The following discussion and our analysis should be read in conjunction with our consolidated financial statements included in "Appendix I – Accountants' Report", together with the accompanying notes. Our consolidated financial statements have been prepared in accordance with IFRS.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this Document, including, but not limited to, the sections headed "Risk Factors" and "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 innovation spirit graved in our minds, we focus on self-development of our products and R&D work. With a long operation history of approximately 20 years, today we are one of the front runners in China's cosmetics industry possessing comprehensive multi-brand development and operation capability and expertise, and we have successfully built a variety of popular cosmetic brands. According to the Frost & Sullivan Report, in 2021, we were the only Chinese domestic cosmetics company with two skincare brands 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.

We deem R&D capabilities as the backbone of our company, fueling our development and innovation. As a pioneer among Chinese domestic cosmetic companies, we started R&D in 2003 and have since insisted on product self-development. Our R&D department is 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 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. In the six months ended June 30, 2022, our self-developed products contributing over 97% of our revenue during the same period.

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 cosmetic 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, greatly higher than the growth of the global market at a 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 evolvement 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 increasing popularity of Chinese domestic cosmetic brands among young consumers would benefit our development in the long run.

In 2019, 2020 and 2021, our results of operations achieved stable growth. Our revenue increased steadily by 17.6% from RMB2,874.3 million in 2019 to RMB3,381.6 million in 2020, and further increased by 7.0% to RMB3,618.9 million in 2021, primarily in relation to the increase of revenue under *KANS* and *Baby Elephant*. Our revenue decreased by 31.1% from RMB1,831.7 million in the six months ended June 30, 2021 to RMB1,262.4 million in the six months ended June 30, 2022, primarily as a result of the impact of COVID-19 on our production and delivery in Shanghai. Our gross profit increased by 25.0% from RMB1,749.4 million in 2019 to RMB2,186.6 million in 2020 and further increased by 8.0% to RMB2,360.6 million in 2021 primarily in line with the increase of our revenue, which had outpaced the increase of our cost of sales during the same period. Our gross profit decreased by 32.8% from RMB1,219.8 million in the six months ended June 30, 2021 to RMB819.5 million in the six months ended June 30, 2022, primarily in line with the decrease of our revenue. Our gross profit margins were 60.9%, 64.7%, 65.2%, 66.6% and 64.9% in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, primarily reflecting the changes in gross profit margins of *KANS*, *One Leaf*, and *Baby Elephant*.

We recorded accumulated losses of RMB556.5 million as of January 1, 2019 primarily to the (i) RMB91.5 million share-based compensation expense in relation to our adoption of various share incentive schemes since July 2016 to grant incentive shares to certain employees; (ii) RMB154.4 million interest on other liabilities in relation to the interest expenses on the equity investments from Series A investors with redemption rights (refer to Notes 8 and 29 of the Accountants' Report attached as Appendix I to this document for details); (iii) RMB156.7 million impairment loss on trade receivables due from certain distributor, from which we have difficulties to collect payments and have suffered bad debt loses. To explore our online business in an increasingly prominent e-commerce business environment, we decided to integrate internal resources and collaborate with personnel experienced in e-commerce business development and operation to expand our presence on major e-commerce platforms. As a result, Jiangsu Suxueda Ecommerce Co. Ltd. (江蘇蘇雪達電子商務有限公司) ("**Jiangsu Suxueda**") was established in January 2013 as an online distributor to cover *Tmall* platform, with 51% equity interests controlled by Mr. Lyu, our Controlling Shareholder, and 49% equity interests owned by an independent third party ("**Ex-Employee**"), who served as an employee of the Company before establishing Jiangsu Suxueda with Mr. Lyu and had certain experience in promoting and managing cosmetics brands and products through online platforms and extensive channel resources. Other than Suxueda, there were three companies, namely Beijing

Beitongsihai, Guangzhou Nanguan and Shanghai Qumei E-commerce Co., Ltd., set up with similar arrangements prior to the start of the Track Record Period. See "Business – Customers." Mr. Lyu also transferred 1% shares of Hongyin Investment to the Ex-Employee to incentivize his performance and, as of the Latest Practicable Date, had initiated proceedings to enforce his contractual rights to purchase such incentive shares from the Ex-Employee due to his breach of laws. Since the establishment of Jiangsu Suxueda up to 2017, to leverage his experience and expertise in operating e-commerce business as an emerging forms of business at that time, the Ex-Employee was designated as the general manager of Jiangsu Suxueda with adequate discretion to carry out the business planning and responsible for its overall business operations. In view of the then rapid growth of the E-commerce industry and the then business needs of Jiangsu Suxueda, we conducted certain credit sales to Jiangsu Suxueda between 2013 and 2017, and recorded trade receivables due from Jiangsu Suxueda. In the second half of 2017, we recouped the *Tmall* business operated by Jiangsu Suxueda due to difference with the Ex-Employee in direction of future cooperation, but had not been able to recover in full the trade receivables due from Jiangsu Suxueda due to financial misconduct of the Ex-Employee. As a result, we had made full bad debt losses for its trade receivables due from Jiangsu Suxueda; and (iv) RMB114.7 million losses from color cosmetics business as we decided to cease the operation of color cosmetics business from the end of 2018 to focus on the development of skincare and maternity and childcare products and have suffered some losses in relation to this business adjustment. The aggregate amount of these items accounted for RMB517.2 million of the accumulated losses of RMB556.5 million as of January 1, 2019. None of these items is related to our major business during the Track Record Period.

BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), which comprise all standards and interpretations approved by the IASB.

All IFRSs effective for the accounting period commencing from January 1, 2022, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods.

The Historical Financial Information has been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value. Assets classified as held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 25.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our financial condition and results of operations have been, and are expected to continue to be, materially affected by a number of factors, some of which are outside of our control, including, without limitation, the following:

Macro economy environment and the development of the cosmetics industry in China

Our business and results of operations are impacted by general factors affecting the broader PRC cosmetic industries. China has the second largest cosmetic market in the world. According to the Frost & Sullivan Report, the cosmetic market in China showed rapid growth from 2015 to 2021 due to the development of the economy in China as well as the increase of consumption expenditure of individuals. The market size of the cosmetic market in China, in terms of retail sales, grew from RMB480.1 billion in 2015 to RMB946.8 billion in 2021, representing a CAGR of 12.0%, while during the same period, the market size of the global cosmetic market grew at a CAGR of 2.2%. China has the fastest growing cosmetics industry among all major economies in the world. According to Frost & Sullivan, the market size of the cosmetic market in China is expected to reach RMB1,482.2 billion in terms of retail sales in 2026, growing at a CAGR of 9.4% from 2021. The continuous development of China's cosmetics industry and our business are subject to a number of factors, including, without limitation:

- the development of China's macro economy;
- change in per capita disposable income and per capita expenditure on cosmetic products;
- evolving consumption patterns and habits in China;
- rising skincare awareness and consciousness in daily life;
- continuous growth and evolving online and offline competitive landscape of China's cosmetics industry; and
- governmental policies, initiatives and incentives affecting the cosmetic industries.

Our Multi-Brand Strategy Empowered by R&D capabilities

As a pioneer to adopt multi-brand strategy in China's cosmetics industry, we operate multiple cosmetic brands targeting various groups of consumers with different needs. During the Track Record Period, we primarily derived revenue from three major brands, namely, *KANS*, *One Leaf* and *Baby Elephant*. We launched *KANS* and position it as a go-to brand focusing on evolving anti-aging needs of females of various age groups. We launched *One Leaf* as a leading botanical skincare brand focusing on natural elements to explore the idea of clean beauty. We launched *Baby Elephant* as a brand to keep each baby accompany during its happy and healthy growth using advanced technologies developed in our Japanese R&D center. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, revenue generated from our three major brands accounted for 86.6%, 91.8%, 92.2%, 91.2% and 93.0% of our total revenue, respectively. Apart from our three established brands, we have also successfully launched and developed several other new brands to address different types of demands of consumers, primarily including *BIO-G*, our signature brand designed for sensitive skin type, *asnami*, a maternity skincare brand for sensitive skins originated from Japan, as well as *KYOCA*, our signature hair care brand to provide consumers with powerful solutions for hair strengthening.

The table below sets forth our revenue and gross profit margins by brands during the Track Record Period.

Revenue and gross profit margin by brands

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Revenue	Gross Profit Margin (%)	Revenue	Gross Profit Margin (%)	Revenue	Gross Profit Margin (%)	Revenue	Gross Profit Margin (%)	Revenue	Gross Profit Margin (%)
	(RMB in millions, except percentages)									
							(Unaudited)			
KANS	919.7	59.6	1,332.5	66.9	1,631.1	66.4	796.8	67.7	603.6	66.5
One Leaf	1,050.7	61.7	1,007.4	63.9	830.7	65.5	468.3	67.3	264.5	62.6
Baby Elephant	517.2	65.2	765.6	67.8	871.2	68.8	404.9	70.5	306.1	66.2
Other brands(1)	386.7	55.7	276.1	48.0	285.9	46.9	161.7	49.6	88.2	56.2
Total	2,874.3	60.9	3,381.6	64.7	3,618.9	65.2	1,831.7	66.6	1,262.4	64.9

Note:

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

We believe that our superior R&D capabilities lay down a solid foundation for our persistency on execution of multi-brand strategy. We seek to stay at the frontier of the changing cosmetics industry and strive to identify and address the evolving needs of consumers, through strategically developing, launching and operating new brands to cover the relevant market segments with huge growth potentials. Our strong R&D in-house independent capabilities play a pivotal role in developing and applying more effective formula and ingredients, fueling the growth of our new brands. As of the Latest Practicable Date, our new brands and brand pipeline included *newpage, ARMIYO* and *TAZU*. We believe multi-brand strategy is critical to our steady performance and future growth.

Expanding and Maintaining Our Sales and Distribution Networks

Our comprehensive online and offline retailers and distribution networks have enabled us to effectively reach a broad consumer base and gain significant exposure. Over the past two decades, we have accumulated profound experience and expertise in dynamically adapting to the fast evolvement of sales channels in China, facilitating our formulation and execution of future sales strategies. During the Track Record Period, we offer our products through a variety of online and offline channels. We endeavor to capture business opportunities coming along with the emerging sales channels, such as *Douyin* and *Kuaishou*. Changes in our sales channels mix also affect our overall gross margin and profitability.

Our online channels include online direct sales, sales to online retailers, and sales to online distributors. We have established stable business relationships with almost all major e-commerce platforms in China, and proactively explore cooperation with emerging online sales channels to ensure efficient layout of our products on the emerging channels. Under our online direct sales model, we primarily sell products directly to end consumers through our self-operated online stores on e-commerce platforms, and closely cooperate with them to obtain deeper insight into consumer needs and conduct promotion activities primarily including *Tmall*, *Douyin*, *JD.com* and *Kuaishou*. Under the model of sales to online retailers, we primarily sell products to reputable online e-commerce platforms, and closely cooperate with them to obtain deeper insight into consumer needs and conduct promotion activities. In 2019, 2020, 2021 and the six months ended June 30, 2022, we cooperated with 89, 136, 108 and 59 online retailers, respectively. In 2019, 2020, 2021 and the six months ended June 30, 2022, we also engaged 166, 140, 128 and 75 online distributors, respectively to further expand our online sales.

