable, despite the termination of business relationships with some offline distributors.

### **Selection and Management of Distributors**

#### ***Selection of distributors***

We have adopted a comprehensive set of distributor selection standards to ensure that our distributors are qualified, effective and resourceful. We select our distributors considering a variety of factors, primarily including their experience in the cosmetics industry, reputation, business scale, financial condition, marketing capabilities and channel resources in local markets. Our distributors are primarily cosmetics distribution companies with relevant business licenses in China, and must have established relationships with local supermarkets and cosmetics stores within their regions. Our sales and marketing department reviews and verifies the information about potential distributors and screens the candidates using those metrics before officially entering into agreements with them.

---

## BUSINESS

---

When we expand our business to a new region, we seek to locate the suitable distributor candidates with extensive sales networks in such region and initiate a conversation with them. We also actively attend some industry events to identify and engage new distributors.

### *Management of distributors*

We proactively manage our distributors to ensure healthy and orderly distribution networks, and to protect our brand and reputation. Our engagement of distributors for sales of products is generally in line with the industry practice of China's cosmetics market according to Frost & Sullivan. We primarily rely on distribution agreements and have adopted a suite of distributor management policies to ensure distributors are in compliance with our requirements. Customers who entered into distribution agreements with us normally had a long-term business relationship with us, and we had minimum historical sales that are non-recurring during the Track Record Period. The distributor agreements and our policies normally set out a variety of operation guidelines, primarily including designated market, market coverage responsibilities, display and exhibition of our products, promotion activities, inventory management and payment requirements. We require our distributors to sell products through the channels designated by us. For sales to online distributors, we generally authorize a certain online distributor to sell our products through a designated distribution channel. Such online distributor is not allowed to sell our products through an unauthorized online platform or store before our prior approval. For offline distribution, we generally do not allow distributors to solicit business from a geographical region covered by other offline distributors. Our offline distributors are contractually authorized to sell only within their designated geographic regions. We also provide periodical training to our distributors to help them understand our distribution policies such as the strict prohibition of cannibalization and sub-distribution. Moreover, we have a team designated for conducting periodic reviews of the performance of our distributors, which is responsible for auditing any violations by distributors such as cannibalization. In addition, we have implemented a reporting mechanism and may impose penalties such as suspension of product supply or termination of relevant distribution arrangements if they fail to comply with the terms of distributor agreements.

We provide our distributors with discounts if they meet the relevant performance targets in terms of advance payment. Such discounts can be used in the next purchase by the relevant distributors from us. Upon termination of cooperation with the relevant distributors, we would repay such distributors the remaining advance payment in respect of which we have not delivered products.

We generally do not allow our distributors to set up or sell products to sub-distributors. We and our distributors are in a seller and buyer relationship. We cannot assure you that our distributors will not engage sub-distributors. We do not have direct contractual relationships with sub-distributors.

We did not rely on any single distributor or a small number of distributors during the Track Record Period.

---

## BUSINESS

---

### *Measures to prevent cannibalization:*

We normally examine from a group’s overall development perspective to manage the operation and optimize our resources investments in different channels and platforms. To minimize cannibalization among different sales channels, we typically adopt the following measures:

- (i) We grant specific geographical regions or specific e-commerce platforms to our offline distributors or online distributors in order to reduce the degree of competition among them. The distribution agreements we sign with distributors generally specify the designated geographic areas or e-commerce platforms. Our distribution agreements generally prohibit the distributors from selling our products outside the respective designated geographical regions or online channels without our prior written consent;
- (ii) We coordinate our different sales channels by providing, to a certain extent, products in different types or specifications. For example, we assign differentiated products for different e-commerce platforms;
- (iii) Similar to other cosmetics companies, we use multiple e-commerce platforms to display and sell their products so as to achieve the highest exposure through different online channels. As a result, for major e-commerce platforms like *Tmall* and *JD.com*, on one hand, we sell products to *Tmall Supermarket* and *JD.com* respectively as our online retailer customers, on the other hand, we operate self-own stores on those platforms. To avoid potential competition between our online retailers, online distributors and our self-operated online stores, we (a) have implemented an uniform pricing mechanism for the same products or sets sold on different platforms or online stores; (b) we have a designated team which has been constantly monitoring the prices of our products on different channels and would impose penalties for those who do not comply with our pricing policies, (c) we have differentiated the brands or product sets on different e-commerce platforms, catering to different consumers’ needs. For example, we may tailor the offering of products for different e-commerce platforms to address the specific demands of their respective user bases; and (d) during the sales seasons such as Single’s Day, we would align the promoting and marketing activities for online stores across the online channels, especially with respect to the breath and depth of discounts offering, to ensure a fair competition among different platforms;
- (iv) We formulate and carry out marketing campaigns and strategies considering the performance of our overall online and offline sales networks to avoid cross-platform competition. We also adopt a uniformed pricing policy for products across different sales channels to ensure the standardization of our product pricing;
- (v) We provide guidelines to our distributors regarding cannibalization;

---

## BUSINESS

---

- (vi) We have a team responsible for reviewing any violations by distributors in relation to cannibalization; and
- (vii) We are entitled to terminate the distribution agreements with those distributors that repeatedly engage in severe cannibalization or cross channel or cross region sales.

### *Low channel stuff risk*

We believe that our sales correspond to actual end-customer demand and therefore our products are at low risk of channel stuffing in our distribution network, because (i) we generally require full payment before deliver products to distributors; (ii) we generally do not allow returns of products sold to distributors, except for product defects; (iii) we do not set minimum purchase requirements and sales targets for distributors; and (iv) we require our distributors to report to us regularly on, and to maintain a reasonable level of, their inventory. See “– Inventory Management.” In addition, our market managers are required to visit our distributors to understand their inventory levels and discuss with them on their sales strategy and expected market demands on a regular basis. Our market managers are also required to review the sales performance and inventory level of our distributors from time to time. We seek to optimise our sales strategy on an ongoing basis to adapt to changing market based on market intelligence collected by our market managers. Based on the relevant sales strategies, we adjusted our distributor management policies accordingly.

Although we allow our online and offline retailers to return unmarketable good, which is in line with market practice, our Directors are of the view that it is of low channel stuffing risks in our sales channels based on the following reasons:

- (i) the retailers who entitle to return products are well-known platforms and supermarkets with extensive sales experience and proven track record, who are our long-term cooperation partners;
- (ii) our cooperation agreements generally do not provide for minimum purchase requirements nor sales targets for the online and offline retailers, and therefore they are not incentivized or obliged to purchase an amount of products exceeding the demands of their consumers;
- (iii) we obtain and review information on sales of our products from our major retailers to evaluate sales volumes and prices of our products in order to avoid channel stuffing from time to time; and
- (iv) we communicate with retailers and conduct analysis to understand the reasons for return of products. We also perform quality check on returned products to ensure that they are in good conditions and within the prescribed shelf life for resale.

---

## BUSINESS

---

### *Relationships between us and certain distributors*

To the best of our knowledge, during the Track Record Period, all our distributors are Independent Third Parties. We implement the same service guidelines and policies over all of our distributors. We do not enter into preferential agreements with any distributor in which our former employees hold shareholding interests. The pricing of our transactions with such distributors is based on the same set of factors applicable to our transactions with other distributors. Save as disclosed in “Business – Customers”, to our best knowledge, our distributors, or their respective associates, do not have any past or present family, business, employment, or financial relationships with us or our subsidiaries, our shareholders, directors or senior management, or any of their respective associates.

While we already have a robust system in place to oversee the business relationships with distributors, we are further strengthening our internal controls by implementing various measures to address any potential conflicts of interests which may arise as a result of employees and their close relatives holding shareholding interests in our distributors. Such measures include the introduction of policies designed to monitor, manage and prevent potential conflicts of interests through our reporting system, tiered management mechanism, and internal controls governance system.

### **THIRD-PARTY PAYMENT ARRANGEMENTS**

#### **Background**

During the Track Record Period, certain of our customers (the “Relevant Customer(s)”) settled their payments with us through third-party payors (the “Third-party Payment Arrangement(s)”). In 2019, 2020, 2021 and the six months ended June 30, 2022, the number of the Relevant Customers was 131, 112, 84 and nil, respectively, and the number of the third-party payors was 132, 118, 85 and nil, respectively, and the aggregate payment transactions amounted to RMB87.8 million, RMB40.3 million, RMB44.4 million and nil, respectively. In 2019, 2020, 2021 and the six months ended June 30, 2022, the aggregate amount of third-party payments accounted for approximately 3.0%, 1.2%, 1.2% and nil of the total payments we received from all customers, respectively. No individual Relevant Customer had made material contribution to our revenue during the Track Record Period.

As of June 30, 2022, save for being our customers, to the best knowledge of our Directors and based on publicly available information, all of the Relevant Customers and the third-party payors were Independent Third Parties. Saved as a third-party payor who is a shareholder and director of one of our tier 1 PRC non-wholly owned subsidiaries, there was no past or present relationship, including business, trust, fund flow, employment, financing, family or otherwise, between the Relevant Customers or third-party payors, and us (including our and our subsidiaries’ shareholders, directors and senior management, or any of their respective associates), nor did they use our name or receive a material advance or financial assistance from us. The relevant payment made by such third-party payor to us only amounted to RMB0.28 million during the Track Record Period.

---

## BUSINESS

---

During the Track Record Period and up to the date of this document, other than accepting payments, we have not proactively initiated any Third-party Payment Arrangements, nor have we participated in other forms in any of such arrangements. Furthermore, during the Track Record Period and up to the date of this document, we have not provided any discount, commission, rebate or other benefit to any of the Relevant Customers or the third-party payors to facilitate or incentivize the Third-party Payment Arrangements. We required Relevant Customers to provide written confirmations to us. To the best of our knowledge, during the Track Record Period, the relevant payments were based on bona fide underlying transactions and valid contracts. As advised by our PRC Legal Advisors, the Third-party Payment Arrangement(s) is merely an assignment of liability from Relevant Customers to Third-party Payors pursuant to the Civil Code of the PRC (中華人民共和國民法典) and the Third-party Payment Arrangement(s), once it comes into effect, constitute valid and binding obligations on each of the parties involved, and such arrangement(s) itself do not contravene or circumvent the (i) Civil Code of the PRC; and (ii) applicable money-laundering laws in all material aspects provided that the receipt of payment was performed solely as settlement of sales of goods and not related to any criminal proceeds. The pricing and payment terms we provide to the Relevant Customers are generally in line with those of customers not involved in the Third-party Payment Arrangements. To the best knowledge of the Company, we were/have not been the subject of any investigations, enquiries, penalties, surcharges or additional tax payments as a result of its involvement in the Third-party Payment arrangements during the Track Record Period and up to the Latest Practicable Date.

### **Reasons for Utilizing Third-party Payment Arrangements**

The Relevant Customers during the Track Record Period primarily consisted of offline distributors and offline retailers, which are small-sized cosmetics retailers, including local cosmetics shops or commodity stores. The third-party payors primarily consist of: (i) persons affiliated with the Relevant Customers, such as legal representatives, business operators, shareholders, employees and immediate relatives; and (ii) affiliated entities of the Relevant Customers and others. According to the Frost & Sullivan Report, it is a common commercial practice for small-sized cosmetics retailers in China to settle their payments through third-party payors to their providers and vendors, such as payments for purchases of cosmetics products and supplies, primarily due to the following reasons:

- i. some Relevant Customers have pre-determined arrangements with third-party payors for settlement of their payments due to us for their internal operational and financial management practice and/or for convenience;
- ii. some Relevant Customers paid through third-party payors because they may experience limited cash flow from time to time; as we generally require our distributors to make the payment before the delivery of the products, the Relevant Customers chose to expedite the settlement of their payments to us through Third-party Payment Arrangements; and

---

## BUSINESS

---

- iii. some Relevant Customers operated their business in the form of sole proprietorship (個體工商戶), and it is common for them to settle payments through personal bank accounts of their respective family members out of convenience.

### **Internal Control Measures and Cessation of Third-party Payment Arrangements**

To safeguard our interest against risks associated with Third-party Payment Arrangements, we implemented various internal control measures to reduce the proportion of payments received from third-party payors and to mitigate the relevant risks, including, among other things:

- i. we required our customers to settle their payments directly through their own corporate bank accounts, and in particular, we issued a notice to Relevant Customers informing them that the payments made by third parties including entities and individuals would not be accepted;
- ii. for customers who were unable to directly settle payments with us immediately at the relevant time, we required that such customers (1) communicate relevant information to us, including, among others, the identity of the involved third-party payors; (2) obtain prior approval from persons in charge; and (3) provide us with a delegation of payment letter (the “letter”). In the letter, it is specified that the Relevant Customer delegates its payment obligation under the terms of the original agreement with us to the respective third-party payor (the “delegation”), which undertakes to pay directly to us under the same terms. The Relevant Customer also undertakes in the letter that we are released from any legal consequences which may arise from the Third-party Payment Arrangement and the third-party payor shall also waive any rights or claims in respect of the payment made by the third-party payor against us;
- iii. before accepting any third-party payment, we verified the payment information against the information recorded in our system to ensure that such payment was settled through the relevant third-party payor’s account as identified in the appropriate letter; and
- iv. we required our employees to reject all payments made by third-party payors that failed to satisfy the abovementioned requirements.

Our Directors are responsible for formulating and overseeing the implementation of our internal control measures and the effectiveness of our quality management system. Furthermore, to prevent the reoccurrence of the Third-party Payment Arrangements going forward, we have updated such internal control measures to include the enhanced measures (i) mentioned above, to prohibit all Third-party Payment Arrangements from January 7, 2022. As of the Latest Practicable Date, no customers ceased transactions, or reduced the volume of their transactions with us, due to the fact that we discontinued the Third-party Payment arrangements in January 2022.