Our offline channels include sales to offline retailers and offline distribution. Our extensive offline retailers and distribution networks remain a critical part of our sales and distribution networks and we value the face-to-face interactions with our consumers and help our products effectively penetrate different tiers of cities across China. Display of our products through offline channels would further increase the exposure and awareness of our brands. Our offline retailer customers primarily consist of well-known supermarkets and cosmetic chain stores, who further sell the products to end customers. As of December 31, 2019, 2020, 2021 and June 30, 2022, we had 90, 64, 57 and 29 offline retailers, respectively. In addition, 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 local supermarkets and cosmetic stores. In 2019, 2020, 2021 and the six months ended June 30, 2022, we engaged 849, 725, 585 and 429 offline distributors, respectively.

Our Ability to Effectively Conduct Branding and Marketing Activities

We have adopted an all-encompassing marketing strategy focusing on effectively reaching and attract potential consumers. We constantly improve our marketing capabilities to increase the exposure of our brands and products on media platforms of latest popularity, especially among young consumers. Specifically, online marketing has always been one of our strategic priorities. Our online marketing activities on e-commerce platforms provide us with opportunities to effectively interact with consumers, and allow us to promptly respond to changes in consumer demand. We also closely follow the trendy marketing formats, such as experience sharing on social media platforms, to enforce a young image of our brand in the minds of consumers. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, our marketing and promotion expenses accounted for 27.9%, 31.6%, 28.6%, 27.9% and 32.5% of our total revenue, respectively. We seek to adopt various measures to more efficiently and effectively conduct marketing activities, such as formulating budgets based on our historical experience, conducting regular analysis of marketing campaigns and making adjustment accordingly. Effective marketing and branding activities could increase consumer demands for our products, thereby increasing our revenue in the short run and converting consumers to supporters of our brands that will bring us sustainable profit in the long run.

Supply Chain Management and Quality Control Capabilities

We operate a comprehensive supply chain system covering our whole production process including raw materials procurement, production, quality check and delivery.

As of the Latest Practicable Date, we had two plants, one located in Shanghai, China and the other located in Okayama, Japan. Our production bases are automated equipped with flexible production lines, enabling us to produce almost all of our products instead of outsourcing to third parties, ensuring stable output of quality products. Our self-owned production plants also enable us to achieve flexible production, allowing us to support the efficient development and launch of new products to quickly respond to emerging market segments and better meet demands of consumers. We believe that product quality is essential to establish customer trust and confidence. By adopting international standards in all our production plants, we seek to provide high-quality products to consolidate our industry position and market share.

Our ability to effectively manage and integrate business partners and resources along our supply chain is the key to our business operation and results of operations. We remain stable cooperation with a number of raw material suppliers to ensure adequate raw materials supply. Leveraging our profound industry experience, we formulate procurement plan and manage inventories to minimize risks related to shortage of raw materials. We aim to further enhance our supply chain management capabilities to improve our operation and management efficiencies, and ultimately improve our financial performance.

IMPACT OF COVID-19 OUTBREAK

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

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

Sales and Marketing

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Production

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

Logistics

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

Impacts on Our Profit in 2022

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments related to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and operational results. Our management continually evaluates such estimates, assumptions and judgments based on past experience and other factors, including industry practices and expectations of future events which are deemed to be reasonable under the circumstances. There has not been any material deviation from our management's estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes to these estimates and assumptions in the foreseeable future.

We set forth below accounting policies which we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements. Our significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in details in Notes 2 and 3 to the Accountant's Report in Appendix I to this Document.

Revenue Recognition

Revenue from contracts with customers

For revenue from contracts with customers, revenue is recognized when control of goods or services is transferred to customers at an amount that reflects the consideration which our Group expects to be entitled to in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated which our Group will be entitled to in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between our Group and the customer at contract inception. When the contract contains a financing component which provides our Group with a significant financial benefit for more than one year, revenue recognized under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Sale of goods

Revenue from the sale of goods is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods or upon the confirmation by the customer.

Rights of return

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognized. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognized for the right to recover products from a customer.

Other income

Interest income is recognized on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognized when the shareholders' right to receive the payment has been established and it is probable that the economic benefits associated with the dividend will flow to our Group and the amount of the dividend can be measured reliably.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, we recognize such parts as individual assets with specific useful lives and depreciate them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment, including any significant part initially recognized, is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Right-of-use assets

Right-of-use assets are recognized at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Lease liabilities

Lease liabilities are recognized at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by us and payments of penalties for termination of a lease, if the lease term reflects our exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognized as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, we use our incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or a rate) or a change in assessment of an option to purchase the underlying asset.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a weighted average cost basis, and, in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings or payables, as appropriate. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. Our financial liabilities include trade payables, other payables, interest-bearing bank and other borrowings and lease liabilities.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortized cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

Contract liabilities

A contract liability is recognized when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognized as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of each of the Track Record Period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Share-based Payments

Our Company operates certain incentive shares schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of our operations. Employees (including directors) of our Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after November 7, 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model. See Note 31 of Appendix I to this document.

The cost of equity-settled transactions is recognized in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each of the Track Record Period until the vesting date reflects the extent to which the vesting period has expired and our best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the profit or loss for a period represents the movement in the cumulative expense recognized as of the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of our best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognized. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognized for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is canceled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the canceled award, and is designated as a replacement award on the date that it is granted, the canceled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Current and Deferred Income Tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

(i) Current income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Track Record Period, taking into consideration interpretations and practices prevailing in the countries in which we operate.

(ii) Deferred income tax

Deferred tax is provided, using the liability method, on all temporary differences at the end of each of the Track Record Period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses, can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each of the Track Record Period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognized deferred tax assets are reassessed at the end of each of the Track Record Period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of each of the Track Record Period.

Deferred tax assets and deferred tax liabilities are offset if and only if our Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS

The following table sets forth a summary of our consolidated statements of profit and loss for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	(RMB in millions)				
				(Unaudited)	
Revenue	2,874.3	3,381.6	3,618.9	1,831.7	1,262.4
Cost of sales	(1,124.9)	(1,195.0)	(1,258.2)	(611.9)	(442.9)
Gross profit	1,749.4	2,186.6	2,360.6	1,219.8	819.5
Other income and gains	134.5	75.4	91.4	17.8	59.3
Selling and distribution expenses	(1,324.9)	(1,535.8)	(1,572.3)	(788.0)	(607.9)
Administrative expenses	(225.5)	(263.7)	(261.7)	(129.2)	(102.6)
Research and development costs	(82.9)	(77.4)	(104.7)	(49.8)	(51.9)
Impairment losses on financial assets, net	(34.8)	4.6	(6.3)	(3.0)	(0.7)
Other expenses	(81.5)	(71.5)	(77.8)	(50.9)	(27.1)
Finance costs	(81.9)	(40.5)	(20.9)	(13.2)	(9.8)
Share of profits and losses of associates	0.5	1.9	(0.1)	0.4	(0.4)
Profit before tax	52.9	279.6	408.1	204.1	78.4
Income tax credit/(expense)	6.5	(76.4)	(69.4)	(29.8)	(15.6)
Profit for the year/period	59.4	203.2	338.8	174.3	62.8
Attributable to:					
Owners of the parent	62.6	203.5	338.9	174.6	65.3
Non-controlling interests	(3.2)	(0.3)	(0.1)	(0.3)	(2.6)
	59.4	203.2	338.8	174.3	62.8

NON-IFRS FINANCIAL MEASURE

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

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

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

Notes:

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

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

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

Our adjusted profit (Non-IFRS measures) for the year increased significantly from RMB114.3 million in 2019 to RMB264.9 million in 2020, and further increased by 47.4% to RMB390.5 million in 2021 in line with the increase of our gross profit. Our adjusted profit (Non-IFRS measures) for the period decreased by 59.2% from RMB205.4 million in the six months ended June 30, 2021 to RMB83.9 million in the six months ended June 30, 2022.

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

During the Track Record Period, we generated revenue primarily from the manufacture and sale of cosmetic products. Our revenue increased steadily by 17.6% from RMB2,874.3 million in 2019 to RMB3,381.6 million in 2020, and by 7.0% to RMB3,618.9 million in 2021 primarily in relation to our increase of revenue under *KANS* and *Baby Elephant*. Our revenue decreased by 31.1% from RMB1,831.7 million in the six months ended June 30, 2021 to RMB1,262.4 million in the six months ended June 30, 2022 primarily as a result of the temporary impacts of COVID-19 on (i) our supply chain ranging from sales, production, to delivery, which led to certain customer demands unmet for a short period. Specifically, our delivery of products to our retailer and distributor customers were affected during March, April and May, 2022 as we could not ship products from our Fengxian Plant due to transportation restrictions during the same period of time. While certain of our retailer customers maintained sufficient inventories of our products and were not materially affected by our temporary suspended operations, we have postponed the delivery of products to most of our distributors. As a result, we did not meet all customer demands for our products as we have experienced an increase in the amount of unfulfilled orders to online and offline retailers and distributors in the six months ended June 30, 2022 compared with the same period during the previous year. As we operate in a highly competitive industry, temporary shortfall in meeting customer demands might cause customers to transit to other purchase options in the short term. We recorded an increasing amount of orders canceled by our customers in the six months ended June 30, 2022 compared with the six months ended June 30, 2021; (ii) our marketing efficiencies as our sales and marketing staff's capabilities to conduct offline marketing activities, such as customer visit and market research, were limited due to travel restrictions; and (iii) our new product development and existing product upgrades as our R&D activities were affected during the same time, which, in aggregate, affected the market demands for our products. According to Frost & Sullivan, cosmetic companies, especially cosmetic companies based in Shanghai, were adversely affected by the resurgence of COVID-19 during the same time. We plan to reactivate our customers and enhance our sales and increase our revenue by continuously investing in R&D activities to launch new products and upgrade existing products to meet customer demands, expanding our sales channels, launching online and offline marketing campaigns and offering high-quality customer services.

Revenue by brands

We operate multiple brands targeting various groups of consumers with different needs. During the Track Record Period, our revenue was primarily derived from our three major brands, namely *KANS*, *One Leaf*, and *Baby Elephant*. The following table sets forth a breakdown of 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[1]	386.7	13.4	276.1	8.2	285.9	7.8	161.7	8.8	88.2	7.0
Total	2,874.3	100.0	3,381.6	100.0	3,618.9	100.0	1,831.7	100.0	1,262.4	100.0

Note:

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

Revenue generated from our *KANS* brand accounted for 32.0%, 39.4%, 45.1%, 43.5% and 47.8% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. Revenue under our *One Leaf* brand accounted for 36.6%, 29.8%, 23.0%, 25.6% and 21.0% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. Revenue under our *Baby Elephant* brand accounted for 18.0%, 22.6%, 24.1%, 22.1% and 24.2% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. Revenue under our other brands accounted for 13.4%, 8.2%, 7.8%, 8.8% and 7.0% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. Revenue generated from other brands fluctuated with brands such as *BIO-G* and *asnami* during the Track Record Period.

Revenue by sales channel

During the Track Record Period, we sold our products through online and offline sales and distribution networks. We sold our products primarily via (i) online channels, including online direct sales, sales to online retailers, and sales to online distributors, (ii) offline channels, including sales to offline retailers and sales to offline distributors.

The following table sets forth a breakdown of 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
	(RMB in millions, except percentages)									
							(Unaudited)			
Online channels	1,504.8	52.4	2,542.6	75.2	2,697.9	74.6	1,334.9	73.4	931.2	73.8
Online direct sales	890.8	31.0	1,578.1	46.7	1,532.6	42.4	750.7	41.0	485.7	38.5
Sales to online retailers	50.0	1.8	176.0	5.2	514.0	14.2	271.9	14.8	252.2	20.0
Sales to online distributors	564.0	19.6	788.5	23.3	651.3	18.0	322.3	17.6	193.3	15.3
Offline channels	1,313.7	45.7	770.2	22.8	829.4	22.9	439.4	24.0	310.9	24.6
Sales to offline retailers	662.9	23.1	386.5	11.4	471.4	13.0	240.7	13.1	179.5	14.2
Sales to offline distributors	650.8	22.6	383.7	11.4	358.0	9.9	198.7	10.9	131.4	10.4
Others(1)	55.8	1.9	68.8	2.0	91.6	2.5	47.4	2.6	20.3	1.6
Total	2,874.3	100.0	3,381.6	100.0	3,618.9	100.0	1,831.7	100.0	1,262.4	100.0

Note:

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

Revenue via our online channels accounted for 52.4%, 75.2%, 74.6%, 73.4% and 73.8% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. Revenue via our online channels in absolute amounts showed steady growth in 2019, 2020 and 2021 as we strategically expanded our online channels, including online direct sales on various e-commerce platforms, sales to online retailers, and sales to online distributors, showing our efforts to seize more market shares on online channels in an increasingly prominent e-commerce environment, while revenue via our online channels in absolute amounts decreased from the six months ended June 30, 2021 to the six months ended June 30, 2022 mainly due to the impact of COVID-19 on our production and delivery in Shanghai during the same period.

Revenue via our offline channels accounted for 45.7%, 22.8%, 22.9%, 24.0% and 24.6% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022. Revenue via our offline channels decreased from 2019 to 2020 mainly due to the impact of COVID-19 on offline commercial activities and increased from 2020 to 2021 as offline commercial activities recovered gradually in 2021. Revenue via our offline channels decreased from the six months ended June 30, 2021 to the six months ended June 30, 2022 mainly due to the impact of COVID-19 on our production and delivery in Shanghai during the same period.

Revenue via other channels, primarily referring to ODM, accounted for 1.9%, 2.0%, 2.5%, 2.6% and 1.6% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively, which was relatively stable.

Online direct sales. Revenue increased by 77.2% from RMB890.8 million in 2019 to RMB1,578.1 million in 2020 primarily due to our efforts to enhance our deployment of self-operated platforms such as *Tmall* and *JD.com* as well as emerging e-commerce platforms, such as *Douyin* and *Kuaishou*. Revenue was RMB1,578.1 million and RMB1,532.6 million in 2020 and 2021, respectively, which remained relatively stable. Revenue decreased from RMB750.7 million in the six months ended June 30, 2021 to RMB485.7 million in the six months ended June 30, 2022 primarily due to the decreased revenue generated from *Tmall* and *Kuaishou* mainly in relation to the impact of COVID-19 on our production and delivery in Shanghai.

Sales to online retailers. Revenue increased significantly from RMB50.0 million in 2019 to RMB176.0 million in 2020, and further increased significantly to RMB514.0 million in 2021, primarily due to our enhanced collaboration with online retailers such as *JD.com*, *Tmall Supermarket*, and *VIP.com* to provide products that better addressed consumers' demands. Revenue decreased slightly from RMB271.9 million in the six months ended June 30, 2021 to RMB252.2 million in the six months ended June 30, 2022 primarily due to the impact of COVID-19 on our production and delivery in Shanghai.

Sales to online distributors. Revenue increased by 39.8 % from RMB564.0 million in 2019 to RMB788.5 million in 2020, primarily due to the increasing market demand from online distribution channels primarily resulting from the increasing prominence of e-commerce market and the impact of COVID-19 on offline commercial activities. Revenue decreased by 17.4% from RMB788.5 million in 2020 to RMB651.3 million in 2021, primarily due to our dynamic adjustment of our online sales strategies to enhance our online direct sales channel and sales to online retailers to better capture consumer demands and respond to the market corresponding to the significant transformation of e-commerce industry. Revenue decreased by 40.0% from RMB322.3 million in the six months ended June 30, 2021 to RMB193.3 million in the six months ended June 30, 2022, primarily due to (i) the impact of COVID-19 on our production and delivery in Shanghai during the same period, and (ii) dynamic adjustment of our online sales strategies to enhance our sales to online retailers to better capture consumer demands and respond to the market corresponding to the significant transformation of e-commerce industry.

Sales to offline retailers. Revenue decreased by 41.7% from RMB662.9 million in 2019 to RMB386.5 million in 2020, primarily due to the impact of COVID-19 on offline commercial activities. Revenue increased by 22.0% from RMB386.5 million in 2020 to RMB471.4 million in 2021, primarily due to the offline retailers' recovery from the impact of COVID-19. Revenue decreased 25.4% from RMB240.7 million in the six months ended June 30, 2021 to RMB179.5 million in the six months ended June 30, 2022, primarily due to the impact of COVID-19 on our production and delivery in Shanghai during the same period.

Sales to offline distributors. Revenue decreased by 41.0 % from RMB650.8 million in 2019 to RMB383.7 million in 2020, primarily due to the impact of COVID-19 on offline commercial activities, and further decreased by 6.7% to RMB358.0 million primarily due to our dynamic adjustment of our selling and distribution strategies to adapt to the industry trend of the rise of direct sales model to directly develop the relationship between brands and consumers and provide more touchpoints for consumers. Revenue decreased by 33.9% from RMB198.7 million in the six months ended June 30, 2021 to RMB131.4 million in the six months ended June 30, 2022, primarily due to the impact of COVID-19 on our production and delivery in Shanghai during the same period.

Revenue by category

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

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

Note:

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

Revenue attributable to our skin care products accounted for 78.4%, 76.2%, 74.0%, 76.0% and 73.6% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. Revenue attributable to our maternity and childcare products accounted for 18.0%, 22.8%, 24.9%, 22.8% and 25.4% of our total revenue in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively.

Cost of Sales

During the Track Record Period, our cost of sales consisted of (i) raw materials, (ii) manufacturing overhead, (iii) labor cost, and (iv) OEM expenses. The following table sets forth a breakdown of our cost of sales for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
Cost of Sales	Amount	% of Cost of Sales	Amount	% of Cost of Sales	Amount	% of Cost of Sales	Amount	% of Cost of Sales	Amount	% of Cost of Sales
	(RMB in millions, except percentages)									
							(Unaudited)			
Raw materials[1]	914.4	81.3	991.2	82.9	1,053.9	83.8	507.6	82.9	368.9	83.3
Manufacturing overhead	81.1	7.2	82.4	6.9	85.7	6.8	42.5	7.0	32.6	7.4
Labor Cost	74.2	6.6	81.1	6.8	84.6	6.7	41.1	6.7	29.8	6.7
OEM expenses	55.2	4.9	40.3	3.4	34.0	2.7	20.7	3.4	11.6	2.6
Total	1,124.9	100.0	1,195.0	100.0	1,258.2	100.0	611.9	100.0	442.9	100.0

Note: Raw materials include packaging materials and ingredients.

Gross Profit and Gross Profit Margin

Gross profit and gross profit margin by brands

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

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

Note:

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

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

Gross profit and gross profit margin by sales channels

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Gross Profit	Gross Profit Margin (%)	Gross Profit	Gross Profit Margin (%)	Gross Profit	Gross Profit Margin (%)	Gross Profit	Gross Profit Margin (%)	Gross Profit	Gross Profit Margin (%)
	(RMB in millions, except percentages)									
							(Unaudited)			
Online channels	944.0	62.7	1,690.0	66.5	1,775.4	65.8	901.6	67.0	600.3	64.5
Online direct sales	627.8	70.5	1,185.1	75.1	1,099.0	71.7	542.8	72.3	351.4	72.3
Sales to online retailers	28.7	57.5	111.7	63.5	353.1	68.7	195.6	71.9	160.0	63.4
Sales to online distributors	287.5	51.0	393.2	49.9	323.3	49.6	163.2	50.6	88.9	46.0
Offline channels	810.2	61.7	482.1	62.6	554.1	66.8	300.8	68.5	210.7	67.8
Sales to offline retailers	506.4	76.3	295.1	76.4	374.7	79.5	191.2	79.4	145.5	81.1
Sales to offline distributors	303.8	46.7	187.0	48.7	179.4	50.1	109.6	55.2	65.2	49.6
Others[(1)]	(4.8)	(8.6)	14.5	21.1	31.1	34.0	17.4	36.7	8.5	41.9
Total	1,749.4	60.9	2,186.6	64.7	2,360.6	65.2	1,219.8	66.6	819.5	64.9

Note:

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

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

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

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

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

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

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

Gross Profit and Gross Profit Margin by Product Category

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

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

Note:

(1) Others primarily consist of makeups and toiletries.

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

Other Income and Gains

Our other income and gains primarily consist of government grants, bank interest income, interest income from related parties, gains on disposal of a subsidiary, and gains on writing off of outstanding payables. During the Track Record Period, our government grants primarily included tax returns, subsidies, rewards, and financial assistance in relation to our contribution to the local economy and our research and development activities. We expect to continue to receive tax returns, certain of which are conditioned upon approval from or renewal of relevant agreement with competent government authorities. The following table sets forth a breakdown of our other income and gains for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	(RMB in millions)	%	*(RMB in millions)*	%	*(RMB in millions)*	%	*(RMB in millions) (Unaudited)*	%	*(RMB in millions)*	%
Other Income										
Government grants	60.3	92.5	64.5	92.5	77.5	92.5	11.8	83.7	38.7	88.0
Bank interest income	0.4	0.6	0.5	0.7	0.5	0.6	0.2	1.7	0.3	0.7
Interest income from related parties	1.5	2.3	1.6	2.3	–	–	–	–	–	–
Others	2.9	4.6	3.0	4.5	5.8	6.9	2.1	14.6	5.0	11.3
Subtotal	65.2	100.0	69.7	100.0	83.8	100.0	14.1	100.0	44.0	100.0
Gains										
Gain on disposal of a subsidiary	67.5	97.3	–	–	–	–	–	–	–	–
Gain on disposal of property, plant and equipment	–	–	0.9	15.5	2.3	30.3	0.1	1.4	–	–
Gain on writing off of outstanding payables	1.5	2.2	3.8	65.5	2.9	38.2	2.5	69.8	0.1	0.8
Others	0.4	0.5	1.0	19.0	2.4	31.5	1.0	28.8	15.1	99.2
Subtotal	69.4	100.0	5.8	100.0	7.6	100.0	3.6	100.0	15.2	100.0
Total	134.5		75.4		91.4		17.8		59.3	

Selling and Distribution Expenses

Our selling and distribution expenses primarily consist of marketing and promotion expenses in relation to channel cost and advertising, employee benefits expenses in relation to selling and distribution staff, and transportation expenses in relation to product delivery. Our selling and distribution expenses accounted for 46.1%, 45.4%, 43.4%, 43.0% and 48.2% of our revenue in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. The following table sets forth a breakdown of our selling and distribution expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		**2020**		**2021**		**2021**		**2022**	
	(RMB in millions)	%	*(RMB in millions)*	%	*(RMB in millions)*	%	*(RMB in millions)* *(Unaudited)*	%	*(RMB in millions)*	%
Marketing and promotion expenses	803.1	60.6	1,069.6	69.6	1,034.0	65.8	511.0	64.9	409.7	67.4
Employee benefits expenses	359.9	27.2	263.8	17.2	369.4	23.5	192.5	24.4	138.2	22.7
Transportation expenses	112.4	8.5	165.7	10.8	136.7	8.7	70.9	9.0	51.2	8.4
Others	49.5	3.7	36.7	2.4	32.2	2.0	13.6	1.7	8.8	1.5
Total	1,324.9	100.0	1,535.8	100.0	1,572.3	100.0	788.0	100.0	607.9	100.0

Our marketing and promotion expenses fluctuate with the channels and platforms on which we conduct advertisements or conduct online and offline marketing activities as we dynamically adapt to the fast evolvement of sales channels in China. During the Track Record Period, the fluctuation in our marketing and promotion expenses were mainly attributed to our promotion expenses related to online direct sales, which was largely in line with our revenue generated from our online direct sale channels.