---

## BUSINESS

---

Since we have implemented comprehensive control measures to govern Third-party Payment Arrangements, and the related revenue was minimal to our business during the Track Record Period, our Directors are of the view that the risks relating to Third-party Payment Arrangement is immaterial and has been properly managed.

### 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. Meanwhile, to maximize production efficiency and broaden our product portfolio, we also cooperate with a selection of reliable OEM suppliers to produce certain products, such as soaps, toothpastes, perfumes and mosquito repellent products. Our criteria for selecting OEM suppliers include their qualifications, reputation, track record, market coverage and industry experience.

### Our Production Bases

As of the Latest Practicable Date, we had one plant in Shanghai, China and one plant in Okayama, Japan. Our productions plants have installed flexible production facilities and are able to produce ingredients for our products. Almost all products of both production plants are sold in China. Establishing our Okayama plant is of strategic importance to our overall development, international expansion as well as improvement of our supply chain management and quality control capabilities. Our Okayama plant has laid down a solid foundation for our expansion into the Asian market outside China in the future. Based in Japan, which is one of the few economies with advanced cosmetics production techniques, operating Okayama plant help us stay close to the development of production techniques and quality control standards in Japan, and ultimately raise the quality control standards and improve the performance of all our production plants. Management staff of our production plants in China and Japan collaborate closely with each other, and exchange experience on international quality control standards and production management and efficiency improvement. We apply an uniform set of standards for procurement of ingredients, production process and quality control procedures in our plants in China and Japan. In addition, given the high recognition of Japanese cosmetics brand in China market, our Okayama plant also shoulders the responsibilities to produce products of our premium brands such as *asnami*, which was independently developed by Japan Hondo R&D Center, to meet the needs of some consumers for quality Japanese cosmetics products. Okayama plant also provides ODM services to some third-party cosmetics brands. Similar to our plant in Shanghai, key ingredients used for Okayama plant’s production are originally produced in Japan, European countries, China and the United States. Products produced by Okayama plants are primarily delivered to our Fengxian Plant through sea transportation after custom clearance for further sales in China. While the production costs are higher for Okayama plant compared to Fengxian Plant given the cross-border transportation expenses and higher labor costs in Japan, products produced in Japan enjoy higher gross margins because of brand premiums than products produced in China.



---

## BUSINESS

---

During the Track Record Period, we provided ODM services to third-party cosmetics companies primarily to optimize the utilization rates of our production facilities and improve profitability. In delivering ODM services, our design responsibilities primarily include (i) packaging designing, and (ii) providing tailored non-exclusive cosmetics formula based on common ingredients in accordance with customers’ requests. While we strive to deliver quality products under ODM business, we refrain from applying core formulas or ingredients, such as TIRACLE, AGSE and Artemisia Naphtha Plus, used by our existing products or products in pipelines to our ODM services. We do not believe that provision of ODM services would impair our competitiveness and undermine our market position, primarily because our ODM customers are mainly companies with positioning, brand awareness, and operation scales different from ours. As a cosmetics company with 20 years’ history, our strengths reside in the high brand awareness of our major brands, profound independent R&D capabilities as well as self-owned production plants. In addition, we would perform assessment and internal analysis to ensure that such services would not be provided to potential direct competitors. We also review the transaction amounts of our ODM customers on a regular basis to avoid customer concentration. During each period of the Track Record Period, each of our top five largest ODM customers had contributed less than 0.5% of our total revenue, respectively. As a result, while there might exist some competitions between the products of our ODM customers and us under certain categories, in light of the extensive and fast-growing cosmetics market, as well as its highly fragmented competitive landscape with numerous players in the market, we believe such potential competitions are manageable and will not affect our business, financial performance and future development.

Our Fengxian Plant in Shanghai is located in the Oriental Beauty Valley (東方美谷), which is our major production plant with a total area of over 150 mu. Our Fengxian Plant consists of two phrases based on our production demands. The Fengxian Plant was recognized as the Teaching Base of National Medical Products Administration Institute of Executive Development (國家藥品監督管理局高級研修學院教學基地) in 2020. It deploys an industry-leading production management system, which has dramatically improved per capita productivity of our staff:

- ***Systematic control.*** Through the coordinated operation of multiple systems, we are able to accurately control the receipt, inspection and release of raw materials. We also introduced a goods-fleeing prevention system to generate separate bar codes for each piece of goods to ensure that sales are traceable.
- ***Intelligent ingredient preparation.*** Our imported ingredient preparation systems, equipped with weighing, emulsification, water purification and advanced process control programs, have made the ingredient preparation process more intelligent and accurate.
- ***Automatic production.*** Our 45 production lines, most of which are imported automated facilities, help us achieve scientific and automated production.

## BUSINESS

The production process of cosmetics mainly includes dosing, ingredient compounding, filling, packing and warehousing. For advanced production bases, increasing the production capacity of compounding equipment means more complicated requirements for the operation site, supporting equipment, environmental protection facilities and a longer engineering construction period of time. Therefore, we use the unit of output in compounding, tons, to calculate the production capacity and capacity utilization rate of our production plants.

The table below sets forth the details of our production capacity by production plants for the periods indicated.

Production Base	2019			2020			2021			Six months ended June 30, 2022		
	Designed Capacity	Actual Production	Utilization Rate (%)	Designed Capacity	Actual Production	Utilization Rate (%)	Designed Capacity	Actual Production	Utilization Rate (%)	Designed Capacity	Actual Production	Utilization Rate (%)
	(Tons)	(Tons)	(%)	(Tons)	(Tons)	(%)	(Tons)	(Tons)	(%)	(Tons)	(Tons)	(%)
Fengxian Plant	26,417.8	23,770.9	90.0%	40,132.2	33,773.2	84.2%	47,370.2	34,572.2	73.0%	23,738.5	10,429.6	43.9%
Okayama Plant	1,107.0	340.2	30.7%	1,102.0	851.0	77.2%	1,102.0	732.2	66.4%	553.0	98.0	17.7%
Suzhou Plant	11,800.4	463.1	3.9%	-	-	-	-	-	-	-	-	-
Qingpu Plant	697.4	8.5	1.2%	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>40,022.6</b>	<b>24,582.6</b>	<b>61.4%</b>	<b>41,234.2</b>	<b>34,624.2</b>	<b>84.0%</b>	<b>48,472.2</b>	<b>35,304.5</b>	<b>72.8%</b>	<b>24,291.5</b>	<b>10,527.6</b>	<b>43.3%</b>

*Notes:*

- (1) The designed production capacity for our major production base of the year or period is calculated based on the following assumptions: (i) all product lines are functioning at their full capacity; (ii) our production facilities operate 20 hours per day; (iii) we operate 312 working days, 300 working days, 313 working days and 128 working days in 2019, 2020, 2021 and the six months ended June 30, 2022 for most of our product lines; and (iv) our average overall equipment efficiency rate of compounded ingredient is 85%. According to the Frost & Sullivan Report, our capacity calculation method, including the assumptions used therein, is generally in line with the standard of the relevant industry in China.
- (2) The actual production during the year or period is the total volume of the products manufactured during that year or period.
- (3) The utilization rate equals the actual production divided by the designed capacity during the same period.

Our designed production capacities for the Fengxian Plant increased from 26,417.8 tons in 2019 to 40,132.2 tons in 2020 primarily as we purchased three additional ingredient compounding equipment. Our designed production capacity for the Fengxian Plant was 47,370.2 tons in 2021, primarily due to additional procurements in ingredient compounding equipment. Our actual production for Fengxian plant was 10,429.6 tons in the six months ended June 30, 2022, primarily due to impact of COVID-19 outbreak in Shanghai and the restrictions to our production activities during such period.

Our designed production capacities for the Okayama Plant decreased slightly from 1,107.0 tons to 1,102.0 tons as we calculated the designed production capacities based on 240 working days in 2019 and 239 working days in 2020. Our actual production for the Okayama

## BUSINESS

Plant increased from 340.2 tons in 2019 to 851.0 tons in 2020 primarily as we commenced our operations in April 2019, and decreased to 732.2 tons in 2021 as a result of a decrease in our ODM production in Japan. Our actual production for the Okayama Plant was 98.0 tons in the six months ended June 30, 2022, primarily due to the suspension of our supply chain in Shanghai as a result of COVID-19 outbreak.

For the Suzhou Plant, we ceased ingredient compounding in 2019 and eventually closed our Suzhou Plant in October 2021, therefore both designed capacity and actual production were nil in 2020 and 2021. During the Track Record Period, our Suzhou Plant has complied with the applicable laws in all material aspects. The actual production for the Qingpu Plant was 8.5 tons as we sold all of our shares in the company owning Qingpu Plant at the beginning of the Track Record Period, with the SAMR registration of the share transfer completed on January 2, 2019 and the final production ceased in March 2019. Consequently, both the designed capacity and actual production were nil in 2020 and 2021. We decided to close our Suzhou Plant and disposed our Qingpu Plant, and transferred the relevant production capacity to Fengxian Plant for the following considerations: (i) a more centralized, organized and standardized production process; (ii) more simplified products delivery arrangements; (iii) more effective production management and quality control through applying uniformed standards; and (iv) more efficient production facilities check, maintenance and upgrade.

The table below sets forth the details of our production capacity by product category for the periods indicated.

Product categories	2019			2020			2021			Six months ended June 30, 2022		
	Designed Capacity	Actual Production	Utilization Rate (%)	Designed Capacity	Actual Production	Utilization Rate (%)	Designed Capacity	Actual Production	Utilization Rate (%)	Designed Capacity	Actual Production	Utilization Rate (%)
	(Tons)	(Tons)	(%)	(Tons)	(Tons)	(%)	(Tons)	(Tons)	(%)	(Tons)	(Tons)	(%)
Skin care	25,532.0	16,631.9	65.1%	26,305.0	21,230.4	80.7%	30,922.4	21,530.5	69.6%	15,496.5	5,828.4	37.6%
Maternity and childcare	13,869.6	7,395.0	53.3%	14,289.5	12,932.1	90.5%	16,797.8	13,437.7	80.0%	8,418.1	4,457.0	52.9%
Others <sup>1</sup>	620.9	555.7	89.5%	639.7	461.7	72.2%	752.0	336.3	44.7%	376.8	242.1	64.3%
<b>Total</b>	<b>40,022.6</b>	<b>24,582.6</b>	<b>61.4%</b>	<b>41,234.2</b>	<b>34,624.2</b>	<b>84.0%</b>	<b>48,472.2</b>	<b>35,304.5</b>	<b>72.8%</b>	<b>24,291.5</b>	<b>10,527.6</b>	<b>43.4%</b>

Notes:

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

The actual production for maternity and childcare increased from 7,395.0 tons to 12,932.1 tons, primarily due to an increase in market demand. The designed capacity and actual capacity for skin care products increased primarily due to the production expansion in our Fengxian Plant. The actual production for others decreased from 555.7 tons in 2019 to 461.7 tons in 2020, and further decreased to 336.3 tons in 2021, primarily due to the production reduction

## BUSINESS

in certain color cosmetics brands. Our production utilization rate in the six months ended June 30, 2022 remained relatively low, primarily due to the impact of COVID-19 outbreak in Shanghai and the restrictions to our production activities during such period.

### Our Production Expansion Plan

During the Track Record Period, the utilisation rates of all of our production lines exceeded the industry average utilisation rates according to the Frost & Sullivan Report. To fulfill our long-term development goal and to address the evolving demands of the growing domestic cosmetic product market of China, we plan to further expand and upgrade our production facilities. We expect the utilisation rates of our product lines to increase along with the growth of our business. In addition, as we launch more new products in the future, we will need additional customised production lines for the manufacturing of those new products. The expansion plan would alleviate potential capacity constraints in the longer term and we would not need to incur unnecessary costs to modify existing production lines or sacrifice capacity for our existing products.

The table below sets out the details of our planned upgrades of our Fengxian Plant and expected increase in designed production capacity:

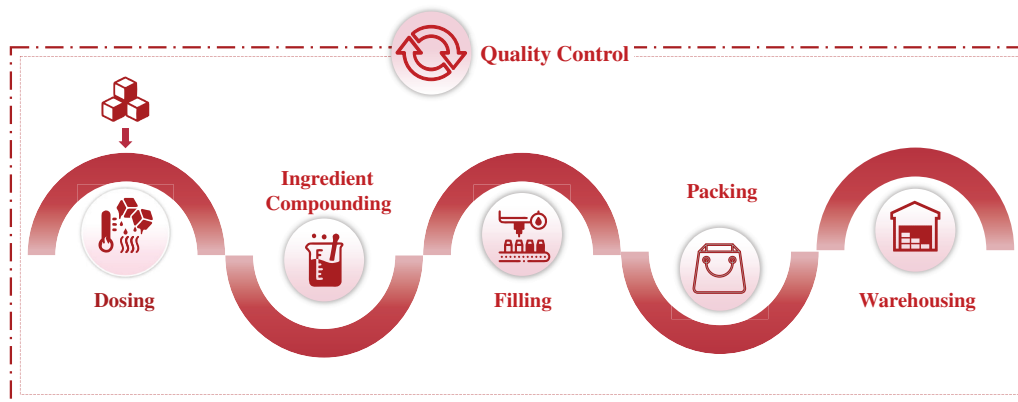
Production Base	Product categories	Designed annual production capacity/in tons	Estimated date of completion	Estimated investment/in RMB millions	Status as of the Latest Practicable Date
Fengxian Plant	Skincare, maternity and childcare and other products	26,070.8	June 2024	517.9	To commence

We plan to allocate HK\$[REDACTED] of [REDACTED] from the [REDACTED] to strengthen our production and supply chain capabilities. See “Future Plans and Use of [REDACTED].” The shortfall amount of [REDACTED], which is primarily working capital that provides buffer when calculating the estimated investment amount, is expected to be financed with cash generated from operations or banks loans depending on the liquidity position of us.