We primarily incur transportation expenses for product delivery for our sales from online direct sales. Our transportation expenses increased from 2019 to 2020 as we experienced high growth of revenue generated from online direct sales, and decreased from 2020 to 2021 as we started to cooperate with delivery service suppliers with lower fee rate. Our transportation expenses decreased from the six months ended June 30, 2021 to the six months ended June 30, 2022 mainly in relation to decrease of revenue generated from online direct sales due to the impact of COVID-19 on our production and delivery in Shanghai.

Administrative Expenses

Our administrative expenses primarily consist of employee benefits expenses in relation to administrative staff, depreciation and amortization, office, utility and business expenses, and profession and consulting fees. Our administrative expenses accounted for 7.8%, 7.8%, 7.2%, 7.1% and 8.1% of our revenue in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively.

The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	(RMB in millions)	%	*(RMB in millions)*	%	*(RMB in millions)*	%	*(RMB in millions)* *(Unaudited)*	%	*(RMB in millions)*	%
Employee benefits expenses	120.7	53.5	159.8	60.6	138.9	53.1	82.6	63.9	41.5	40.4
Depreciation and amortization	39.4	17.5	35.4	13.4	35.3	13.4	16.3	12.6	20.2	19.7
Office, utility and business expenses	26.6	11.8	26.9	10.2	34.5	13.2	15.1	11.7	10.7	10.4
Profession and consulting fees	16.3	7.2	19.6	7.4	37.9	14.5	8.5	6.6	24.3	23.7
Trademark service fees(1)	2.1	0.9	3.3	1.3	3.6	1.4	1.7	1.3	1.0	0.9
Warehousing service fees(2)	5.0	2.2	4.6	1.7	4.3	1.6	1.9	1.5	1.3	1.2
Consulting and auditing fees(3)	9.2	4.1	11.7	4.4	30.0	11.4	4.9	3.8	22.0	21.6
Others(4)	22.5	10.0	22.0	8.4	15.1	5.8	6.7	5.2	5.9	5.8
Total	225.5	100.0	263.7	100.0	261.7	100.0	129.2	100.0	102.6	100.0

Notes:

(1) Trademark service fees primarily included those related to trademark registration, maintenance, and transfer. We primarily purchased trademark service fees from professional parties including legal professionals and trademark service agencies.

(2) Warehousing service fees were primarily related to warehousing management labor outsourcing expenses. We primarily incurred warehousing service fees from labor outsourcing suppliers.

(3) Consulting and auditing fees primarily included those related to professional services such as corporate consulting and auditing and professional services engaged for the [**REDACTED**]. We primarily incurred consulting and auditing fees from consulting firms, legal counsels, accountants, industry consultants, public relation companies, financial printing companies, among other professional parties.

(4) Others mainly include expenses primarily related to internal dispense of sample products, warehouse trays, software maintenance, environment maintenance, auditing fees, and vehicle usage. Our others expense was on a decreasing trend during the Track Record Period primarily due to our strengthened internal cost control.

Research and Development Costs

Our research and development costs are primarily related to employee benefits expenses of our R&D staff and costs in relation to our R&D activities to support the development of new products. Our research and development costs accounted for 2.9%, 2.3%, 2.9%, 2.7% and 4.1% of our revenue in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. We have maintained high research and development investment during the Track Record Period. See "Business – Our Strengths – Superior R&D Capabilities to Constantly Empower Innovation and Drive Sustainable Growth."

Other Expenses

Our other expenses primarily consist of inventory impairment and scrap, and foreign exchange loss. The following table sets forth a breakdown of the components of our other expenses:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	(RMB in millions)				
				(Unaudited)	
Inventory impairment and scrap	69.8	57.8	66.9	46.4	21.5
Foreign exchange loss	3.4	5.1	5.2	3.6	2.4
Others	8.3	8.7	5.8	1.0	3.3
Total	81.5	71.5	77.8	50.9	27.1

Finance Costs

Our finance costs mainly represent interest expenses of bank and other borrowings, other liabilities, and lease liabilities. The following table sets out a breakdown of our finance costs for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	(RMB in millions)				
				(Unaudited)	
Interest on bank and other borrowings	29.9	28.6	14.8	10.0	7.0
Interest on other liabilities	45.9	8.7	–	–	–
Interest on lease liabilities	9.1	7.3	6.2	3.2	2.8
Less: Interest capitalized	(3.1)	(4.2)	–	–	–
Total	81.9	40.5	20.9	13.2	9.8

Income Tax Credit/(Expense)

We are subject to income tax on an entity basis on profits arising in or derived from tax jurisdictions in which members of our Group are domiciled and operate. See Note 11 of Appendix I to this document for more details.

PRC

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the EIT rate of the PRC subsidiaries is 25% unless they are subject to tax exemptions.

Shanghai Zhongyi was accredited as an "Advanced Technology Enterprise" in 2018 and 2021, and therefore Shanghai Zhongyi was entitled to a preferential EIT rate of 15% during the Track Record Period. This qualification is subject to review by the relevant tax authority in the PRC every three years. In addition, certain of our PRC subsidiaries are qualified as small and micro enterprises and were therefore entitled to a preferential corporate income tax rate of 20% during the Track Record Period.

Other Jurisdictions

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

In 2019, we had a tax credit of RMB6.5 million. In 2020, 2021 and the six months ended June 30, 2021 and 2022, our tax expenses were RMB76.4 million and RMB69.4 million, RMB29.8 million and RMB15.6 million, respectively. The income tax expense or credit for the period is the tax payable on the indicated period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by the effect of different tax rates of some subsidiaries and income not subject to tax. In addition, our income tax credit/(expenses) fluctuated with tax effects primarily in relation to (i) effect of different tax rates of some subsidiaries, (ii) expenses not deductible for tax related to the interest expenses arising from other liabilities and our equity settled share based compensation expenses, (iii) additional deductible allowance for R&D expenses, (iv) income not subject to tax related to our disposal of the subsidiary Shanghai Biyoulan and (v) tax losses utilised from previous periods.

As of the Latest Practicable Date, we did not have any dispute with any tax authority. During the Track Record Period and up to the Latest Practicable Date, we have not been subject to any tax investigation, enquiries, penalties or surcharges.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021

Revenue

Our revenue decreased by 31.1% from RMB1,831.7 million in the six months ended June 30, 2021 to RMB1,262.4 million in the six months ended June 30, 2022, primarily due to (i) decrease of revenue under *One Leaf* from RMB468.3 million to RMB264.5 million, (ii) decrease of revenue under *KANS* from RMB796.8 million to RMB603.6 million, and (iii) decrease of revenue under *Baby Elephant* from RMB404.9 million to RMB306.1 million, primarily due to the temporary impacts of COVID-19 on (i) our supply chain ranging from sales, production, to delivery, which led to certain customer demands unmet for a short period. Specifically, our delivery of products to our retailer and distributor customers were affected during March, April and May, 2022 as we could not ship products from our Fengxian Plant due to transportation restrictions during the same period of time. While certain of our retailer customers maintained sufficient inventories of our products and were not materially affected by our temporary suspended operations, we have postponed the delivery of products to most of our distributors. As the result, we did not meet all customer demands for our products as we have experienced an increase in the amount of unfulfilled orders to online and offline retailers and distributors in the six months ended June 30, 2022 compared with the same period during the previous year. As we operate in a highly competitive industry, temporary shortfall in meeting customer demands might cause customers to transit to other purchase options in the short term. We recorded an increasing amount of orders canceled by our customers in the six months ended June 30, 2022 compared with the six months ended June 30, 2021; (ii) our marketing efficiencies as our sales and marketing staff's capabilities to conduct offline marketing activities, such as customer visit and market research, were limited due to travel restrictions; and (iii) our new product development and existing product upgrades as our R&D activities were affected during the same time, which, in aggregate, affected the market demands for our products. According to Frost & Sullivan, cosmetic companies, especially cosmetic companies based in Shanghai, were adversely affected by the resurgence of COVID-19 during the same time. We plan to reactivate our customers and enhance our sales and increase our revenue by continuously investing in R&D activities to launch new products and upgrade existing products to meet customer demands, expanding our sales channels, launching online and offline marketing campaigns and offering high-quality customer services.

Our revenue attributable to *KANS* decreased by 24.2% from RMB796.8 million in the six months ended June 30, 2021 to RMB603.6 million in the six months ended June 30, 2022, primarily due to decrease in revenue generated from online direct sales channels as well as from sales to online and offline distributors and offline retailers mainly in relation to the impact of COVID-19 on our production and delivery in Shanghai, partially offset by increase in revenue generated from sales to online retailers in relation to our enhanced collaboration to provide products that better addressed consumers' demands from these channels.

Our revenue attributable to *One Leaf* decreased by 43.5% from RMB468.3 million in the six months ended June 30, 2021 to RMB264.5 million in the six months ended June 30, 2022, primarily due to decrease in revenue generated from online and offline channels primarily due to the impact of COVID-19 on our production and delivery in Shanghai.

Our revenue attributable to *Baby Elephant* decreased by 24.4% from RMB404.9 million in the six months ended June 30, 2021 to RMB306.1 million in the six months ended June 30, 2022, primarily due to decrease in revenue generated from online direct sales channels and from sales to online retailers in relation to the impact of COVID-19 on our production and delivery in Shanghai.

Cost of Sales

Our cost of sales decreased by 27.6% from RMB611.9 million in the six months ended June 30, 2021 to RMB442.9 million in the six months ended June 30, 2022, primarily in line with the decrease in revenue.

Gross profit and Gross profit margin

Our gross profit decreased by 32.8% from RMB1,219.8 million in the six months ended June 30, 2021 to RMB819.5 million in the six months ended June 30, 2022. Gross profit margin decreased from 66.6% in the six months ended June 30, 2021 to 64.9% in the six months ended June 30, 2022, primarily due to the decrease of gross profit margins under each of *One Leaf* and *Baby Elephant*.

KANS. Gross profit margin was 67.7% in the six months ended June 30, 2021 and 66.5% in the six months ended June 30, 2022, which remained relatively stable.

One Leaf. Gross profit margin decreased from 67.3% in the six months ended June 30, 2021 to 62.6% in the six months ended June 30, 2022, primarily due to (i) decrease in gross profit margin under sales to online retailers as a result of the promotion activities we conducted to enhance collaboration with certain online retailers, and (ii) the decrease in revenue in percentage attributable to sales channels with higher gross profit margin such as online direct sales including platforms such as *Tmall* mainly in relation to the impact of COVID-19 on our delivery in Shanghai, as we are responsible for product delivery directly from our warehouses under such business model.

Baby Elephant. Gross profit margin decreased from 70.5% in the six months ended June 30, 2021 to 66.2% in the six months ended June 30, 2022, primarily due to (i) decrease in gross profit margin under sales to online retailers as a result of the promotion activities we conducted to enhance collaboration with certain online retailers, and (ii) the decrease in revenue in percentage attributable to sales channels with higher gross profit margin such as online direct sales including platforms such as *Tmall* mainly in relation to the impact of COVID-19 on our delivery in Shanghai, as we are responsible for product delivery directly from our warehouses under such business model.

Other Income and Gains

Our other income and gains increased by 233.1% from RMB17.8 million in the six months ended June 30, 2021 to RMB59.3 million in the six months ended June 30, 2022, primarily due to (i) the increase in government grants, and (ii) the increase in other gains as a result of our receipt of a compensation in relation to the enforcement of a civil judgement.

Selling and Distribution Expenses

Our selling and distribution expenses decreased by 22.9% from RMB788.0 million in the six months ended June 30, 2021 to RMB607.9 million in the six months ended June 30, 2022, primarily due to the decrease in sales and marketing activities as a result of the impact of COVID-19.

Administrative Expenses

Our administrative expenses decreased by 20.6% from RMB129.2 million in the six months ended June 30, 2021 to RMB102.6 million in the six months ended June 30, 2022, primarily due to (i) the decrease in employee benefits expenses mainly in relation to the decrease in share-based compensation expense, and (ii) the decrease in office, utility and business expenses.

Research and Development Costs

Our research and development expenses increased by 4.2% from RMB49.8 million in the six months ended June 30, 2021 to RMB51.9 million in the six months ended June 30, 2022, primarily due to the increase in R&D activities.

Impairment losses on financial assets, net

Our impairment losses on financial assets, net changed from RMB3.0 million in the six months ended June 30, 2021 to RMB0.7 million in the six months ended June 30, 2022, primarily due to the decrease in impairment losses of receivables.

Other Expenses

Our other expenses decreased by 46.8% from RMB50.9 million in the six months ended June 30, 2021 to RMB27.1 million in the six months ended June 30, 2022, primarily due to the decrease in inventory impairment and scrap in relation to the decrease in finished goods.

Finance Costs

Our finance costs decreased by 25.8% from RMB13.2 million in the six months ended June 30, 2021 to RMB9.8 million in the six months ended June 30, 2022, primarily due to (i) the decrease in interest on bank and other borrowings, and (ii) the decrease in interest on lease liabilities in relation to the decrease of our lease liabilities.

Share of Profits and Losses of Associates

Our share of profits and losses of associates was RMB0.4 million profits in the six months ended June 30, 2021 and RMB0.4 million losses in the six months ended June 30, 2022, which remained relatively stable.

Income Tax Expense

Our income tax expense decreased from RMB29.8 million in the six months ended June 30, 2021 to RMB15.6 million in the six months ended June 30, 2022, primarily due to the decrease in profit before income tax.

Profit for the Period

As a result of the foregoing, our profit for the period decreased by 64.0% from RMB174.3 million in the six months ended June 30, 2021 to RMB62.8 million in the six months ended June 30, 2022.

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

Revenue

Our total revenue increased by 7.0% from RMB3,381.6 million in 2020 to RMB3,618.9 million in 2021, primarily in relation to (i) increase of revenue under *KANS* by 22.4% from RMB1,332.5 million to RMB1,631.1 million, and (ii) increase of revenue under *Baby Elephant* by 13.8% from RMB765.6 million to RMB871.2 million.

Our revenue attributable to *KANS* increased by 22.4% from RMB1,332.5 million in 2020 to RMB1,631.1 million in 2021, primarily due to (i) increasing market demand for *KANS* products resulting from higher brand awareness in relation to our increased marketing activities and newly launched products, (ii) increased revenue generated from our direct online sale stores on emerging e-commerce platforms such as *Douyin* and *Kuaishou* in relation to our efforts in enhancement of such online sales channels, (iii) increased revenue generated from sales to online retailers such as *JD.com* in relation to our enhanced collaboration, and (iv) increased revenue generated from offline channels as offline retailers started to recover from the impact of COVID-19.

Our revenue attributable to *One Leaf* decreased by 17.5% from RMB1,007.4 million in 2020 to RMB830.7 million in 2021, primarily because we are in the process of establishing and transforming *One Leaf* into a clean beauty skincare brand for young consumers enabled by botanical science and reduced marketing expenses.

Our revenue attributable to *Baby Elephant* increased by 13.8% from RMB765.6 million in 2020 to RMB871.2 million in 2021, primarily due to (i) increased market demands for *Baby Elephant* products in relation to our increasing brand awareness as well as the fast-growing consumer demand in China's maternity and childcare market, (ii) increased revenue generated from sales to online retailers in relation to our enhancement of collaboration with online retailers such as *JD.com* and *VIP.com* to provide products that better address consumers' demands from these channels, (iii) increased revenue generated from emerging e-commerce platforms such as *Douyin* and *Kuaishou*, and (iv) increased revenue generated from offline channels as offline retailers and distributors started to recover from the impact of COVID-19.

Cost of Sales

Our cost of sales increased by 5.3% from RMB1,195.0 million in 2020 to RMB1,258.2 million in 2021 in line with the increase in revenue.

Gross profit and Gross profit margin

Gross profit increased by 8.0% from RMB2,186.6 million in 2020 to RMB2,360.6 million in 2021. Gross profit margin was 64.7% and 65.2% in 2020 and 2021 respectively, which remained relatively stable.

KANS. Gross profit margin decreased from 66.9% in 2020 to 66.4% in 2021, primarily due to increasing promotion activities with temporarily low gross profit margin in line with market practice we conducted on certain emerging e-commerce platforms, including *Douyin* and *Kuaishou* to rapidly capture more market shares, which was partly offset by the increase of revenue in percentage attributable to sales channels with higher gross profit margin such as sales to online and offline retailers.

One Leaf. Gross profit margin increased from 63.9% in 2020 to 65.5% in 2021, primarily due to the increase in revenue in terms of percentage from sales to online and offline retailers with high gross profit margin in relation to our enhanced collaboration with online and offline retailers to provide products that better addressed consumers' demands from these channels.

Baby Elephant. Gross profit margin increased from 67.8% in 2020 to 68.8% in 2021, primarily due to the increase in revenue in terms of percentage from sales to online and offline retailers with high gross profit margin in relation to our enhanced collaboration with online and offline retailers to provide products that better addressed consumers' demands from these channels.

Other Income and Gains

Our other income and gains increased by 21.2% from RMB75.4 million in 2020 to RMB91.4 million in 2021, primarily due to the increase in government grants.

Selling and Distribution Expenses

In line with the growth of our revenue, our selling and distribution expenses increased by 2.4% from RMB1,535.8 million in 2020 to RMB1,572.3 million in 2021, primarily due to the employee benefit expense being lower in 2020 in relation to a reduction in social insurance obligations mainly because of relevant relief policy in response to the COVID-19 outbreak.

Administrative Expenses

Our administrative expenses were RMB263.7 million and RMB261.7 million in 2020 and 2021, respectively, which remained relatively stable.

Research and Development Costs

Our research and development costs increased by 35.3% from RMB77.4 million in 2020 to RMB104.7 million in 2021, primarily due to the increase in R&D activities.

Impairment losses on financial assets, net

Our impairment losses on financial assets, net changed from RMB4.6 million gains in 2020 to RMB6.3 million losses in 2021, primarily due to certain impairment losses of receivables.

Other Expenses

Our other expense increased by 8.8% from RMB71.5 million in 2020 to RMB77.8 million in 2021, primarily due to an increase of inventory impairment and scrap.

Share of Profits and Losses of Associates

Our share of profits and losses of associates changed from RMB1.9 million profits in 2020 to RMB0.1 million losses in 2021, primarily due to our disposal of two associates, Shanghai Shanhewuyang Commercial Co., Ltd and Hangzhou Qianmei Cosmetics Co., Ltd, in 2021.

Finance Costs

Our finance costs decreased by 48.4% from RMB40.5 million in 2020 to RMB20.9 million in 2021, primarily due to (i) the decrease of interest on bank and other borrowings in relation to the decrease of the total amount of our bank and other borrowings and (ii) the decrease in interest on other liabilities as our obligation to repurchase equity held by Series A Investors in our Company was terminated in 2020.

Income Tax Expense

We had an income tax expense of RMB76.4 million and RMB69.4 million in 2020 and 2021, respectively.

Profit for the Period

As a result of the foregoing, our profit for the period was RMB203.2 million and RMB338.8 million in 2020 and 2021, respectively.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenue

Our total revenue increased by 17.6% from RMB2,874.3 million in 2019 to RMB3,381.6 million in 2020, primarily due to (i) increase of revenue under *KANS* by 44.9% from RMB919.7 million to RMB1,332.5 million, and (ii) increase of revenue under *Baby Elephant* by 48.0% from RMB517.2 million to RMB765.6 million.

Our revenue attributable to *KANS* increased by 44.9% from RMB919.7 million in 2019 to RMB1,332.5 million in 2020, primarily due to increased revenue generated from online channels due to (i) increasing market demand for *KANS* products resulting from higher brand awareness in relation to our increased marketing activities and (ii) the increase of revenue generated from online direct sales channels, including *Tmall*, *Douyin* and *Kuaishou* as the result of the expansion of such channels.

Our revenue attributable to *One Leaf* decreased by 4.1% from RMB1,050.7 million in 2019 and RMB1,007.4 million in 2020, primarily due to a decrease of revenue generated from offline channels in relation to the impact of COVID-19, which was partly offset by an increase of revenue generated from online channels.

Our revenue attributable to *Baby Elephant* increased by 48.0% from RMB517.2 million in 2019 to RMB765.6 million in 2020, primarily due to (i) increased market demands for maternity and childcare products, primarily as the result of enhanced brand awareness in relation to our marketing activities, (ii) increased revenue generated from online direct sales such as *Tmall* and (iii) increased revenue generated from sales to online retailers due to our enhanced and deepened collaboration with certain online retailers, such as *JD.com*.

Cost of Sales

Our cost of sales increased by 6.2% from RMB1,124.9 million in 2019 to RMB1,195.0 million in 2020, largely in line with the increase of revenue of our products and our business growth.

Gross Profit and Gross Profit Margin

Gross profit increased by 25.0% from RMB1,749.4 million in 2019 to RMB2,186.6 million in 2020. Gross profit margin increased from 60.9% in 2019 to 64.7% in 2020, primarily due to the increase of gross profit margins under each of *KANS*, *One Leaf* and *Baby Elephant*.

KANS. Gross profit margin increased from 59.6% in 2019 to 66.9% in 2020, primarily due to the increase in revenue in terms of percentage generated from channels with high gross profit margin such as online direct sales.

One Leaf. Gross profit margin increased from 61.7% in 2019 to 63.9% in 2020, primarily due to the increase in revenue in terms of percentage generated from channels with high gross profit margin such as online direct sales.

Baby Elephant. Gross profit margin increased from 65.2% in 2019 to 67.8% in 2020, primarily due to the increase in revenue in terms of percentage generated from channels with high gross profit margin such as online direct sales and sales to online retailers.

Other Income and Gains

Our other income and gains decreased significantly from RMB134.5 million in 2019 to RMB75.4 million in 2020, primarily due to our gain on disposal of a subsidiary, Shanghai Biyoulan, which was mainly engaged in cosmetic products manufacturing, of RMB67.5 million in 2019 for production capacity aggregation.

Selling and Distribution Expenses

In line with the increase of our revenue, our selling and distribution expenses increased by 15.9% from RMB1,324.9 million in 2019 to RMB1,535.8 million in 2020, primarily due to (i) the increase in channel costs in relation to the expansion of our online channels and (ii) the increase in transportation expenses in relation to the increase of revenue generated from online direct sales.

Administrative Expenses

Our administrative expenses increased by 16.9% from RMB225.5 million in 2019 to RMB263.7 million in 2020, primarily due to the increase in share-based compensation expense.

Research and Development Costs

Our research and development costs decreased by 6.6% from RMB82.9 million in 2019 to RMB77.4 million in 2020, primarily due to the decrease of R&D activities due to the impact of COVID-19.

Impairment losses on financial assets, net

Our impairment losses on financial assets, net, changed from RMB34.8 million loss in 2019 to RMB4.6 million gains in 2020, primarily due to the decrease in expected credit losses on trade receivables in relation to the decrease in trade receivables.