## BUSINESS

### Our Production Process

The following diagram illustrates our production process.



Our manufacturing facilities feature advanced equipment, which we believe is essential to promoting product quality and cost competitiveness. We have five major categories of equipment and machinery, including 100,000-GRADE GMP dust-free workshop, precise intelligent weighting management system, homogenization emulsification equipment, water purification system, automatic filling and packaging integrated assembly line, and automated storage and retrieval system, all of which have improved our production efficiency.

### Raw Materials

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. The prices of our raw materials generally fluctuate with market conditions. We enter into long-term cooperation agreements for certain important raw materials with our suppliers in order to avoid supply shortages or delays. During the Track Record Period and up to the Latest Practicable Date, we did not encounter any material raw materials shortages or delays.

We have a centralized procurement center which is responsible for procurement of raw materials for all our brands. The relevant personnel from each brand usually collaborate with the centralized procurement center to select the most suitable suppliers for our products. Our centralized procurement center issues some general principles and guidelines and oversees the entire procurement process. We comprehensively consider several factors in selecting and evaluating suppliers, including, but not limited to price, quality, location, operating environment and conditions, supply chain capability, product quality and production scale, reputation, track record, market coverage and industry experience. We import most of our

---

## BUSINESS

---

ingredients from overseas factories through their agents in China and such ingredients are primarily produced in European countries, the United States and Japan. We also purchase certain ingredients produced in China. For key ingredients, we collaborate with multiple suppliers to reduce the risks associated therewith. We maintain long-term relationships with reputable ingredients suppliers, ensuring sufficient supply of ingredients supply. For a number of our signature products, we produce our own packaging designs to preserve their uniqueness and originality. We also involve key suppliers in our product development process, engaging with their expertise in selecting suitable raw materials. In 2019, on the recommendation of our suppliers, we adopted honeycomb mask sheet in our Gold Honeycomb Active Mask, Multi-effect Golden Honeycomb Mask, and Moisturizing Radiant Pinky Diamond Mask, and received positive reviews from consumers. In 2020, our Gold Honeycomb Active Mask won the “Beauty Evolution Awards” (2020年度新銳榜) by Beauty Evolution.

We have implemented internal control measures to ensure ingredients used in our products comply with the relevant requirements. We closely monitor the regulatory requirements and developments in connection with the cosmetics ingredients, including but not limited to the Catalogue of Used Cosmetics Ingredients for Cosmetics (2021 Edition) (《已使用化妝品原料目錄(2021年版)》), the Catalogue of Prohibited Ingredients for Cosmetics (《化妝品禁用原料目錄》) and the Catalogue of Prohibited Plant (Animal) Ingredients for Cosmetics 《化妝品禁用植(動)物原料目錄》 issued by the NMPA. At the product development stage, we strictly comply with such rules by only applying the ingredients meet the requirements. In addition, according to the requirements of the Regulation on the Supervision and Administration of Cosmetics (《化妝品監督管理條例》) and the Measures for the Administration of the Registration and Recordation of Cosmetics (《化妝品註冊備案管理辦法》), we shall submit product formula or overall ingredients of the products through the official website designated by the NMPA when we apply for the registration of special cosmetics or the filing of ordinary cosmetics. We make sure the ingredients used in the production process are in line with our submitted formula. Furthermore, we have an ingredient management system that standardises our ingredient management and ingredient addition procedure, collect relevant data, and improves our ingredient management automation and efficiency during production.

## BRANDING AND MARKETING

While the internet and media industries in China have evolved significantly during the past two decades, we manage to remain nimble to the everchanging popular sales channels and marketing platforms. With the focus of cosmetic companies changing from a “business-to-business” model to a “business-to-consumer” model, we are committed to understanding consumer preferences and improving our branding and marketing capabilities to effectively satisfy such preferences. With the innovation and development of social media platforms, our branding and marketing model has embraced a combined branding and marketing strategy of multiple marketing channels, implementing a universal marketing layout that combines both online and offline channels to attract young consumers. We have been successful in building popular brands and marketing our products among young consumers, leveraging our core capabilities in social media and digital marketing.

---

## BUSINESS

---

We have implemented our content marketing strategies to reach our customers through various channels, including: (i) online marketing, including marketing campaigns conducted on emerging media platforms such as *Douyin*, *Kuaishou* and *Xiaohongshu* and major e-commerce platforms such as *Tmall*, *JD.com* and *VIP.com*; and (ii) offline marketing, primarily through beauty consultants to our retailers.

### Online Marketing

We were one of the first companies in the skincare industry in China to utilize online sales channels, and online marketing has always been one of our strategic priorities. We have a dedicated online marketing team focusing on the development of online marketing campaigns on various online platforms, including e-commerce platforms and social media platforms.

Our comprehensive online marketing campaign strategy typically consists of several key steps, including raising brand awareness through increasing exposure on top media, omni-channel product recommendation, distribution of news feed ads on emerging media platforms, introducing traffic to e-commerce platforms displaying and selling our products, live streaming promotion and experience sharing. Our diversified and integrated branding and marketing model enables us to effectively promote our brands and attract, acquire and convert customers. In addition, we invite KOLs and users to share products through well-known emerging media platforms such as *Xiaohongshu* to promote our brands and products among young consumers. We generally participate in the sales activities organized by the e-commerce platforms and utilize online resources to build our KOL live streaming matrix, consisting of premium KOLs, top KOLs and promising KOLs, to promote our brands and illustrate our products. For marketing activities on emerging media platforms such as *Douyin*, we have adopted the “FACT” marketing model, namely “fields (商家自播)”, “alliance (達人矩陣)”, “campaign (營銷活動)” and “top KOL (頭部大V)”, on *Douyin* to effectively promote our brands and products, so as to attract and enlarge our customer base. As of the Latest Practicable Date, the *Tmall* flagship stores of *KANS*, *One Leaf* and *Baby Elephant* have a total of over 22 million followers.

Revenue generated from our top five KOLs for 2019, 2020, 2021 and the six months ended June 30, 2022 accounted for 1.8%, 6.4%, 10.3% and 5.9%, respectively, of our total revenues during those periods. Therefore, we do not deem ourselves rely on KOL marketing. According to the Frost & Sullivan, KOL marketing is one of the most effective and commonly-used methods for marketing in cosmetics industry, which promotes brands credibility and helps consumers to make a better choice. It is an industry norm for cosmetics companies to cooperate with top KOLs and use their influence to monetize through live streaming. After the recent years’ rapid development, the live streaming e-commerce platforms have accumulated abundant KOL resources and the ability to continuously incubate top KOLs, so the traffic will not be restricted by a single KOL and the platforms’ ecosystem has become relatively mature and stable. Please see “Risk Factors – Our marketing activities may not be cost-effective in attracting consumers, which may in turn adversely affect our results of operations.”

---

## BUSINESS

---

### Offline Marketing

Our offline channel is an important bridge for us to directly reach consumers nationwide, display our products, promote our brands, and to provide local consumers with on-site experience and professional services. We have placed advertisements in airports, on outdoor large screens, etc. and held events at shopping malls in many cities across the country, attached beauty consultants to our cosmetics stores across China.

### Marketing Cases

Adopting our “FACT” marketing model, we participated in a branding activity, D-Beauty Heart Beating Day, on *Douyin*. During the process of such activity, we managed to accumulate potential consumers through live streaming events of various themes; we worked closely with celebrities and KOLs on content creation to attract traffic and attention; meanwhile, we carried out content IP marketing activities to enhance our brand image among young consumers, achieving rapid sales growth; live streaming activities collaborated with top celebrities help to spread our name quickly among different groups of consumers. We have achieved a total GMV of over RMB 60 million within nine days, and have significantly increase brand exposure, demonstrating our excellence in new e-commerce model on *Douyin*.

We seek to carry out extensive marketing events on headline news, which facilitate establishment of trust between consumers and us and encourage repurchase of our products going forward. For example, as official partner of the Chinese National Swimming Team in 2021, collaborating with its members, *KANS* shot and released a short film “The Championship belongs to Every Moment,” to enrich the definition of “Championship.” We strive to infuse the craftsmanship spirit of *KANS* on new product development with sport spirit of pursuing the ultimate, demonstrating our persistence on superior quality. This film managed to stir conversation on emerging media platforms like Hot Hub of *Weibo* and *Douyin*, and it became hot topic for five times within two days on the Hot Hub of *Weibo*, and related articles achieved a total of around 130 million reads. In addition, we cooperated with a leading KOL to promote new products of *KANS* and improve its brand awareness. We carried out a variety omni-channel marketing activities, ranging from brand campaign marketing to live streaming promotion, representing our capabilities in adapting to new marketing trends.

### Strategies and Engagement of Celebrities and KOLs

As confirmed by Frost & Sullivan, engaging celebrities and KOLs for brand promotion is a common strategy in cosmetics industry. When selecting a brand ambassador, we normally take into account the factors, including: (i) the celebrity or KOL’s image should be relevant to our brands or products; and (ii) we normally conduct background search before engagement and opt for celebrity or KOL with a positive public image and a good reputation.



---

## BUSINESS

---

Nevertheless, we believe that rather than celebrity or KOL promotion, our multi-brand strategies, comprehensive sales and distribution networks and advanced R&D capacities are the key to maintain our competitiveness. In addition, during the Track Record Period, our celebrity endorsement fees accounted for 1.2%, 0.6%, 0.7% and 0.8%, respectively, of our total revenue.

We have implemented the following enhanced internal control measures on the engagement of celebrities and KOLs:

- (i) we require a comprehensive background search on the celebrities or KOLs through query and desktop search in relation to his or her public opinions and public image;
- (ii) we engage our legal department to carefully review contracts to ensure a normal clause is included to restraint the negative behaviors of celebrities or KOLs;
- (iii) our marketing and branding team maintains close communications with legal department, which periodically provides the latest legislations to ensure ongoing compliance; and
- (iv) we also have emergency plans in place to handle negative publicities in a timely manner.

### **Regulatory Developments**

A recent regulatory change in relation to the tightening regulations target widespread tax avoidance in relation to KOLs. Please see “Regulatory Overview – Regulations Relating to Advertising.” According to relevant requirements, KOLs shall not shift or evade the individual income tax withholding obligation by various means such as establishing an “association” for online live streaming publishers, or entering into a disclaimer agreement on non-performance of the tax withholding obligation or making use of third-party enterprises; and they shall not plot or help online live streaming publishers to commit tax evasion or avoidance. As advised by our PRC Legal Advisors, according to the Live Network Marketing Management Measures (for trial implementation) (網絡直播營銷管理辦法(試行)), the live marketing platforms and the live marketing personnel service agencies shall perform withholding obligations in accordance with the law, therefore, the KOLs, the live marketing platforms and the live marketing personnel service agencies, rather than us, is directly liable for tax evasion (if any).

During the Track Record Period and as of the Latest Practicable Date, we had not subject to any sanction or penalty with respect to the tax evasion of KOLs. Although our reliance on KOLs to promote products or brands is limited and such regulatory changes are not expected to have material impact on our business, the new rules show a strengthening regulatory trend on online live streaming and e-commerce platforms.

---

## BUSINESS

---

### 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 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

Our customers consist of individual customers and corporate customers, which primarily include online distributors, online retailers such as major e-commerce platforms, offline retailers such as well-known supermarkets and cosmetic chain stores, and offline distributors. See “– 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. The products types purchased by our major customers and purchase amount remain stable during the Track Record Period.

## BUSINESS

The following table sets forth the details of our five largest customers by sales amount for 2019:

No.	Customer	Sales channel	Principal business	Products sold	Sales amount (RMB'000)	% of total revenue of sales amount	Year of commencement of business relationship with us	Credit terms granted to such customer
1.	Company A	Offline retailer	The customer engages in sales of hair accessories, daily necessities, hygiene products, personal hygiene products, and cosmetics, etc.	Cosmetics	494,185	17.2%	2016	60 days from the 15th day of the month after receipt of invoice
2.	Customer B	Online distributor, online retailer, offline distributor and ODM	The customer engages in sales of daily necessities, maternal and child products, personal hygiene products, and cosmetics etc.	Cosmetics	170,760	5.9%	2016	Payment in advance
3.	Customer C	Online distributor, offline distributor	The customer engages in sales of knitted textiles, clothing, shoes and hats, daily necessities, cosmetics, toilet and other appliances	Cosmetics	163,978	5.7%	2016	Payment in advance
4.	Customer D	Online distributor, offline distributor and ODM	The customer engages in E-commerce, sales of cosmetics, daily necessities, disposable hygiene products, chemical raw materials and product sales, etc.	Cosmetics	110,123	3.8%	2016	Payment in advance
5.	Customer E	Online distributor and offline distributor	The customer engages in cosmetics business, new material candles and craft products business, general trading business, etc.	Cosmetics	57,056	2.0%	2016	Payment in advance

## BUSINESS

The following table sets forth the details of our five largest customers by sales amount for 2020:

No.	Customer	Sales channel	Principal business	Products sold	Sales amount (RMB'000)	% of total revenue of sales amount	Year of commencement of business relationship with us	Credit terms granted to such customer
1.	Company A	Offline retailer	The customer engages in sales of hair accessories, daily necessities, hygiene products, personal hygiene products, and cosmetics, etc.	Cosmetics	363,518	10.7%	2016	60 days from the 15th day of the month after receipt of invoice
2.	Customer C	Online distributor, offline distributor	The customer engages in sales of knitted textiles, clothing, shoes and hats, daily necessities, cosmetics, toilet and other appliances	Cosmetics	176,910	5.2%	2016	Payment in advance
3.	Customer B	Online distributor, online retailer, offline distributor and ODM	The customer engages in sales of daily necessities, maternal and child products, personal hygiene products, and cosmetics etc.	Cosmetics	161,499	4.8%	2016	Payment in advance
4.	Customer D	Online distributor, offline distributor and ODM	The customer engages in E-commerce, sales of cosmetics, daily necessities, disposable hygiene products, chemical raw materials and product sales, etc.	Cosmetics	97,720	2.9%	2016	Payment in advance
5.	Customer E	Online distributor and offline distributor	The customer engages in cosmetics business, new material candles and craft products business, general trading business, etc.	Cosmetics	93,559	2.8%	2016	Payment in advance

## BUSINESS

The following table sets forth the details of our five largest customers by sales amount for 2021:

No.	Customer	Sales channel	Principal business	Products sold	Sales amount (RMB'000)	% of total revenue of sales amount	Year of commencement of business relationship with us	Credit terms granted to such customer
1.	Company A	Offline retailer	The customer engages in sales of hair accessories, daily necessities, hygiene products, personal hygiene products, and cosmetics, etc.	Cosmetics	417,397	11.5%	2016	60 days from the 15th day of the month after receipt of invoice
2.	Company F	Online retailer	The customer engages in e-commerce business	Cosmetics	316,893	8.8%	2019	Payment shall be made within 7 working days from the approved payment date
3.	Customer C	Online distributor and offline distributor	The customer engages in brand management, sales of cosmetics, personal hygiene products, daily necessities, and maternal and child products, etc.	Cosmetics	105,057	2.9%	2016	Payment in advance
4.	Company G	Online retailer	The customer provides technical infrastructure and marketing platform to help merchants, brands and other enterprises	Cosmetics	92,342	2.6%	2020	Payment within 7 days after invoice review
5.	Customer B	Online distributor, online retailer, offline distributor and ODM	The customer engages in sales of daily necessities, maternal and child products, personal hygiene products, and cosmetics etc.	Cosmetics	84,353	2.3%	2016	Payment in advance

## BUSINESS

The following table sets forth the details of our five largest customers by sales amount for the six months ended June 30, 2022:

No.	Customer	Sales channel	Principal business	Products sold	Sales amount (RMB'000)	% of total revenue of sales amount	Year of commencement of business relationship with us	Credit terms granted to such customer
1.	Company A	Offline retailer	The customer engages in sales of hair accessories, daily necessities, hygiene products, personal hygiene products, and cosmetics, etc.	Cosmetics	173,919	13.8%	2016	60 days from the 15th day of the month after receipt of invoice
2.	Company F	Online retailer	The customer engages in e-commerce business	Cosmetics	113,866	9.0%	2019	Payment shall be made within 7 working days from the approved payment date
3.	Customer H	Online retailer	The customer engages in e-commerce business	Cosmetics	91,994	7.3%	2021	Payment within 5 business days after invoice review
4.	Company G	Online retailer	The customer provides technical infrastructure and marketing platform to help merchants, brands and other enterprises	Cosmetics	34,085	2.7%	2020	Payment within 7 days after invoice review
5.	Customer I	Online distributor	The customer engages in wholesales and retail of cosmetics, personal hygiene products, clothing and apparel, etc.	Cosmetics	32,097	2.5%	2020	Payment in advance

*Note:*

- (1) Company F is a listed company, in which three of our Directors held shareholding interest, and each of them held less than 0.1% as of the Latest Practicable Date.

---

## BUSINESS

---

Among our top five customers during the Track Record Period, Customer D, one of our top five customers for the two years ended December 31, 2019 and 2020, is currently controlled by the wife of one of the cousins of Mr. Lyu, and/or her brother. Additionally, one of the companies comprising Customer C (namely Beijing Beitongsihai E-commerce Co., Ltd. (北京北通四海電子商務有限公司, “**Beijing Beitongsihai**”) and two of the companies comprising Customer B (namely Guangzhou Nanguan Wuzhou E-commerce Co., Ltd. (廣州南貫五洲電子商務有限公司) and its wholly owned subsidiary, Guangzhou Qumei Information Technology Co., Ltd. (廣州去美信息科技有限公司), collectively, “**Guangzhou Nanguan**”) were historically held as to 51% by Shanghai Wuzun E-commerce Co., Ltd. (上海吾尊電子商務有限公司, “**Shanghai Wuzun**”), a company controlled by Mr. Lyu. In December 2018, Shanghai Wuzun disposed its entire interest in Beijing Beitongsihai and Guangzhou Nanguan to its business partners who are Independent Third Parties, being Shanghai Manli Industrial Co., Ltd. (上海蠻力實業有限公司, “**Shanghai Manli**”) and two individuals who do not have any family relationship with Mr. Lyu. Please refer to the table above for their respective revenue contribution during the Track Record Period.

Among the other customers and distributors of our Group, to the best knowledge of our Company, (i) certain relatives of Mr. Lyu are or were interested in certain customers which contributed less than 0.5% of the revenue of Group during each of the three years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2022. Each of the said relatives is not our connected person within the meaning of the Listing Rules; (ii) Shanghai Wuzun was also historically a 51%-shareholder of Shanghai Qumei E-commerce Co., Ltd. (上海去美電子商務有限公司, “**Shanghai Qumei**”), a distributor of the Group. In December 2018, Shanghai Wuzun disposed of its entire interest in Shanghai Qumei to its business partners who are Independent Third Parties, being Shanghai Manli and two individuals who do not have any family relationship with Mr. Lyu. During the Track Record Period, the revenue contribution of Shanghai Qumei is less than 0.8% of our Group for each of the year ended 2019, 2020, 2021 and the six months ended June 30, 2022; (iii) three of our distributors in which our former employees hold equity interests contributed less than 1% of our total revenues during the Track Record Period. See “– Selection and Management of Distributors – relationships between us and certain distributors” for details; (iv) We facilitated imports for Yinxi (Shanghai) Culture Communication Co., Ltd. (隱溪 (上海) 文化傳播有限公司), which is indirectly owned by Mr. Lyu as to 99.86%, during the year ended December 31, 2019 and such transaction contributed approximately 0.013% of the revenue of our Group during the year; (v) During the year ended December 31, 2021, we sold products to Shanghai Misu Cosmetics Co., Ltd. (上海蜜憐化妝品有限公司), our associate in which Ms. Luo Yan, our executive Director, holds directorship, and such transaction contributed approximately 0.28% of the revenue of our Group during the year. See Note 37 to the Accountants’ Report in Appendix I to this document for details; and (vi) save for the above and Jiangsu Suxueda (see “Financial Information – Overview” for details), we are not aware of any other past or present relationships or dealings (including family, business, employment, trust, fund flow, financing or otherwise) between ourselves and our connected persons on the one hand, and our customers, their respective shareholders, and directors or senior management, or any of their respective associates on the other hand, during the Track Record Period and up to the Latest Practicable Date, save for the conduct and settlement of our sales transactions with the relevant customers. During the Track Record

---

## BUSINESS

---

Period, the revenue contribution by the Group’s customers and distributors listed out in (i) to (vi) above are approximately RMB46.73 million, RMB18.90 million, RMB14.71 million and RMB4.13 million for each of the year ended 2019, 2020, 2021 and the six months ended June 30, 2022, which amounted to approximately 1.63%, 0.56%, 0.41% and 0.33% of our total revenues for each of the year ended 2019, 2020, 2021 and the six months ended June 30, 2022. Additionally, during the Track Record Period, the revenue contribution by Customer B, Customer C, Customer D and the Group’s customers and distributors listed out in (i) to (vi) above (collectively, the “**Related Customers**”) amounted to approximately 17.10%, 13.46%, 7.35% and 4.80% of our total revenues for each of the year ended 2019, 2020, 2021 and the six months ended June 30, 2022. The decreasing trend was primarily attributable to (i)(a) the decrease in revenue contribution by Beijing Beitongsihai, Guangzhou Nanguan and Shanghai Qumei resulted from the Group’s continued and gradual effort since early 2020 to sell its products to major e-commerce platforms directly rather than through Beijing Beitongsihai, Guangzhou Nanguan and Shanghai Qumei, as well as (b) the negative revenue recorded by the Group attributable to Shanghai Qumei for the year ended December 31, 2021 mainly due to the Group’s settlement of rebates with Shanghai Qumei; and (ii) the decrease in sales to Customer D resulted from general business fluctuations in demand, in particular the decrease in demand for the Group’s products via offline channels due to the COVID-19 pandemic, from Customer D. Save for Jiangsu Suxueda from which the Group recorded no revenue during the Track Record Period, none of these Related Customers had terminated relationship with the Company. The pricing and terms offered to these Related Customers and the gross profit margin derived therefrom during the Track Record Period have been substantially the same as those offered to the Group’s other independent third party customers.

Save as disclosed above, as of the Latest Practicable Date, none of our Directors, their associates or any of our shareholders (who owned or to the knowledge of Directors had owned more than 5% of our issued share capital) had any interest in any of our five largest customers.

### **Customers Services**

We have a dedicated team of customer service personnel and maintain a customer service system to ensure a timely response to our customers’ concerns, which we believe helps us reinforce our high-quality control standards to consumers and instill confidence in our products. Our customer service team keeps records of all inquiries, feedback and complaints, and the results of any investigation or resolution measures. We also operate a customer service hotline which allows our customers to express their views about our products and services and handles consumer complaints in accordance with a relevant procedure. In addressing consumers’ complaints, we undertake to communicate and liaise with the consumers in a timely manner.

Ordinary complaints, inquiries and feedbacks from consumers received through our customer service hotline or reported by our online or offline retailers or distributors are immediately handled by our relevant customers service staff. If the complaints are serious or require special attention, such complaints will be transferred to our internal complaint handling department which may conduct further investigation into the relevant complaints or



---

## BUSINESS

---

communication with the relevant consumers. We would consider the facts and reasonableness of each complaint and strive to handle each of them properly. Consumers generally accept apologies, product exchanges and/or refunds to settle their complaints. We would also conduct follow-up communication with consumers to check if their complaints have been properly resolved.

### **The Recent Regulatory Developments Relating to Anti-unfair Competition**

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》), effective on March 1, 2022, which stipulates that algorithmic recommendation service providers shall not carry out monopoly or unfair competition by imposing unreasonable restrictions on other Internet information service providers by using algorithms, or by hindering or disrupting the normal operation of the Internet information services legally provided by such providers.

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, effective on July 1, 2022, which specifies that the online trading platform operators shall not, by taking advantage of technical means or otherwise, force the business operators to use the platforms to make false or misleading price labels.

As advised by our PRC Legal Advisors, under the Anti-unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》), business operators shall not, by taking advantage of technical means to influence users' choices or otherwise, conduct any activities that impede or disrupt the normal operation of network products or services legally provided by any another business operator, and we shall abide by the Anti-unfair Competition Law as a business operator. During the Track Record Period and as of the Latest Practicable Date, we had not been subject to any administrative penalties or sanctions by competent regulatory authorities for such unfair competition. During the Track Record Period and as of the Latest Practicable Date, we also had not been subject to any administrative penalties or sanctions due to the unfair competition of the e-commerce platforms.

Based on the above, our Directors are of the view that the recent regulatory developments in relation to e-commerce platforms' unfair competition shall not have adverse impact on our business operation and financial performance.

## BUSINESS

### SUPPLIERS

Our major suppliers are suppliers of raw materials, marketing services, construction services and logistics services. 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. 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. The services and materials types purchased by us and purchase amount have not had any material changes during the Track Record Period.

The following table sets forth the details of our five largest suppliers by purchase amount for 2019:

No.	Suppliers	Principal business	Services provided to us	Purchase amount (RMB'000)	% of total purchase amount	Year of commencement of business relationship with us	Credit terms granted by such supplier
1.	Company G	The supplier provides technical infrastructure and marketing platform to help merchants, brands and other enterprises	Promotional Services	299,612	14.2%	2017	Payment with bill/payment in advance
2.	Supplier A	The supplier engages in printing of packaging and decoration prints, and printing of other prints, etc.	Raw Materials	84,377	4.0%	2016	90 days from invoice date
3.	Company A	The supplier engages in sales of hair accessories, daily necessities, hygiene products, personal hygiene products, and cosmetics, etc.	Promotional Services	79,371	3.8%	2016	90 days from account reconciliation date

**BUSINESS**

No.	Suppliers	Principal business	Services provided to us	Purchase amount (RMB'000)	% of total purchase amount	Year of commencement of business relationship with us	Credit terms granted by such supplier
4.	Supplier B	The supplier engages in construction engineering, municipal engineering, water conservancy engineering, road and bridge engineering, steel structure engineering, landscaping engineering, foundation and foundation engineering, highway engineering, urban and road lighting engineering and outdoor sports	Construction Services	76,122	3.6%	2016	Payment in advance
5.	Supplier C	The supplier engages in advertising design, conference and exhibition services and film and television program distribution service company, etc.	Promotional Services	57,999	2.7%	2017	Payment in advance

## BUSINESS

The following table sets forth the details of our five largest suppliers by purchase amount for 2020:

No.	Suppliers	Principal business	Services provided to us	Purchase amount (RMB'000)	% of total purchase amount	Year of commencement of business relationship with us	Credit terms granted by such supplier
1.	Company G	The supplier provides technical infrastructure and marketing platform to help merchants, brands and other enterprises	Promotional Services	281,421	10.8%	2017	Payment with bill/payment in advance
2.	Supplier A	The supplier engages in printing of packaging and decoration prints, and printing of other prints, etc.	Raw Materials	96,141	3.7%	2016	90 days from invoice date
3.	Company A	The supplier engages in sales of hair accessories, daily necessities, hygiene products, personal hygiene products, and cosmetics, etc.	Promotional Services	93,791	3.6%	2016	90 days from account reconciliation date
4.	Supplier D	The supplier engages in technology development, technology transfer, technical consultation, and technical services in the field of new material technology, etc.	Raw Materials	85,252	3.3%	2019	90 days from invoice date
5.	Supplier B	The supplier engages in construction engineering, municipal engineering, water conservancy engineering, road and bridge engineering, steel structure engineering, landscaping engineering, foundation and foundation engineering, highway engineering, urban and road lighting engineering and outdoor sports	Construction Services	75,151	2.9%	2016	Payment in advance