Other Expenses

Our other expenses decreased by 12.3% from RMB81.5 million in 2019 to RMB71.5 million in 2020, primarily due to the decrease in inventory impairment and scrap.

Finance Costs

Our finance costs decreased by 50.5% from RMB81.9 million in 2019 to RMB40.5 million in 2020, primarily due to the decrease in interest on other liabilities from RMB45.9 million in 2019 to RMB8.7 million in 2020 as our obligation to repurchase equity held by Series A Investors in our Company was terminated in 2020.

Share of Profits and Losses of Associates

Our share of profits and losses of associates increased significantly from RMB0.5 million in 2019 to RMB1.9 million in 2020.

Income Tax Credit/(Expense)

We had income tax credit of RMB6.5 million in 2019, primarily due to income not subject to tax, while we incurred income tax expenses of RMB76.4 million in 2020 as our profit before tax increased significantly in 2020.

Profit for the Period

As a result of the foregoing, our profit for the period was RMB59.4 million and RMB203.2 million in 2019 and 2020, respectively.

DISCUSSION OF CERTAIN KEY BALANCE SHEET ITEMS

Non-Current Assets and Liabilities

The following table sets forth our non-current assets and liabilities as of the dates indicated:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in millions)			
Non-Current Assets				
Property, plant and equipment	520.6	662.5	636.4	613.4
Investment properties	–	–	10.5	9.9
Prepayments, other receivables and other assets	12.5	13.3	19.9	20.6
Right-of-use assets	211.7	178.7	161.7	150.5
Other intangible assets	23.2	20.1	18.2	19.0
Investments in associates	1.9	4.9	1.6	1.3
Deferred tax assets	198.3	150.0	103.1	99.6
Total non-current assets	968.1	1,029.5	951.5	914.3
Non-Current Liabilities				
Lease liabilities	105.3	87.8	73.1	60.4
Interest-bearing bank and other borrowings	158.5	164.5	130.1	95.1
Other payables	29.0	17.6	16.2	15.2
Total non-current liabilities	292.8	269.9	219.4	170.7

Property, Plant, and Equipment

Our property, plant, and equipment primarily comprised of buildings, plants and machinery, and construction in progress. Our property, plant and equipment increased by 27.3% from RMB520.6 million as of December 31, 2019 to RMB662.5 million as of December 31, 2020, primarily because our construction of certain production plants was completed and put into use in 2020. Our property, plant and equipment decreased by 3.9% from RMB662.5 million as of December 31, 2020 to RMB636.4 million as of December 31, 2021, primarily due to depreciation. Our property, plant and equipment was RMB636.4 million as of December 31, 2021 and RMB613.4 million as of June 30, 2022, which remained relatively stable.

Right-of-Use Assets

Our right-of-use assets primarily comprised of leasehold land, office premises and plant, and equipment. Our right-of-use assets decreased by 15.6% from RMB211.7 million as of December 31, 2019 to RMB178.7 million as of December 31, 2020, decreased by 9.5% from RMB178.7 million as of December 31, 2020 to RMB161.7 million as of December 31, 2021 and further decreased by 6.9% from RMB161.7 million as of December 31, 2021 to RMB150.5 million as of June 30, 2022, primarily due to depreciation charge.

Other Intangible Assets

Our other intangible assets mainly represent software we purchased for our business operations. Our other intangible assets decreased by 13.4% from RMB23.2 million as of December 31, 2019 to RMB20.1 million as of December 31, 2020, primarily due to amortization and disposal of software. Our intangible assets decreased by 9.5% from RMB20.1 million to RMB18.2 million primarily due to amortization of software. Our intangible assets were RMB18.2 million as of December 31, 2021 and RMB19.0 million as of June 30, 2022, which remained relatively stable.

Net Current Assets and (Liabilities)

The following table sets forth our current assets and liabilities as of the dates indicated:

	As of December 31,			As of June 30,	As of October 31,
	2019	2020	2021	2022	2022
	(RMB in millions)				
					(Unaudited)
Current assets					
Inventories	506.2	577.3	621.2	571.5	554.3
Trade and bills receivables	396.9	340.8	374.9	295.9	355.7
Prepayments, other receivables and other assets	246.5	122.0	181.8	198.9	203.5
Financial assets at fair value through profit or loss	–	–	–	29.0	–
Assets classified as held for sale	40.0	–	–	–	–
Cash and cash equivalents	132.4	154.2	145.2	115.0	98.6
Pledged deposit	33.7	0.4	–	11.5	11.6
Total current assets	1,355.7	1,194.8	1,323.1	1,221.7	1,223.8
Current liabilities					
Trade and bills payables	717.9	549.1	566.0	383.0	356.6
Other payables and accruals	599.5	500.2	413.2	434.7	389.4
Interest-bearing bank and other borrowings	348.9	271.0	60.0	265.8	306.4
Lease liabilities	33.6	20.8	21.9	24.4	24.7
Tax payable	17.4	28.9	39.1	36.2	42.9
Other liabilities	507.5	–	–	–	–
Total current liabilities	2,224.7	1,370.0	1,100.1	1,144.1	1,120.0
Net current assets/(liabilities)	(869.0)	(175.2)	223.0	77.6	103.8

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

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

To manage our working capital, we review our liquidity position on an ongoing basis, including review of the expected cash inflows and outflows, results of performance, maturity of our borrowings, trade and other receivables balance and inventory level in order to monitor our liquidity requirements in the short and long terms. We monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance our operations, and we mitigate the effects of fluctuations in cash flows. We also aim to maintain sufficient cash through internally generated sales revenue and an adequate amount of committed credit facilities to meet our operational needs. We have maintain stable and long-term relationships with suppliers to obtain favorable payment terms. We have also adopted measures to manage recovering of outstanding receivables, including adopting effective customer credit policies and implementing strengthened credit term review and approval procedures. We believe such working capital management measures were effective. See "– Liquidity and Capital Resources." Going forward, we will continue to closely monitor our liquidity positions and enhance our working capital management capabilities by maintaining good relationship with suppliers, strengthening receivable recoveries with specialized team, and further improving inventory turnover rates.

Inventories

Our inventories comprised of finished goods, raw materials, and work in progress. The following table sets forth the carrying amount of our inventories as of the dates indicated:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in millions)			
Inventories				
Finished goods	323.4	425.5	471.8	419.3
Raw materials	143.3	119.9	127.6	128.0
Work in progress	39.6	31.9	21.8	24.2
Total	506.2	577.3	621.2	571.5

Our inventories increased by 14.0% from RMB506.2 million as of December 31, 2019 to RMB577.3 million as of December 31, 2020, increased by 7.6% to RMB621.2 million as of December 31, 2021, and decreased by 8.0% to RMB571.5 million as of June 30, 2022. The increase in our inventories in 2020 was primarily due to the increase in our finished goods in relation to our inventories preparation for expansion of e-commerce channels and our general business expansion. The increase in our inventories in 2021 was primarily due to (i) the increase in finished goods in relation to our inventories preparation for online sales channels and (ii) the increase in our raw materials to respond to the negative impact on supply chains due to COVID-19. The decrease in our inventories in the six months ended June 30, 2022 was primarily due to the decrease in our finished goods, as certain of our retailer customers, including reputable offline and online cosmetics chain stores and supermarkets, which have maintained considerable inventories of our products at their own warehouses from March to May 2022, when they continued sales and delivery of our products from their own warehouses while our production and delivery from our Shanghai-based production plant to their warehouses were impacted due to relevant restrictions in relation to the COVID-19 Outbreak.

In relation to the inventories of RMB614.2 million as of June 30, 2022, in the opinion of our Company, there was no material recoverability issues with such outstanding inventories and we considered the inventory provision made to be sufficient based on the following factors: (i) the shelf life of our major products, ranging from three to four years for the majority of products under *Baby Elephant* and four to five years for products under *KANS* and *One Leaf*, is long; (ii) we have arranged specific sales channel resources and marketing and promotional activities to enhance the sales of such unsold inventories aged over a year; and (iii) we have provided approximately RMB42.7 million of provision inventories impairment for the inventories as of June 30, 2022, and most of these provision made are for inventories aged over 3 years. As we face strong competition from our existing competitors as well as new industry entrants, it takes time for us to conduct customer reactivation after the temporary impact of

COVID-19 on our supply chain, marketing efficiencies, and new product development and existing product upgrade. See "Financial Information – Period-To-Period Comparison of Results of Operations." We plan to enhance our sales and increase our revenue by expanding our sales channels, launching online and offline marketing campaigns and offering high-quality services. RMB192.8 million (or 33.7%) of our inventories as of June 30, 2022 had been consumed as of October 31, 2022.

The following table sets forth the original value of finished goods by age group as of June 30, 2022 and the subsequent sales up to October 31, 2022:

Inventories	**Within 1 year**	**1 to 2 years**	**2 to 3 years**	**Over 3 years**	**Total**
			(RMB in millions)		
Finished goods as of June 30, 2022	349.7	77.8	23.1	14.0	464.6
Subsequent sales up to October 31, 2022	159.8	12.1	2.9	3.0	177.8

Our management team reviews the ageing analysis of inventories at the end of each reporting period, and makes a provision for slow-moving inventory items. Our management estimates the net realizable value for such inventories based primarily on the latest invoice prices and current market conditions. A write-down of inventories to net realizable value is made based on the estimated net realizable value of inventories. The assessment of the write-down amount requires the management's estimates and judgement. Where the actual outcome or expectation in the future is different from the original estimate, such differences will impact the carrying value of inventories and the write-down/write-back of inventories in the period in which such estimate has been changed.

The following table sets forth the turnover days of our inventories for the periods indicated:

	Year ended December 31,			**Six months ended June 30,**
	2019	**2020**	**2021**	**2022**
Inventories turnover days[(1)]	196.0	188.2	188.8	259.7

Note:

(1) Inventories turnover days for a period equals the average of the gross value of the opening and closing inventories balance divided by cost of sales for the relevant period and multiplied by the number of days in the relevant period, which is 365 days for each year and 180 days for six months.

Our inventories turnover days remained relatively stable at 196.0 days, 188.2 days and 188.8 days in 2019, 2020 and 2021, respectively. Our inventories turnover days increased from 188.8 days in 2021 to 259.7 days in the six months ended June 30, 2022, primarily due to the impact of COVID-19 on our delivery in Shanghai since our Fengxian Plant is located in Shanghai, our logistics were disrupted and affected adversely by the recurrence of COVID-19 pandemic in March, April and May 2022. We have provided approximately RMB42.7 million of provision inventories impairment for the inventories as of June 30, 2022, which we believe is sufficient.

Trade and Bills Receivables

Trade receivables are amounts due from customers for goods sold and services we performed in the ordinary course of business. We primarily require payment in advance from our customers. For certain customers with whom we have engaged in credit sale during the Track Record Period, we usually grant credit terms ranging from 45 to 90 days, but we impose a maximum credit limit on such customers. We seek to maintain strict control over our outstanding receivables. Our credit control department is responsible for minimizing credit risks. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that our trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

The following table sets forth our trade and bills receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in millions)			
Trade receivables	444.5	359.8	391.0	307.6
Bills receivable	10.3	23.8	10.3	10.5
Impairment	(57.9)	(42.8)	(26.4)	(22.2)
Total	396.9	340.8	374.9	295.9

Our trade and bills receivables decreased by 14.1% from RMB396.9 million as of December 31, 2019 to RMB340.8 million as of December 31, 2020 primarily due to the increase in revenue generated from our online channels and the increase in revenue generated from our online direct sales, increased by 10.0% to RMB374.9 million as of December 31, 2021 in line with our business expansion, and decreased by 21.1% to RMB295.9 million as of June 30, 2022 primarily due to the decrease in our revenue.