## BUSINESS

The following table sets forth the details of our five largest suppliers by purchase amount for 2021:

No.	Suppliers	Principal business	Services provided to us	Purchase amount (RMB'000)	% of total purchase amount	Year of commencement of business relationship with us	Credit terms granted by such supplier
1.	Company G	The supplier provides technical infrastructure and marketing platform to help merchants, brands and other enterprises	Promotional Services	433,927	17.6%	2017	Payment with bill/payment in advance
2.	Company F	The supplier engages in e-commerce business	Promotional and Logistics Services	162,528	6.6%	2019	Payment with bill/payment in advance/ monthly settlement and pay next month
3.	Supplier A	The supplier engages in printing of packaging and decoration prints, and printing of other prints, etc.	Raw Materials	101,357	4.1%	2016	90 business days from invoice date
4.	Supplier E	The supplier engages in sales of packaging products, plastic products, and electronic products, etc.	Raw Materials	93,822	3.8%	2018	90 business days from invoice date
5.	Supplier D	The supplier engages in technology development, technology transfer, technical consultation, and technical services in the field of new material technology, etc.	Raw Materials	70,528	2.9%	2019	90 business days from invoice date

## BUSINESS

The following table sets forth the details of our five largest suppliers by purchase amount for the six months ended June 30, 2022:

No.	Suppliers	Principal business	Services provided to us	Purchase amount (RMB'000)	% of total purchase amount	Year of commencement of business relationship with us	Credit terms granted by such supplier
1.	Company G	The supplier provides technical infrastructure and marketing platform to help merchants, brands and other enterprises	Promotional Services	110,707	12.7%	2017	Payment with bill/payment in advance
2.	Company F	The supplier engages in e-commerce business	Promotional and Logistics Services	72,151	8.3%	2019	Payment with bill/payment in advance/ monthly settlement and pay next month
3.	Company A	The supplier engages in sales of hair accessories, daily necessities, hygiene products, personal hygiene products, and cosmetics, etc.	Promotional Services	34,814	4.0%	2016	90 days from account reconciliation date
4.	Supplier A	The supplier engages in printing of packaging and decoration prints, and printing of other prints, etc.	Raw Materials	20,075	2.3%	2016	90 business days from invoice date
5.	Supplier F	The supplier engages in manufacturing and processing daily-use glass products, glass plastic handicrafts, and providing product after-sales service and technical consultation, etc.	Raw Materials	19,825	2.3%	2016	90 business days from invoice date

---

## BUSINESS

---

*Note:*

- (1) Company A operates offline health care and beauty care chain stores. We sell products to and purchase primarily promotional services such as product display, billboard display, and brochure display from Company A. As we purchased promotional services from Company A on an event or activity basis, which was not directly related to sales volume or revenue generated from Company A, the expenses incurred in promotional service procurement from Company A was not in line with the revenue attributable to Company A. As we strengthened cost control and purchased promotional services from Company A more selectively, we incurred less expenses in promotional service procurement from Company A in 2021 compared to 2020. Meanwhile, we generated more revenue from Company A in 2021 compared to 2020, primarily because Company A experienced considerable revenue growth in 2021 compared to 2020, partly in relation to its recovery from the negative impact of COVID 19 on offline commercial activities in 2021, according to public source.
- (2) Company F is a listed company, in which three of our Directors held shareholding interest, and each of them held less than 0.1% as of the Latest Practicable Date.

Save as disclosed above, as of the Latest Practicable Date, none of our Directors, their associates or any of our shareholders (who owned or to the knowledge of Directors had owned more than 5% of our issued share capital) had any interest in any of our five largest suppliers.

Company A, Company F and Company G, which were among our top five customers during the Track Record Period, were also among our top five suppliers.

During the Track Record Period, we primarily provided cosmetics to Company A. In 2019, 2020, 2021 and the six months ended June 30, 2022, revenue derived from Company A amounted to RMB494.2 million, RMB363.5 million, RMB417.4 million and RMB173.9 million, respectively, accounting for approximately 17.2%, 10.7%, 11.5% and 13.8%, respectively, of our total revenue for the corresponding periods. Our purchases from Company A primarily consisted of promotional services. In 2019, 2020, 2021 and the six months ended June 30, 2022, purchases from Company A amounted to RMB79.4 million, RMB93.8 million, RMB60.5 million and RMB34.8 million, respectively, accounting for approximately 3.8%, 3.6%, 2.5% and 4.0%, respectively, of our total purchase amount for the corresponding periods. In 2019, 2020, 2021 and the six months ended June 30, 2022, the gross profits generated from Company A amounted to RMB400.8 million, RMB295.9 million, RMB341.0 million and RMB143.6 million, with the gross profit margin of 81.1%, 81.4%, 81.7% and 82.6%, respectively.

During the Track Record Period, we primarily provided cosmetics to Company F. In 2019, 2020, 2021 and the six months ended June 30, 2022, revenue derived from Company F amounted to RMB1.1 million, RMB51.4 million, RMB316.9 million and RMB113.9 million, respectively, accounting for approximately 0.04%, 1.5%, 8.8% and 9.0%, respectively, of our total revenue for the corresponding period. Our purchases from Company F primarily consisted of promotional and logistics services. In 2019, 2020, 2021 and the six months ended June 30, 2022, purchases from Company F amounted to RMB0.5 million, RMB23.9 million, RMB162.5 million and RMB72.2 million, respectively, accounting for approximately 0.03%, 0.9%, 6.6% and 8.3%, respectively, of our total purchase amount for the corresponding periods. In 2019, 2020, 2021 and the six months ended June 30, 2022, the gross profits generated from Company F amounted to RMB0.8 million, RMB38.1 million, RMB224.8 million and RMB75.2 million, with the gross profit margin of 73.0%, 74.2%, 70.9% and 66.1%, respectively.

---

## BUSINESS

---

During the Track Record Period, we primarily provided cosmetics to Company G. In 2019, 2020, 2021 and the six months ended June 30, 2022, revenue derived from Company G amounted to nil, RMB58.8 million, RMB92.3 million and RMB34.1 million, respectively, accounting for approximately nil, 1.7%, 2.6% and 2.7%, respectively, of our total revenue for the corresponding periods. Our purchases from Company G primarily consisted of promotional services. In 2019, 2020, 2021 and the six months ended June 30, 2022, purchases from Company G amounted to RMB299.6 million, RMB281.4 million, RMB433.9 million and RMB110.7 million, respectively, accounting for approximately 14.2%, 10.8%, 17.6% and 12.7%, respectively, of our total purchase amount of the corresponding periods. In 2019, 2020, 2021 and the six months ended June 30, 2022, the gross profits generated from Company G amounted to nil, RMB38.5 million, RMB57.4 million and RMB20.8 million, with the gross profit margin of nil, 65.5%, 62.1% and 61.1%, respectively.

Company A and Company F are reputable retailers with extensive sales networks in China. According to Frost & Sullivan, it is not uncommon for consumer goods companies like us to use their promotional and other ancillary services when such consumer companies sell or distribute products through their sales channels. Our Directors are of the view that such arrangements are mutually beneficial, given that we negotiated with such companies on an arm’s-length basis. In addition, the terms of transactions with the companies mentioned above are in line with market practice and similar to those with our other customers and suppliers.

## PRODUCT SAFETY AND QUALITY CONTROL

We place great emphasis on the quality of our products in order to produce products that meet our customers’ expectations. We have established a closed-loop enterprise quality management system that complies with relevant international standards, covering formula development and test, raw materials, production process, finished goods, product returns and recalls. We implement stringent policies to manage packaging materials and ingredients suppliers regarding their admission, regular assessment and elimination based on assessment results, in order to strictly control the quality of the materials supplied. We perform various quality inspection and testing procedures, including visual inspection, physical and chemical inspection, and microbiological testing at different stages throughout our operations, to ensure that our products meet the relevant quality standards and comply with applicable laws and regulations, and our stricter internal quality standards.

As of June 30, 2022, our quality control department comprised 28 members with extensive quality control experience. The quality control department is responsible for product safety management, packaging materials and ingredients management, production process management and customer service management, as well as the establishment of product safety and quality assurance systems. We have obtained the ISO9001 certification for our quality management systems, ISO14001 for our environment protection management system, and ISO45001 for our employment health and safety management system, as of June 30, 2022.



---

## BUSINESS

---

### **Quality Control on Formula Development and Test**

Product formulation is key to quality control. Our research and development team is responsible for the research and development of product ingredients and formulations. With this team, we are able to develop safer and more scientific formulas to control the quality of our products.

Our quality control department works with our research and development team closely to evaluate the specification and quality of each formula in accordance with the relevant laws and regulations and industry standards, which list the appearance and physicochemistry of such formula. We will conduct quality control checks on the final products after large scale production. Fengxian Plant was recognized as the Teaching Base of National Medical Products Administration Institute of Executive Development (國家藥品監督管理局高級研修學院教學基地) in 2020.

### **Raw Materials Quality Control**

We believe that raw materials are crucial to our product quality. Therefore, we have a stringent selection process in choosing our suppliers and conduct an annual supplier review and evaluation; those suppliers who fail to meet our standards will be excluded from our supplier list. We also have internal guidelines on quality control of raw materials. In accordance with our internal guidelines, we inspect our raw materials for their appearance, specifications and functionality and conduct tests on randomly selected samples. If the samples fail to pass our tests, we will report this according to the internal non-conforming product procedures and conduct a full inspection and investigation into the abnormal raw materials. We may return the entire batch of raw materials if we determine that the use of such materials will have a material adverse impact on our production.

### **Production Process Quality Control**

We follow all relevant standards for the production of our products, including the national mandatory standards and our stricter internal standards. We have established comprehensive operating procedures to conduct quality control throughout the entire production process in order to ensure that the quality of our products meets the requirements.

Our equipment engineering department conducts regular equipment inspections and maintenance to ensure our production lines perform at optimal levels. We have a team of dedicated quality control inspectors to conduct on-site process inspections, including first article inspection, regular product sampling inspections, on-site environmental sanitation inspections, and staff operating standards inspections. During the Track Record Period, we did not experience any material production stoppages due to equipment failure. We regularly check our staff members' compliance with our internal operation standards. In addition, we perform routine product inspections on our products and set quality checkpoints during the key production process to ensure consistent quality of our products.

## BUSINESS

---

We conduct comprehensive supervision and inspections on the entire production process to ensure that all of our production equipment, machinery and personnel satisfy the national mandatory standards and our stricter internal standards.

### **Quality Inspection on Finished Products**

We have a dedicated quality control team who is responsible for regulating and monitoring the quality of products in the storage, delivery and sales stages so as to ensure that our products are stored, delivered and sold in good condition and to avoid any product quality issues occurring during transportation. Leveraging our extensive sales and distribution network, combined with our strong online presence, we have set up mechanisms to handle consumer complaints, including our hotlines and other feedback channels. In addressing consumers' complaints, we undertake to communicate and liaise with the consumers in a timely manner and to commence the quality investigation procedures if necessary.

### **Product Returns and Recalls**

We have a dedicated team of customer service personnel and maintain a customer service system to ensure timely response to all customer concerns. We believe this will help us strengthen our high-quality control standards for consumers and instill confidence in our products. Our customer service team keeps records of all inquiries, feedback and complaints, as well as the results of any investigations or corrective and preventive measures.

The end consumer return policies vary depending on the different sales channels. Retailers and distributors are generally responsible for handling product return requests of consumers. In respect of the products we sell through online self-operated stores, we comply with the relevant PRC consumer protection laws with respect to policies on the return of merchandise. We generally provide product returns or replacement requests with the same product, regardless of whether there is any product defect within seven days of receipt of the product. In case a customer wishes to return the purchased product, he or she may submit the return request on the relevant e-commerce platform within the specified time frame. After reviewing and approving the relevant return request, the relevant e-commerce platform would arrange its logistic service provider to collect the returned products or the relevant customer can return the products by themselves. Other than for the return of defective products, all returned products are required to be in good condition and suitable for resale. Once the products are returned to us, we will inspect the returned items and directly deal with the defective products. For those products, after checking their quality, packages and expiration dates to ensure they are eligible for resale, we would arrange resale of those products accordingly.

Distributors generally cannot return our products after receipt. Under the distribution agreements, returns and exchanges are only available for products that are defective or damaged. Under such circumstances, we will be responsible for the costs incurred by returned or exchanged products. We shall not bear the related expenses for returned normal products or other abnormal products which are not caused by us. During the Track Record Period, the total

---

## BUSINESS

---

value of products returned in terms of revenue amounted to RMB103.0 million, RMB60.3 million, RMB77.5 million and RMB20.5 million, respectively, representing approximately 3.6%, 1.8%, 2.1% and 1.6%, respectively, of our total revenue for the same periods; specifically returned products attributable to our online channels amounted to RMB0.9 million, RMB8.4 million, RMB51.3 million and RMB19.6 million, respectively, with a return rate of 0.1%, 0.3%, 1.9% and 2.1%; returned products attributable to our offline channels amounted to RMB101.6 million, RMB51.6 million, RMB25.8 million and RMB0.9 million, respectively, with a return rate of 7.7%, 6.7%, 3.1% and 0.3%. We recorded higher product return rates for offline channels during the Track Record Period, primarily because offline retailers such as supermarkets regularly arrange product return to us and procure newly launched products to optimize the display of the latest products of ours on their channels.

We have formulated product recall procedures. During the Track Record Period and up to the Latest Practicable Date, (i) we were not subject to any material administrative or other penalties from the PRC government authorities in connection with product quality, (ii) we were not ordered to undertake any mandatory product recalls as required by any government authorities, which could have a material adverse effect on our business, financial condition and results of operations, (iii) we did not experience any incidents related to material product liability exposure, and (iv) we did not receive any material complaints from consumers in connection with product quality. During the Track Record Period and up to the Latest Practicable Date, we did not undertake any voluntary product recalls.

## INVENTORY MANAGEMENT

Our inventories primarily consist of raw materials, work in progress and finished products. The shelf life of our major products is approximately four to five years for our products under *KANS* and *One Leaf*, and three to four years for our products under *Baby Elephant*. Our inventory levels vary according to the demand of our customers and our sales and production plans.

We typically maintain a minimum inventory level of raw materials. Our minimum inventory levels for raw materials, work in progress and finished products are based on our historical sales, real-time market demands for our products, and future sales projections. Additionally, after almost two decades of operations, we believe we have formed strong relationships with upstream raw material providers in the relevant market. We will stock up on certain raw materials for up to three months of inventories in anticipation of any significant delays in the supply of such raw material. During the Track Record Period, we did not experience any material shortage of inventory or obsolescence of inventory of raw materials.

We focus on optimizing our inventory management and we maintain a digital SAP system to track incoming and outgoing inventory. The SAP system enables us to manage different aspects of our inventory, namely (i) procurement agreements, orders and applications, and order settlements, (ii) raw material preparation, transfer to production facilities, and the consumption of raw materials, (iii) orders placed by our customers and their delivery process,

---

## BUSINESS

---

and (iv) movement of inventories in our warehouse. The system enables us to monitor inventory levels and generates inventory reports on a real-time basis, which in turn helps us maintain optimal inventory levels and improve our working capital efficiency.

### WAREHOUSING AND LOGISTICS

As of the Latest Practicable Date, we primarily utilized the warehouses located within our production bases and engaged third-party logistics service providers to provide warehousing facilities as supplemental warehousing facilities. We procure delivery services from third-party logistics service providers. We select logistics service providers based on their track record, geographic coverage, management ability and price. Our arrangements with third-party logistics service providers allow us to provide fast and efficient delivery services of our products, reduce our capital investment and reduce the risk of incurring liability for traffic accidents, delivery delays or loss. Once our logistics service providers confirm receipt of the products to be delivered, the risks relating to the transportation and delivery of our products are transferred to the logistics service providers.

### COMPETITION

According to the Frost & Sullivan Report, we ranked fourth in Chinese domestic cosmetic market with retail sales of RMB7,556 million in 2021 and a market share of 1.7% in the domestic cosmetics market. The cosmetics market in China is fragmented, and the top five players contributed a market share of 21.9% in terms of retail sales, with all of them being international cosmetics groups. We believe by leveraging our advantages in brand mix, R&D capabilities, supply chain management and sales and distribution network, we will increase our market shares and capture more opportunities in the business segments that we operate in the future.

We believe that we are well-positioned to excel in the competition within our industry on a number of factors, including, among others, well-implemented multi-brand strategies, superior R&D capabilities and extensive and dynamic sales and distribution network. See “– Our Strengths.” However, some of our current and potential competitors may have greater resources of capital, technology, brand, sales channel, product development and marketing than we do, and may be able to develop products that are more popular than ours. See “Risk Factors – Risks relating to our Business and Industry – Failure to compete effectively may materially and adversely affect our business, financial condition, results of operations and prospects.”

### INTELLECTUAL PROPERTY

Our intellectual property rights are key to our success and competitiveness, primarily consisting of trademarks, copyrights, patents, and the domain names we use. As of June 30, 2022, we had approximately 200 patents, 38 applications for patents, 84 copyrights, and approximately ten domain names in China; and 17 patents, one application for patent and one domain name overseas. See “Appendix VII – Statutory and General Information – 2. Further Information about our Business – B. Intellectual Property Rights.”

---

## BUSINESS

---

We undertake a proactive approach to managing our intellectual property portfolio. Our legal department performs regular monitoring of our intellectual property rights. We act when we are aware of a potential infringement of our intellectual property rights. For instance, we perform routine checks on the public trademark registration platform to ensure our trademarks are not infringed by others.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any threatened or pending disputes, litigation, or legal proceedings for any material violation of intellectual property rights of any person which would have a material adverse effect on our business. See “Risk Factors – Risks relating to our Business and Industry – We may not be able to adequately protect our intellectual property rights, which could harm the value of our brands and adversely affect our business.”

When dealing with the infringement of the Company’s intellectual property rights, we found incidents about counterfeit products and other infringements against our products through internal and external channels, including: (i) our sales companies and sales personnel across the country; (ii) our staff from the legal department when they visit the markets; (iii) our commissioned intellectual property experts or legal consultants when they actively conduct investigations; and (iv) complaints and reports by consumers through the customer service hotline. After discovering incidents of infringements, we will collect supporting information, make an assessment on whether an infringement has actually taken place, and analyze the feasibility of defending our rights and the approaches we may take. Based on different product infringements and specific circumstances, with the support of intellectual property experts or legal consultants, we defend our rights through targeted approaches, including, but not limited to, filing industrial and commercial complaints, litigation and reporting to the police department.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any threatened or pending disputes relating to infringement of intellectual property rights which would have a material adverse effect on our business.

## EMPLOYEES

As of June 30, 2022, we had 3,374 full-time employees. The following table sets forth the number of our employees by function as of June 30, 2022:

	<b>Number of employees</b>
Sales and Marketing	2,737
Administration	285
Research and Development	204
Production	148
	<hr/>
<b>Total</b>	<b>3,374</b>
	<hr/> <hr/>

---

## BUSINESS

---

The success of our operations depends on our ability to attract, retain and motivate qualified employees. During the Track Record Period, we recruited our employees through on-campus recruitment, job fairs, recruitment agencies and internal and external referrals. Committed to providing fair and equal opportunities in all our employment practices, we have adopted policies and procedures including candidate competency analysis models designed by third parties to ensure a fair selection and hiring process. As part of our retention strategy, we offer our employees competitive salaries, comprehensive insurance packages and merit-based incentive schemes which are generally based on performance of the individual employees and the overall performance of our business.

We provide new hire training to new joiners on our culture, business and industry, improving their understanding of our Company and their abilities to perform their duties. We also regularly provide tailor-made in-house training sessions to our employees that seek to improve their technical skills or arrange for our employees to attend training sessions provided by third parties. In addition, we provide management skills training opportunities to certain employees to help them transition into a management role.

### **Social Insurance and Housing Provident Funds**

As required by PRC laws and regulations, we participate in various employee social security plans for our employees that are administered by local governments, including housing, pension, medical insurance, maternity insurance, employment injury insurance and unemployment insurance. During the Track Record Period and as of the Latest Practicable Date, (i) we engaged third-party human resource agencies primarily for certain employees working in cities where we do not have legal entities to pay the social insurance or housing provident funds; and (ii) we failed to make full contributions as required by the relevant PRC laws directly or through such third party agencies.

### ***Engagement of Third-Party Human Resource Agencies for Contribution of Social Insurance and Housing Provident Funds***

According to the PRC laws, a company that enters into an employment contract with an employee rather than the third party shall be the one to make the social insurance and housing provident fund contribution in full for the employee.

The number of employees using third-party agencies for paying social insurance or housing provident funds was 80, 3,302, 2,737 and 2,240, respectively, as of December 31, 2019, 2020, 2021 and June 30, 2022, with such number increasing from 80 as of December 31, 2019 to 3,302 as of December 31, 2020 primarily because we engaged around 3,887 dispatched workers who were not our employees in 2019. According to the Interim Provisions on Labor Dispatch (勞務派遣暫行規定), the number of dispatched workers employed shall not exceed 10% of total employment. In order to rectify the non-compliance issue, we started to enter into employment agreements with such dispatched workers, who eventually became our employees in the late 2020. In 2019, 2020, 2021 and the six months ended June 30, 2022, we made contributions through such third-party agencies of RMB2.3 million, RMB2.4 million,

---

## BUSINESS

---

RMB31.3 million and RMB14.8 million, representing approximately 2.3%, 3.9%, 24.5% and 22.7% of our total social insurance premiums and housing provident funds contributions during the same periods. Approximately 68% of the total number of our employees as of December 31, 2021 contributed to 24.5% of the total social insurance and housing provident funds contributions in 2021 primarily due to: (i) the employees whose contributions for social insurance or housing provident funds were paid through third-party agencies are mainly our sales staff of sent to offline stores, such as *Watsons* stores, in different cities outside Shanghai. As the compensation of sales staff typically consists of low base salary plus performance-based incentives, their incomes are generally much lower than that of our employees in Shanghai headquarter of administrative, marketing and R&D roles. During the Track Record Period, the social insurance and housing provident fund contributions of employees at our headquarter could be as high as approximately five times of the contributions of sales staff outside Shanghai, resulting in smaller amounts of social insurance and housing provident fund contributions of those sales staff; and (ii) in China, different cities have their own rules for mandatory minimum social insurance or housing provident fund contributions. Given the more developed social welfare system and a higher average income, the mandatory minimum social insurance and housing provident fund contributions of Shanghai are higher than most of other cities in China. Such a difference also results in the lower social insurance and housing provident contributions of our sales staff than those of employees at our Shanghai headquarter.

We engage third-party agencies to pay social insurance and housing provident funds primarily because some of our employees working in different cities across the nation prefer their social insurance and housing provident funds to be paid at their respective resident places for convenience of utilizing such benefits locally. Therefore, we made such arrangements for those employees in cities where we do not have legal entities.

### ***Failure in Making Full Contributions of Social Insurance and Housing Provident Fund***

During the Track Record Period and as of the Latest Practicable Date, we did not pay social insurance and housing provident fund contributions in full amount for certain employees. According to the agreements between the relevant third-party agencies and us, such agencies make payments in amounts specified by us. In 2019, 2020, 2021 and the six months ended June 30, 2022, among the employees for whom we used third-party agencies to pay social insurance and housing provident fund, the contributions of 14, 180, 1,864 and 1,340 employees, respectively, were not made in full. The shortfall amount of social insurance and housing provident fund contributions is estimated to be RMB0.45 million, RMB2.0 million, RMB12.0 million and RMB7.7 million in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. As of June 30, 2022, the accumulated unpaid balance of social insurance and housing provident funds was approximately RMB22.2 million.

The failure to make full contributions of social insurance and housing provident funds was primarily because (i) certain employees were unwilling to pay the social insurance and housing provident funds in full as it requires additional contributions from our employees; (ii) the turnover rate of our sales personnel in different cities across the nation was high, in respect of which (a) the payment of social insurance and housing provident funds for some new

---

## BUSINESS

---

employees had not started in the same month of their commencement of employment with us given the need to complete the relevant registration procedures; and (b) some employees’ social insurance and housing provident funds payment relationships with former employers had not yet been terminated at the relevant time and we were unable to make contributions for such employees.

### *Potential Legal Consequences*

According to the Social Insurance Law, if an employer engages third-party human resource agencies to pay the social insurance or fails to make social insurance contributions in full, the relevant authorities could order the employer to pay, within a prescribed time limit, the outstanding amount with an additional late payment penalty at the daily rate of 0.05%, and if the employer fails to make the overdue contributions within such time limit, a fine equal to one to three times the outstanding amount may be imposed. According to the Housing Accumulation Funds Regulation, if the employer engages third-party human resource agencies to pay the housing provident funds or fails to register and establish an account for housing provident fund, the authority could order the employer to correct it within a prescribed time limit, where failure to do so at the expiration of the time limit shall result in a fine of not less than RMB10,000 nor more than RMB50,000 being imposed. Where an employer is overdue in the payment and deposit of, or underpays, the housing provident fund, the authority could order it to make the payment and deposit within a prescribed time limit, and where the payment and deposit has not been made after the expiration of the time limit, an application may be made to a People’s Court of the PRC for compulsory enforcement.

The risks in relation to social insurance and housing provident funds is low based on the following facts: during the Track Record Period and up to the Latest Practicable Date, (i) we had not been subject to any administrative penalties relating to the engagement of third-party human resource agencies; (ii) we had not received any notification from the relevant PRC authorities requiring us to pay for the shortfalls with respect to social insurance and housing provident funds; (iii) we have obtained certain confirmation letters issued by the relevant competent social insurance and housing provident fund authorities confirming that there is no record of any member of our Group being imposed administrative disposition or penalties by the relevant authorities for violation of the relevant laws and regulations.

Such written confirmations covering the Company and all of our PRC group subsidiaries were issued by (1) in respect of social insurance: (i) Shanghai Public Credit Information Service Platform (上海市公共信用信息服務平臺) (which is the unified platform for public credit information collection and query in Shanghai) with the information provided by the Shanghai Municipal Human Resources and Social Security Bureau (上海市人力資源和社會保障局) on October 29, 2021, February 16, 2022, March 29, 2022 and September 22, 2022, respectively; (ii) Suzhou Industrial Park Human Resources and Social Security Bureau (蘇州工業園區人力資源和社會保障局) on November 2, 2021 (the written confirmations from Suzhou authorities were not updated because we did not have any employee in Suzhou district as of June 30, 2022); and (2) in respect of housing provident fund: (i) Shanghai Provident Fund Management Center (上海市公積金管理中心) on October 14, 2021, October 22, 2021, March



---

## BUSINESS

---

1, 2022, September 15, 2022 and September 21, 2022, respectively; (ii) Suzhou Industrial Park Social Security and Provident Fund Management Center (蘇州工業園區社會保險基金和公積金管理中心) on November 16, 2021 (the written confirmations from Suzhou authorities were not updated because we did not have any employee in Suzhou district as of June 30, 2022).