In relation to the trade and bills receivables of RMB318.1 million as of June 30, 2022, in the opinion of the Company, there was no material recoverability issues with such outstanding trade and bills receivables because (i) the outstanding balance was generally within the credit period granted to our customers or in accordance with relevant settlement procedures implemented by either us or our customers; (ii) our customers enjoy good credit quality with steady business and financial performance in the past; (iii) we have not had any material collection issue with our customers; and (iv) we have provided sufficient trade and bills receivable provisions in relation to our trade and bills receivables as of June 30, 2022. RMB235.9 million (or 74.2%) of our trade and bills receivables as of June 30, 2022 had been settled as of October 31, 2022.

As of the Latest Practicable Date, the remaining unsettled trade receivables was primarily due from one of the offline retailers (the "Retailer X"), which amounted to RMB24.0 million. Retailer X possesses broad offline presence in China and was among our top five debtor in terms of trade receivables in each period of the Track Record Period. The contract terms of the arrangement between us and Retailer X are generally in line with our arrangements with other offline retailors of the same type. During the Track Record Period, Retailer X has the sole discretion in determine the amount of purchase from us and is entitled to request return of products other than goods that cannot be returned or exchanged, such as goods that are not in a resalable condition. See "Business – Our Sales Channels – Offline Channels – Internal Control on Consignment Arrangements." According to Frost & Sullivan, it is an industry norm for offline retailers with strong bargaining power in China to have an unconditional product return clause in their contracts with consumer product companies like us.

We experienced a decline in the revenue generated from sales to Retailer X during the Track Record Period. Retailer X purchased products from us based its demands and has requested return of products. In 2019, 2020, 2021 and the six months ended June 30, 2022, the revenue generated from our sales to Retailer X before any product return was RMB79.1 million, RMB21.1 million, RMB34.0 million and zero, respectively, and after netting off the product return amounts, the corresponding net revenue was RMB53.1 million, RMB-7.1 million, RMB18.9 million and RMB-0.4 million, respectively. The number in 2020 was negative because we had provided relevant provision for 2020 at a level comparable to previous years at the end of 2019 based on historical data, however, with the impact of COVID-19 in 2020, we recorded (i) higher amounts of product return and (ii) less revenue generated from, and also increased provision with increased expected product return rate based on actual product return in 2020. Due to the prolonged impact of COVID-19 on offline sales activities in 2020, Retailer X has reduced its purchase from us and requested return of products, resulting in the record of negative revenue in 2020. In 2021, the sales performance of our products at stores of Retailer X recovered slower than our expectation, and we started to consider changing the cooperation model with Retailer X to improve profitability. In 2022, we have strategically decided to transform our transaction model with Retailer X by introducing a distributorship model, and started negotiation with Retailer X on details. In July 2022, we officially notified Retailer X our intention to exit direct sales and purchase relationship with it (the above procedures collectively as the "**Exit Process**"). From the start of 2022, except for dealing with the return of a small number of products purchased by Retailer X prior to this year, we have not sold any products directly to it in 2022.

It has taken longer for us to settle the trade and bills receivables with Retailer X after the Track Record Period because we needed to (i) notify and negotiate with Retailer X on the Exit Process, (ii) complete a variety of procedure matters, including settling existing return requests from Retailer X, and (iii) complete relevant account checking works before settling payments due from Retailer X. As of the Latest Practicable Date, we were in the process of completing the Exit Process and expect to settle all remaining accounts with Retailer X upon the completion thereof. Based on communication with Retailer X and the progress of our Exit Process, we estimate that we will settle the relevant trade and bills receivables within 2022. We dynamically review and assess our cooperation with customers from time to time. During the Track Record Period and up to the Latest Practicable Date, we had not entered into procedures similar to the Exit Process with other major customers.

The following table sets forth an aging analysis of our trade and bills receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	(RMB in millions)			
Within 1 year	391.7	335.2	369.1	281.4
1-2 years	5.3	5.6	5.8	14.4
2-3 years	–	–	–	0.1
Total	396.9	340.8	374.9	295.9

The following table sets forth the original value of trade and bills receivables by age group as of June 30, 2022 and the subsequent settlement up to October 31, 2022:

	Within 1 year	**1 to 2 years**	**2 to 3 years**	**Over 3 years**	**Total**
	(RMB in millions)				
Trade and bills receivables as of June 30, 2022	286.4	21.1	2.6	8.0[(1)]	318.1
Subsequent settlement up to October 31, 2022	226.3	9.1	0[(2)]	0.5	235.9

Note:

(1) We had made provision for all trade and bills receivables with the age of over 3 years as of June 30, 2022.

(2) The figure is less than 0.1.

The following table sets forth the turnover days of our trade and bills receivables for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
Trade and bills receivables turnover days[(1)]	62.5	45.2	39.6	51.3

Note:

(1) Trade and bills receivables turnover days for a period equals the average of the gross value of the opening and closing trade and bills receivables balance divided by revenue for the relevant period and multiplied by the number of days in the relevant period, which is 365 days for each year and 180 days for six months.

Our trade and bills receivables turnover days decreased from 62.5 days in 2019 to 45.2 days in 2020 to 39.6 days in 2021, primarily in relation to our increased revenue generated from online channels and our enhanced receivables collection capabilities as a result of enhanced receivables management. Our trade and bills receivables turnover days increased from 39.6 days in 2021 to 51.3 days in the six months ended June 30, 2022, primarily due to the impact of COVID-19 on our production and delivery in Shanghai. To strengthen the recovering outstanding receivables, we have established effective customer credit policies, implemented strengthened credit term review and approval procedures and strengthened the receivables management performance review with respect to the relevant sales personnel. We assign responsible persons for accounts receivable collection for credit sales transactions. The responsible person should notify the customer prior to the expiration of the payment term. If the customer is overdue and cannot make immediate payment, the responsible person will contact the customer and implement a payment plan to ensure the recoverability of the receivables.

Prepayments, Other Receivables and Other Assets

Our prepayments, other receivables and other assets primarily comprise of (i) deductible input VAT and (ii) prepayments to e-commerce platforms to promote our products.

The following table sets forth our prepayments, other receivables and other assets as of the dates indicated:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	(RMB in millions)			
Deductible input VAT	107.1	31.7	62.1	50.4
Corporate income tax recoverable	4.1	4.3	4.1	22.2
Deposits and other receivables	19.7	20.0	12.3	19.2
Other financial assets included in prepayments and other receivables	1.8	4.3	12.0	11.6
Prepayments	42.2	56.2	72.8	81.4
Right-of-return assets	8.6	4.0	7.6	2.0
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Amounts due from related parties	62.6	0.5	–	–
Others	2.7	3.2	6.9	8.1
Impairment allowance	(2.3)	(2.3)	(3.1)	(3.5)
Current portion	246.5	122.0	181.8	198.9
Rental deposits	12.5	8.9	8.6	8.6
Prepayments	–	4.4	11.3	12.0
Non-current portion	12.5	13.3	19.9	20.6
Total	259.0	135.3	201.7	219.5

Our prepayments, other receivables and other assets decreased significantly from RMB259.0 million as of December 31, 2019 to RMB135.3 million as of December 31, 2020, primarily due to (i) the decrease in deductible input VAT, and (ii) the decrease of amounts due from related parties.

Our prepayments, other receivables and other assets increased by 49.1% from RMB135.3 million as of December 31, 2020 to RMB201.7 million as of December 31, 2021, primarily due to (i) increased deductible input VAT, (ii) increased prepayments to online commerce platforms mainly as the result of our expansion in sales and distribution networks in 2021, and (iii) our [**REDACTED**] incurred in 2021.

Our prepayments, other receivables and other assets further increased by 8.8% from RMB201.7 million as of December 31, 2021 to RMB219.5 million as of June 30, 2022, primarily due to (i) the increase in corporate income tax recoverable mainly because we had tax prepayment in the six months ended June 30, 2022 in relation to corporate income tax in 2021, which was larger than the tax payable during the same time and the relevant amount was settled in July 2022 after the local tax annual filing, and (ii) the increase in our prepayments primarily in relation to the increase in our prepaid marketing expenses in order to enhance our sales and distribution network as we have increased marketing activities for more self-operated stores and brands under our online direct sales model on major online platforms which usually required prepayment for marketing activities.

RMB50.4 million (or 62.0%) of our prepayments (current portion), and RMB14.8 million (or 47.9%) of our deposits and other receivables as of June 30, 2022 had been subsequently settled as of October 31, 2022.

The table below sets forth a breakdown of our prepayments (current portion) by nature as of the dates indicated:

	As of December 31,			As of June30,
	2019	**2020**	**2021**	**2022**
	(RMB in millions)			
Prepaid marketing expenses	13.1	40.5	47.9	56.0
Payment in advance for procurement of goods and services	12.9	10.9	13.3	7.9
Prepaid advertising and endorsement expenses	16.2	4.8	11.6	17.5
Total	42.2	56.2	72.8	81.4

Our prepayments (current portion) increased significantly during the Track Record Period, by 92.9% from RMB42.2 million as of December 31, 2019 to RMB81.4 million as of June 30, 2022, primarily due to the significant increase in prepaid marketing expenses during the Track Record Period.

Financial assets at fair value through profit or loss

We recorded RMB29.0 million of financial assets measured at FVTPL as of June 30, 2022, which was structured deposits placed with banks in the PRC. The expected return rates of structured deposits are linked to certain exchange rates in the contracts, of which the annual expected return rates ranges from 1.15% to 3.35% and the initial maturities are usually within three months. See note 23 in the Accountant's Report in Appendix I to this Document. Our structured deposits was categorized as level two as of June 30, 2022. During the Track Record Period, all structured deposits we purchased were principal-protected, and we will primarily purchase principal-protected structured deposits going forward.

We have formulated policies setting out the approval process and the risk management measures for investment in products including certificate of deposit, time deposit and structured deposits, and the responsible department for the enforcement of the policies. We generally prefer bank-issued structured deposits with a relatively low risk level assigned to them by relevant banks and as stipulated in the purchase agreements for such products. We primarily purchase structured deposits from PRC commercial banks, with a focus on low risk and liquid fixed-income instruments that are quoted on the interbank market or exchanges in China. Our investment decisions are made on a case-by-case basis with due and careful consideration of our cash flow and operational needs. Our finance department is responsible for determining the amount, type and term of such proposed investments based on our capital management needs. Each investment in products including certificate of deposit, time deposit and structured deposits is proposed by our finance department, subject to the approval of our chief financial officer. See the section headed "Directors, Supervisors and Senior Management" in this Document for a detailed description of the expertise and experiences of our chief financial officer.

We closely monitor latest developments in equity and credit market and interest risks, and regularly assess the relevant impacts on the performance and principal of the products we purchased. We may redeem such products in adaption to our capital needs, and the approval of our chief financial officer is needed if any such redemption may subject us to any early redemption fee.

We have also implemented internal control measures to mitigate investment risks, such as requiring that the documentation of the investment products is reviewed by responsible departments to ensure compliance with relevant laws and regulations. Moreover, we will also require Board approval if such investment exceeds certain thresholds, including the follows:

- The total assets involved in the investment account for 5% or more of the total value of our assets in the last fiscal period.

- The transaction value of the investment accounts for 5% or more of our total market value.

- The profit from the investment accounts for 5% or more of our net profit in the last fiscal year.