We are of the view that the authorities were fully aware of our above-mentioned non-compliance, on the basis that (i) the information, including but not limited to the total number of our employees, the salary of our employees (as the calculating base for the social insurance and housing provident contributions) and the social insurance and housing provident contributions, is shared among the different authorities through its internal information sharing platform; and (ii) the competent government authorities which issued the written confirmations are the appropriate authorities in their respective regulatory regions. In addition, interviews with certain authorities were conducted to confirm during the interview that they were aware of our relevant PRC entities' social insurance contributions since January 1, 2019, including the total number of the employees, the number of employees who make the relevant contributions and the calculation base of the amount of the contributions, etc. While the authorities may not be fully aware of that our number of dispatch workers exceeded the legal threshold of 10% of the total number of employees historically, we had rectified the non-compliance before the end of 2020 by reducing the proportion of dispatched workers and made sure we used no more than 10% of dispatched workers and we were not subject to any administrative penalties for such historical non-compliance during the Track Record Period and as of the Latest Practicable Date.

As advised by our PRC Legal Advisors, the risk of such written confirmations issued by competent government authorities being challenged by higher-level authorities is remote, on the basis that (i) the competent government authorities which issued written confirmations are granted by higher-level government authorities, being the independent authorities that regulate the payment by and provide guidance and confirmations to the enterprises under their management in respect of social insurance and housing provident funds in their respective regulatory regions; (ii) higher-level government authorities generally will not intervene the management of social insurance and housing provident fund by competent local government authorities; (iii) there had been no administrative action initiated nor any fine or penalty imposed in relation to the non-compliance mentioned above from the competent local government authorities or any higher-level government authorities; and (iv) to our best knowledge, no such challenge was raised as of the date of this document.

In addition, according to the Urgent Notice of the General Office of the Ministry of Human Resources and Social Security on Implementing the Spirit of the Executive Meeting of the State Council in Stabilizing the Collection of Social Security Contributions (人力資源和社會保障部辦公廳關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知) promulgated on September 21, 2018, all local authorities responsible for the collection of social insurance are strictly forbidden to conduct self-collection of historical unpaid social insurance contributions from enterprises.

---

## BUSINESS

---

Based on the above, our PRC Legal Advisors have advised that the likelihood of us being subject to administrative penalties as a result of such arrangements is remote.

Based on the above and the advice from our PRC Legal Advisors, our Directors are of the view that no provision is required to be made for the unpaid social insurance and housing provident fund contribution amount.

### *Remedial Measures*

Going forward, we will take the following measures to comply with the regulatory requirements. We are in the process of communicating with our employees with a view to seek their understanding and cooperation in complying with the applicable payment base, which also requires additional contributions from our employees. We undertake to continue to work with our employees, especially those in cities outside Shanghai, to contribute social insurance and housing provident fund using the basis and in a manner in accordance with relevant PRC laws and regulations. We have established an internal control department to monitor our ongoing compliance with the social insurance and housing provident fund contribution regulations and oversee the implementation of any necessary measures. In addition, we will regularly review and monitor the reporting and contributions of social insurance and housing provident fund and we will consult our PRC Legal Advisor on a regular basis for advice on relevant PRC laws and regulations to keep us abreast of relevant regulatory developments. We undertake to maintain close communication with relevant authorities on a regular basis to understand their requirements and interpretation of relevant rules and regulations, and make contributions to social insurance and housing provident fund in accordance with their specific guidance in a timely manner.

We believe that we generally maintain a good working relationship with our employees, and we did not experience any significant labor disputes or any difficulty in recruiting staff for our operations during the Track Record Period.

## INSURANCE

We maintain insurance policies to cover our products, buildings, facilities, machinery, vehicles, equipment, inventories, and other assets. The insurance covers losses caused by product liability, fire, explosion, lightning strike, rainstorm and other disasters. We review our insurance policies from time to time for adequacy in the breadth of coverage. We maintain insurance policies that we consider to be in line with industry standards in China. Nevertheless, we may be exposed to claims and liabilities which exceed our insurance coverage. During the Track Record Period and up to the Latest Practicable Date, we had not made, neither had we been the subject of, any insurance claims which are of a material nature to us.

---

## BUSINESS

---

### OCCUPATIONAL HEALTH, SAFETY AND ENVIRONMENTAL MEASURES

Our business is subject to various occupational health, safety and environmental laws and regulations in the PRC. In order to ensure compliance with the above, we have implemented environmental, health and safety (EHS) manuals, policies, and standard operating procedures in relation to occupational health and safety, wastewater treatment and solid waste management. We periodically provide EHS training to our employees.

Upon the [REDACTED] and when appropriate, enterprise risk assessment will be conducted at least once annually to cover the current and potential risks in our business, including, but not limited to, the risks arising from ESG and climate-related matters. Our Board will continuously assess or engage qualified independent third parties to evaluate the risks and review our existing strategy, metrics and targets as well as internal controls, and necessary improvement measures will be implemented to manage and mitigate such risks.

#### Occupational Health and Safety

We have established an ISO-certified occupational health and environmental protection management system to provide our staff a safe and healthy working environment. We provide our employees with regular occupational health, safety education and training sessions to enhance their awareness of safety issues. They are tested at the end of these training sessions and the result of these tests will be taken into consideration when determining the employee’s overall performance. We also require our relevant employees to submit to health examinations and hold a valid health certificate at work.

We have obtained the Safety Standardization Qualification Certificate stipulated by the Safety Production Law and have established a safety standardization management system. In an effort to ensure the safety of our employees, we have operational procedures and safety standards for our production process. Moreover, we provide suitable and necessary protection equipment to our employees, i.e. goggles, protective suits and masks to ensure their safety during work. The EHS team at our headquarters provide compliance training sessions to each production base and conduct quarterly examinations to replace damaged parts timely at each production base to ensure ongoing compliance with these laws and regulations.

In the event of occurrence of an accident, we investigate the accident, prepare a report to the management and take corrective actions effectively. During the Track Record Period and up to the Latest Practicable Date, we had complied with PRC laws and regulations in relation to occupational health and work safety in all material respects and have not experienced any significant incidents or accidents in relation to workers’ safety.

#### Environmental Protection

Our operation is subject to environmental laws mostly relating to the disposal of wastewater and solid waste. See “Regulatory Overview.” In order to comply with the relevant environmental laws and regulations, we have formulated an environmental management policy to manage our emissions.

---

## BUSINESS

---

During the Track Record Period and up to the Latest Practicable Date, as confirmed by our PRC Legal Advisor, there had been no material violation of any environmental laws and regulations applicable to our operations, and there had been no material claim or penalty imposed on us as a result of violation of environmental laws and regulations. During the Track Record Period and up to the Latest Practicable Date, our business, strategy and financial performance had not been materially adversely affected by any actual or potential impacts of environment-related risks.

All of our production facilities have completed the requisite environmental impact assessments at the initial construction stage, and have established the relevant environmental protection equipment and passed the completion inspections by the relevant government authority before we proceed to mass production.

We have established a comprehensive environmental protection mechanism which guides us to prevent environment-related risks at an early stage and emphasizes continuous monitoring of such risks throughout our operations. In particular, our environmental protection, health, and safety department (the “EHS department”) is responsible for assessing and managing all ESG-related matters. Our EHS department uses special tools to assess potential risks, including the use of VOC detectors to regularly test exhaust emission facilities. If any emergency causes environmental pollution, our EHS department will liaise with the responsible party and take prompt action to rectify the noncompliant practice and mitigate the impact.

### *Emissions*

We strictly adhere to the standards and metrics set or issued by the relevant PRC environment-related laws and regulations in assessing and managing our impacts on the environment as a result of our business activities. During the Track Record Period and up to the Latest Practicable Date, we had produced the following key pollutants, which have been dealt with through the implementation of corresponding environmental measures:

- ***Management of wastewater.*** We generate wastewater during the production process. In 2019, 2020, 2021 and the six months ended June 30, 2022, we disposed of no more than 87,360, 84,000, 87,640 and 35,840 cubic meters of wastewater, respectively. Our wastewater discharge requirements are implemented in accordance with the standards of GB/T31962-2015. We have adopted the following measures to minimize the impact of wastewater, including (i) establishing a sewage station and adoption of specific processes to treat production and domestic sewage and ensure that the discharged water meets the Comprehensive Wastewater Discharge Standard; (ii) contracting with a qualified environmental protection company to treat waste oil, excessive sludge and other waste generated in the production process; (iii) establishing deodorization facilities to treat the odor generated by the sewage tank and (iv) using active carbon oxides and a filtering system to reduce hazardous gas emissions.

---

## BUSINESS

---

- **Management of solid waste.** We generate solid waste during our production processes. Some of them are potentially hazardous, including the waste ingredient during production. During the Track Record Period, the cardboard boxes we used as packaging materials were biodegradable. All hazardous solid wastes were centrally and properly stored in the hazardous waste warehouse of each main plant. The domestic solid waste was collected and processed by the city sanitation department. Other non-hazardous wastes were collected and processed by qualified contractors. During the Track Record Period, non-hazardous waste generated from our production processes include primarily thin packaging films, paper packaging material and glasses. In 2019, 2020, 2021 and the six months ended June 30, 2022, our plants in China had used approximately 43.2, 112.8, 142.2 and 40.6 tons of thin packaging films, 1,100.4, 1,452.7, 1,884.5 and 466.4 tons of paper packaging material, and 210.0, 66.6, 167.0 and 5.9 tons of glasses, respectively. In 2019, 2020, 2021 and the six months ended June 30, 2022, our Okayama Plant had disposed 23.3, 37.9, 46.2 and 13.3 tons of solid waste, respectively.

We had complied with all relevant pollutant discharge requirements in all material aspects during the Track Record Period and up to the Latest Practicable Date. Since we are not required to make environmental protection tax payments, we did not incur environmental protection tax in 2019, 2020 and 2021. During the Track Record Period and up to the Latest Practicable Date, we had not received any notice or warning in relation to pollution in respect of our operations, nor had we been subject to any fines, penalties or other legal actions by government authorities resulting from any non-compliance with any environmental protection laws or regulations that had a material adverse impact on our operations and, so far as our Directors are aware after making all reasonable enquiries, there was no threatened or pending action by any environmental government authorities in respect thereof. Additionally, even though we are subject to certain requirements stipulated in its pollutant discharge permit, the actual quantities of wastewater we discharged were less than the allowed quantities for the Fengxian Plant during the Track Record Period, and we believe we are able to apply for new pollutant discharge permits after we complete our capacity expansion plans.

### *Use of energy and water*

Our resource consumption principally comprises electricity consumption, energy consumption and water consumption to support our business operations, including production facilities and office facilities. In 2019, 2020, 2021 and the six months ended June 30, 2022, we consumed approximately 13,162,995 kWh, 15,131,828 kWh, 18,142,000 kWh and 5,045,947 kWh of electricity, respectively, with an intensity of approximately 4,579.6 kWh, 4,474.8 kWh, 5,013.1 kWh and 3,997.1 per RMB million revenue, respectively. For the same periods, we also consumed approximately 422,107 cubic meters, 422,262 cubic meters, 448,390 cubic meters and 126,953 cubic meters of natural gas, respectively, with an intensity of approximately 146.9 cubic meters, 124.9 cubic meters, 123.9 cubic meters and 100.6 cubic meters per RMB million revenue, respectively. Furthermore, we consumed approximately 232,169 cubic meters, 261,360 cubic meters, 300,312 cubic meters and 90,627 cubic meters of water, respectively, during the same periods, with an intensity of approximately 80.8 cubic meters, 77.3 cubic

---

## BUSINESS

---

meters, 83.0 cubic meters and 71.8 cubic meters per RMB million revenue, respectively. We will make continuous efforts in working towards the target of reducing the level of our average annual energy consumption and water consumption per unit revenue over the next three years.

### *Use of Animal testing*

In 2019, 2020, 2021 and the six months ended June 30, 2022, we engaged nine, ten, seven and five third-party institutions with requisite licenses to conduct the animal testing in accordance with the applicable requirements of relevant laws, with expenses amounting to RMB3.0 million, RMB2.4 million, RMB2.3 million and RMB0.5 million, respectively. We did not conduct any animal testing directly in the development of our products during the Track Record Period and up to the Latest Practicable Date. As advised by our PRC Legal Advisors, we are compliant with the relevant laws and regulations in this regard.

We have implemented the following internal control measures to ensure the compliance of animal testing and reduce ESG-related risks:

- (i) When engaging third-party animal testing institutions, we normally conduct a background check to ensure they are competent institutions with qualification such as China Metrology Accreditation that recognized by the authorities.
- (ii) We have formulated a detailed protocol which specifies the goals and requirements, and further send the protocol to the institutions we engage to evaluate the feasibility and the cost related to such studies.
- (iii) The testing institution will be responsible for the preparation and monitoring of animals during and after performing animal testing.
- (iv) We believe animal testing can help us identify potential risks and improve our product safety.
- (v) Based on the animal testing results, we will then confirm our product design or ensure its safety to our customers.

In addition, we have been closely monitoring the legislation development of animal testing and proactively exploring other research methods to replace the use of animal testing. We intend to use the alternative technologies once they become mature.

---

## BUSINESS

---

### *ESG-related risks and opportunities*

Climate-related issues are among our key agenda. Supervised by our Board, we actively identify and monitor climate-related risks and opportunities over the short, medium and long term and we seek to incorporate such climate-related issues into our businesses, strategy and financial planning. For example, we continuously reduce energy consumption and reduce greenhouse gas emissions through energy-saving transformation.

We will incorporate physical and transition risk analysis into risk assessment processes. If the risks and opportunities are considered to be material, we will incorporate them into the strategy and financial planning process. We also aim to minimize the transition risk in the long term through enhanced energy efficiency, adoption of green supply chain and environment friendly ingredients and consumption of renewable energy, and we are committed to our emission reduction targets. This does not only reduce our exposure to transition risk but also improves the environmental performance of our products.

### **SOCIAL AND COMMUNITY MATTERS**

Our achievements and initiatives in social and community responsibility include the following:

#### **Disaster and Epidemic Donation**

From the COVID-19 epidemic to the floods in Zhengzhou, Henan, we have been committed to assisting in post-disaster recovery. We called on the cosmetics industry to take action to support the frontline medical staff and initiated the industry’s first donation of RMB1 million to Wuhan to make our contribution to the control of the COVID-19 epidemic. We strictly observed the governmental hygiene requirement and regulations to resume work safely and contributed to local epidemic control and economic recovery. In July 2021, Zhengzhou was severely flooded. We immediately donated relief materials valued RMB5 million, including disinfection and cleaning supplies and sunscreen products, to the disaster-affected areas, providing disaster-stricken families with protection. In addition, *Baby Elephant* was awarded the Charity Brand Award of The Year by Alibaba Foundation in 2021, and *KANS* was awarded the Dedication Award by The Red Cross Society of China in 2021.

#### **Environmental and Social Sustainability**

We are committed to environmental and social sustainability as an important value of our business. We prioritize environmental protection and reutilization factors in our product research and development process. For example, the Silver Birch Soothing Mask launched by our *One Leaf* brand is made of a super absorbent paper pulp mask cloth, which is partially degradable and reusable. *One Leaf* also launched the Lactobacillus Activating Peach Mask, whose mask cloth is 90% degradable in the natural environment. We also strictly comply with production processes in our supply chain and implement measures such as sludge emission reduction and wastewater treatment. We launched photovoltaic construction projects to build a smart low-carbon society.

## BUSINESS

### Education

We are keen on providing education, support and opportunities to children from different communities. For example, we have participated in the public welfare projects held by the China Association of Fragrance, Flavor and Cosmetics Industries for five consecutive years. We donated school bags and skincare products to children in remote areas and promoted personal hygiene knowledge among children. We also sponsored various children’s cultural activities and events. For example, we cooperated with the National College Student Advertising Art Competition by providing themes of the competition and helped over 1.1 million college students across the country to display and realize their artistic creations in 2021.

### PROPERTIES

#### Owned Properties

We own and occupy certain land parcels and buildings in the PRC and Japan for our business operations. These owned properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. As of the Latest Practicable Date, we owned three land parcels with a total site area of 121,876.6 sq.m. and three properties with a total gross floor area of 166,925.4 sq.m. in the PRC, and three parcels of land with a total site area of approximately 23,578.64 sq.m. together with ten buildings with a total gross floor area of 10,749.0 sq.m. in Japan. These properties are primarily used as our production facilities, warehouses and offices to support our business operations.

The table below sets forth information on our legally owned properties as of the Latest Practicable Date:

No.	Location	Total site area (sq.m.)	Total gross floor area (sq.m.)
1	99 Xiaoye Road, Fengxian, Shanghai	66,764.3	75,314.6
2	385 Xiaoye Road, Fengxian, Shanghai	33,327.0	61,697.5
3	128 East Jinling Road, Suzhou, Jiangsu	21,785.3	29,913.3
4	Lot Nos. 50-4, 50-7 & 50-19, Taiheidai, Shoou-cho, Katsuta-gun, Okayama	23,578.64	10,749.0

We have obtained the land use right certificates and building ownership certificates and permits for our owned land parcels and properties in the PRC. We have obtained the land and building ownership certificates for our owned land parcels and properties in Japan.

Pursuant to Chapter 5 of the Listing Rules and section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, save and except for the disclosure set forth in Appendix III to this document, this document is



---

## BUSINESS

---

exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance (Miscellaneous Provisions) in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance (Miscellaneous Provisions) which requires a valuation report with respect to all our Group’s interests in land or buildings. Pursuant to Rule 5.01A and 5.01B of the Listing Rules, if the carrying amount (as defined in Rule 5.01(1) of the Listing Rules) of a property interest (as defined in Rule 5.01(3) of the Listing Rules) is or is above 15% of its total assets (as defined in Rule 5.01(4) of the Listing Rules), this document must include the full text of a valuation report for such property interest. As the carrying amount of our above owned property exceeds 15% of our total assets as at June 30, 2022, being the date of which the most recent audited consolidated statements of the financial position of our Group, in order to comply with Rule 5.01B(2)(a) of the Listing Rules, a property valuation report by AVISTA Valuation Advisory Limited, an independent property valuer, in respect of our above owned property is included in Appendix III to this document. As of June 30, 2022, one of our above owned properties, the Fengxian Plant, had a carrying amount that was more than 15% of our consolidated total assets. See “Appendix III – Property Valuation Report.”

Pursuant to Rule 5.01B(2) of the Listing Rules, our Directors confirm that:

- we do not have any property interest that forms part of property activities as of June 30, 2022; and
- save and except for the disclosure set forth in Appendix III to this document, no single property interest that forms part of non-property activities has a carrying amount of 15% or more of our total assets as of June 30, 2022.

### **Leased Properties**

As of June 30, 2022, we leased 12 properties with an aggregate gross floor area of approximately 17,741.9 sq.m. in the PRC for use as our offices, operations and warehouses.

### **Lease Agreement**

As of June 30, 2022, lessors of our five leased properties not provided us with their property ownership certificates or proof of authorizations from the property owners, with an aggregate gross floor area of approximately 819.7 sq.m., representing approximately 4.6% of the total gross floor area of the leased properties in the PRC. As advised by our PRC Legal Advisors, without valid property ownership certificates or proof of authorizations from the property owners, our use of these leased properties may not be valid or may be affected by third parties’ claims or challenges against the lease. In addition, if the lessors do not have the requisite rights to lease these properties, the relevant lease agreements may be deemed invalid, and, as a result, we may be required to vacate these leased properties and relocate our operation sites. However, in the event that we are unable to continue using these leased properties, based on the advice of our PRC Legal Advisors, we, as the tenant, will not need to continue to pay the rents unless otherwise agreed between the tenant and the lessor. Additionally, it is the lessors’ responsibility to obtain the property ownership certificates to enter into the leases, and, as a tenant, we will not be subject to any administrative punishment or penalties by the real estate authorities in this regard. These statutory protections significantly mitigate our risks arising from these leased properties due to claims for vacation from the legal owners of the properties.

---

## BUSINESS

---

### Lease Registration

Pursuant to the applicable PRC laws and regulations, property lease agreements must be registered with the local branch of the Ministry of Housing and Urban-Rural Development of the PRC. As of the Latest Practicable Date, we have obtained the registration certificates for the lease of four leased properties. Our PRC Legal Advisors advised us that the lack of registration does not affect the validity and enforceability of the lease agreement, but we may be subject to fines from RMB1,000 to RMB10,000 for each such lease agreement for failure to register.

Having considered the foregoing, our Directors believe that the non-registrations of leases described above will not, individually or in the aggregate, materially affect our business and results of operations, on the grounds that we were advised by our PRC Legal Advisors that, if the lease registration can be completed in accordance with relevant laws and regulations within a reasonable time from the date of application or the prescribed time limit ordered by the competent governmental authorities, the risk of governmental authorities imposing a material penalty on us with respect to these leased properties is remote.

### LICENSES, APPROVALS AND PERMITS

We are required to maintain various licenses, approvals and permits to operate our business. Our material licenses and permits include the cosmetics product license and the disinfectant standard product license. Our legal department is responsible for monitoring the validity status of our licenses and permits and making timely applications for renewal to the relevant government authorities. See "Regulatory Overview" for further information on the laws and regulations that we are subject to.

As of the Latest Practicable Date, as advised by our PRC Legal Advisors, we had obtained all material licenses and permits required for our business operations in the PRC, and such licenses and permits had remained in full effect. The successful renewal of our existing licenses, and permits will be subject to our fulfillment of relevant requirements. Our PRC Legal Advisors have advised us that there is no material legal impediment to renewing such licenses and permits.

### LEGAL PROCEEDINGS AND COMPLIANCE

#### Legal Proceedings

From time to time, we may become involved in legal proceedings in the ordinary course of our business. During the Track Record Period and up to the Latest Practicable Date, we had not been and were not a party to any material legal, arbitral or administrative proceedings, and we were not aware of any pending or threatened legal, arbitral or administrative proceedings against us or our Directors that could, individually or in the aggregate, have a material adverse effect on our business, financial condition, and results of operations.

---

## BUSINESS

---

### Compliance

During the Track Record Period and up to the Latest Practicable Date, we had not been and were not involved in any material incidents of non-compliance. Our Directors are of the view that, we had complied, in all material respects, with all relevant laws and regulations in the PRC during the Track Record Period and up to the Latest Practicable Date.

### RISK MANAGEMENT AND INTERNAL CONTROL

We are exposed to various risks during our operations. We have established risk management systems with relevant policies and procedures that we believe are appropriate for our business operations. Our policies and procedures relate to managing our procurement and production, as well as monitoring our sales performance and product quality.

To monitor the ongoing implementation of our risk management policies and corporate governance measures after the [REDACTED], we have adopted, or will continue to adopt, among other things, the following risk management measures:

- establish an Audit Committee to review and supervise our financial reporting process and internal control system. For the qualifications and experience of the committee members, see “Directors, Supervisors and Senior Management;”
- adopt various policies to ensure compliance with the Listing Rules, including, but not limited to, aspects related to risk management, connected transactions and information disclosure;
- provide anti-corruption and anti-bribery compliance training periodically to our senior management and employees to enhance their knowledge and compliance with applicable laws and regulations, and include relevant policies against non-compliance in employee handbooks;
- organize training sessions for our Directors and senior management in respect of the relevant requirements of the Listing Rules and duties of directors of companies listed in Hong Kong;
- enhance our reporting and records system for production facilities, including centralizing their quality control and safety management systems and conducting regular inspections of the facilities;
- establish a set of emergency procedures in the event of major quality-related issues; and
- provide enhanced training programs on quality assurance and product safety procedures.

## BUSINESS

### AWARDS AND RECOGNITION

During the Track Record Period, we received awards and recognition in respect of our products, technology and innovation, significant ones of which are set forth below:

Award/Recognition	Award Year	Awarding Institution/Authority	Entity/Product
Creator Product Innovation Awards-Best Innovation on Technology (造物者產品創新大獎-最佳技術創新)	2022	TopMarketing	KANS (Double Serum)
Creator Product Innovation Awards-Best Innovation on Package Design (造物者產品創新大獎-最佳包裝設計創新)	2022	TopMarketing	<i>One Leaf</i> (Repair and Embellish Essence)
Creator Product Innovation Awards-Best Innovation on Raw Materials (Ingredients) (造物者產品創新大獎-最佳原材料創新(成分))	2022	TopMarketing	<i>Baby Elephant</i> (Ultra Protection Cream)
Consumers’ Most Preferred Domestic Cosmetic Brand (最受用戶偏愛國妝品牌)	2022	User Talk	KANS and <i>One Leaf</i>
Product Design 2021 (2021德國紅點產品設計大獎)	2021	Red Dot	KANS (Red Capsule)
2020 Beauty Evolution Awards (2020年度新銳榜)	2021	Beauty Evolution	KANS (Gold Honeycomb Active Mask)
Growth 50 of 2021 Annual Growth Power of China’s New Customer Brands (2021中國新消費品牌Growth50榜單年度增長力品牌)	2021	CNBData	<i>Baby Elephant</i>
Bronze Award for Best Event Marketing Innovation (最佳事件營銷創新銅獎)	2021	MEIHUA.com	KANS
Golden Baby Awards – The Most Influential Brand (金嬰獎•最具影響力品牌)	2021	Tmall	<i>Baby Elephant</i>
Industry Pioneer Award of Maternity and Baby Toiletries (母嬰洗護行業領袖獎)	2021	JD.com	<i>Baby Elephant</i>
Tmall Beauty Awards – 2020 Scientific and Technological Innovation Contribution Award of The Year (天貓金妝獎•2020年度科技創新貢獻品牌)	2020	Tmall	Our Group

## BUSINESS

Award/Recognition	Award Year	Awarding Institution/Authority	Entity/Product
2020 Tmall Maternity and Childcare List Awards – Outstanding New Product Awards of The Year (2020天貓母嬰親子榜 – 年度傑出新品獎)	2020	Tmall	<i>Baby Elephant</i> (Antarctic Cream)
2020 China’s New Consumer Business Power – Product Power Award of The Year (2020中國新消費商業力量•年度產品力獎)	2020	CNBData	Our Group
Consumers’ Top Ten Preferred Brands – Skin Care Products (消費者十大首選品牌 – 護膚類)	2020	Kantar	KANS
Consumers’ Top Ten Preferred Brands – Skin Care Products (消費者十大首選品牌 – 護膚類)	2020	Kantar	<i>One Leaf</i>
Consumers’ Top Ten Preferred Brands – Skin Care Products (消費者十大首選品牌 – 護膚類)	2019	Kantar	KANS
Watsons Health, Wellness and Beauty Award – No. 1 of Maternity and Childcare Category (屈臣氏健康美麗大賞 – 母嬰品類 NO.1)	2019	Watsons	<i>Baby Elephant</i>
Fashion Pioneer Award “Fashion Brand Award” (2019時尚先鋒大獎“時尚品牌大獎”)	2019	Shanghai Fashion City Promotion Center	KANS