After the [**REDACTED**], we may continue to invest in structured deposits or similar instruments strictly in accordance with our internal policies, Articles of Associations, and the requirements under Chapter 14 of the Listing Rules.

Trade and Bills Payables

Our trade and bills payables primarily represent trade payables to suppliers of raw materials, including packaging materials and ingredients. The trade payables are normally settled within six months. The following table sets forth our trade and bills payables as of the dates indicated:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	(RMB in millions)			
Trade payables	671.5	549.1	566.0	383.0
Bills payable	46.4	–	–	–
Total	717.9	549.1	566.0	383.0

Our trade and bills payables decreased by 23.5% from RMB717.9 million as of December 31, 2019 to RMB549.1 million as of December 31, 2020, primarily due to our accelerated settlement with suppliers, increased by 3.1% to RMB566.0 million as of December 31, 2021 in line with the expansion of our business, and decreased by 32.3% to RMB383.0 million as of June 30, 2022 due to the decrease in our trade payables resulted from the decrease in our procurement mainly in relation to the impact of COVID-19 on our production and delivery in Shanghai.

The following table sets forth an aging analysis of our trade and bills payables as of the dates indicated:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	(RMB in millions)			
Within 1 year	707.8	537.2	558.0	379.6
Over 1 year	10.1	11.9	8.0	3.4

The following table sets forth the turnover days of our trade and bills payables for the periods indicated:

	Year Ended December 31,			Six months ended June 30,
	2019	**2020**	**2021**	**2022**
Trade and bills payables turnover days[(1)]	237.6	193.5	161.7	192.8

Note:

(1) Trade and bills payables turnover days for a period equals the average of the opening and closing trade and bills payables balance divided by cost of sales for the relevant period and multiplied by the number of days in the relevant period, which is 365 days for each year and 180 days for six months.

RMB297.3 million (or 77.6%) of our trade and bills payables as of June 30, 2022 had been subsequently settled as of October 31, 2022.

We have maintained stable and long-term relationships with suppliers; specifically, during the Track Record Period, our cooperation with top five suppliers range from approximately two to six years. See "Business – Suppliers." Therefore, due to our long-term business relationship with suppliers and good credit history, in the ordinary course of business, we are allowed to settle our payments with suppliers beyond the credit terms prescribed in the relevant contracts. During the first a few months of 2022, we have also taken the initiatives to accelerate payments with certain affected suppliers to help them resolve liquidity issues, demonstrating our mutual-beneficial relationship and the flexibility in payment settlement in actual business dealings. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material disputes with suppliers with respect to such payment arrangement. We plan to continue to collaborate with our major suppliers and maintain such agreed payment settlement practice.

Our trade and bills payables turnover days decreased from 237.6 days in 2019 to 193.5 days in 2020 and further decreased to 161.7 days in 2021, primarily due to our accelerated settlement with suppliers. Our trade and bills payables turnover days increased from 161.7 days in 2021 to 192.8 days in the six months ended June 30, 2022, primarily due to the impact of COVID-19 on our production and delivery in Shanghai.

Other Payables and Accruals

Our other payables and accruals primarily comprise of (i) contract liabilities primarily in relation to advance payments from customers and sales rebates, (ii) refund liabilities primarily in relation to the amount of goods that are expected to be returned, (iii) VAT and other tax payables, (iv) staff payroll and welfare payables, (v) accrued operating expenses, and (vi) payables for purchase of property, plant and equipment.

The following table sets forth a breakdown of our other payables and accruals as of the dates indicated:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in millions)			
Current				
Contract liabilities	182.3	128.9	81.1	74.2
Refund liabilities	32.8	14.1	29.6	6.3
VAT and other tax payables	75.8	109.7	99.3	24.4
Staff payroll and welfare payables	45.5	65.3	58.2	26.9
Accrued operating expenses	87.3	74.1	66.9	88.0
Payables for purchase of property, plant and equipment	12.5	61.4	27.4	13.9
Deposits	38.8	31.5	27.3	27.5
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Dividend payable	–	–	–	149.8
Amounts due to related parties	111.9	1.8	–	–
Others	12.6	13.4	2.6	2.6
Non-current				
Deferred revenue	29.0	17.6	16.2	15.2
Total	628.4	517.8	429.4	449.9

Our other payables and accruals decreased by 17.6% from RMB628.4 million as of December 31, 2019 to RMB517.8 million as of December 31, 2020, primarily due to (i) the decrease in amounts due to related parties in relation to repayments of relevant loans, and (ii) the decrease in contract liabilities primarily due to the decrease of revenue generated from sales to online distributors and sales to offline distributors, further decreased by 17.1% to RMB429.4 million as of December 31, 2021, primarily due to (i) the decrease in contract liabilities primarily due to the decrease of revenue generated from sales to online distributors and sales to offline distributors, and (ii) the decrease in payables for the purchase of property, plant and equipment. Our other payables and accruals were RMB429.4 million and RMB449.9 million as of December 31, 2021 and June 30, 2022, respectively, which remained relatively stable, reflecting the increase in dividend payable, substantially offset by the decrease in (i) VAT and other tax payables, (ii) staff payroll and welfare payables, (iii) refund liabilities, and (iv) payables for purchase of property, plant and equipment.

LIQUIDITY AND CAPITAL RESOURCES

We have historically funded our cash requirements principally from proceeds from our business operations, bank borrowings and shareholder equity contribution. After the [**REDACTED**], we intend to finance our future capital requirements through proceeds from our business operations, bank borrowings and the net [**REDACTED**] from the [**REDACTED**]. We do not anticipate any changes to the availability of financing to fund our operations in the future.

We had cash and cash equivalents of RMB132.4 million, RMB154.2 million, RMB145.2 million and RMB115.0 million as of December 31, 2019, 2020, 2021 and June 30, 2022, respectively.

Our directors are of the opinion that, considering the cash dividend declared at our shareholders' general meeting in April 2022 and taking into account the net [**REDACTED**] from the [**REDACTED**] and the financial resources available to us, including cash and cash equivalents, our available banking facilities, and cash flows from operating activities, we have sufficient working capital for our present requirements, that is for at least 12 months from the date of this Document.

Cash Flow

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

	Year ended December 31,			Six months ended June 30,	
	2019	**2020**	**2021**	**2021**	**2022**
	(RMB in millions)			*(Unaudited)*	
Operating cash flow before movements in working capital	247.2	478.6	629.9	335.7	162.8
Change in working capital	(169.8)	(212.6)	(294.7)	(161.6)	(237.4)
Net cash generated from/(used in) operating activities	77.4	266.0	335.2	174.1	(74.6)
Net cash used in investing activities	(71.5)	(6.9)	(55.3)	(50.7)	(62.3)
Net cash generated from/(used in) financing activities	60.1	(239.9)	(289.6)	(163.9)	106.5
Net increase/(decrease) in cash and cash equivalents	66.0	19.1	(9.6)	(40.5)	(30.4)
Cash and cash equivalents at beginning of year/period	60.8	132.4	154.2	154.2	145.2
Effect of foreign exchange rate changes, net	5.6	2.7	0.7	(0.2)	0.2
Cash and cash equivalents at end of year/period	132.4	154.2	145.2	113.5	115.0

Net Cash Flows Generated from Operating Activities

Our cash from operating activities consists primarily of profit before income tax from our manufacture and sale of cosmetic products, as adjusted by (i) non-cash and non-operating items such as depreciation and amortization, and (ii) changes in working capital.

In the six months ended June 30, 2022, we had net cash used in operating activities of RMB74.6 million, primarily reflecting profit before tax of RMB78.4 million, which decreased by 64.0% from RMB174.1 million in the six months ended June 30, 2021 mainly in relation to the decrease in revenue primarily due to the impact of COVID-19 of the same time, adjustment of non-cash and non-operating items, movements in working capital, interest received of RMB0.3 million and income tax paid of RMB33.1 million, which increased by 212.3% from RMB10.6 million in the six months ended June 30, 2021. Specifically, our revenue in the six months ended June 30, 2022 decreased as (a) our production at our Fengxian Plant were impacted due to relevant restrictions in relation to COVID-19; (b) our marketing efficiencies as our sales and marketing staff's capabilities to conduct offline marketing activities, such as customer visit and market research, were limited due to travel restrictions; and (c) our new product development and existing product upgrades as our R&D activities were affected during the same time. See "Financial Information – Period-To-Period Comparison of Results of Operations – Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021." Our movements in working capital mainly include (i) a decrease in trade and bills payables of RMB183.0 million primarily due to the decrease in our trade payables resulted from the decrease in our procurement mainly in relation to the impact of COVID-19 on our production and delivery in Shanghai, (ii) an increase in other payables and accruals of RMB115.8 million primarily due to the increase in our dividend payable, and (iii) a decrease in trade and bills receivables of RMB79.9 million primarily due to the decrease in our revenue.

We plan to improve our cash flow from operating activities by increasing our revenue by expanding our sales channels, launching online and offline marketing campaigns and offering high-quality services with our production, sales and logistics gradually recovering from the impact of COVID-19. We will also settle trade payables at a pace comparable to the level prior to the six months ended June 30, 2022.

In 2021, we had net cash generated from operating activities of RMB335.2 million, primarily reflecting profit before tax of RMB408.1 million, adjustment of non-cash and non-operating items, movements in working capital, interest received of RMB0.5 million and income tax paid of RMB12.0 million. Our movements in working capital mainly include (i) a decrease in other payables and accruals of RMB85.3 million, primarily due to the decrease in contract liabilities, VAT and other tax payables, and payables for purchase of property, plant and equipment, (ii) an increase in inventories of RMB110.8 million, and (iii) an increase in prepayments, other receivables and other assets of RMB63.7 million, primarily due to increased deductible input VAT and increased prepayments to online commerce platforms.

In 2020, we had net cash generated from operating activities of RMB266.0 million, primarily reflecting profit before tax of RMB279.6 million, adjustment of non-cash and non-operating items, movements in working capital, interest received of RMB2.1 million and income tax paid of RMB16.7 million. Our movements in working capital mainly include (i) a decrease in trade and bills payables of RMB168.8 million, and (ii) an increase in inventories of RMB104.3 million, primarily due to the increase in our finished goods in relation to our inventories preparation for the expansion of e-commerce channels and our general business expansion.

In 2019, we had net cash generated from operating activities of RMB77.4 million, primarily reflecting profit before tax of RMB52.9 million, adjustment of non-cash and non-operating items, movements in working capital, interest received of RMB1.9 million and income tax paid of RMB5.0 million. Our movements in working capital mainly include a decrease in other payables and accruals of RMB227.6 million, which was partly offset by a decrease in trade and bills receivables of RMB75.9 million.

Net Cash Flows Used in Investing Activities

Our cash used in investing activities consists primarily of the purchase of property, plant and equipment, purchase of financial assets at fair value through profit or loss, and loans to related parties. Our cash generated from investing activities consists primarily of proceeds from disposal of financial assets at fair value through profit or loss, repayment from related parties, and disposals of subsidiaries.

In the six months ended June 30, 2022, our net cash flows used in investing activities were RMB62.3 million, primarily due to purchase of financial assets at fair value through profit or loss of RMB37.0 million and purchases of items of property, plant and equipment of RMB31.6 million.

In 2021, our net cash flows used in investing activities were RMB55.3 million, primarily due to purchases of items of property, plant and equipment of RMB63.1 million.

In 2020, our net cash flows used in investing activities were RMB6.9 million, primarily attributable to our purchases of items of property, plant and equipment of RMB139.8 million and our loans to related parties of RMB81.2 million, as partially offset by repayment from related parties of RMB175.9 million.

In 2019, our net cash flows used in investing activities were RMB71.5 million, primarily attributable to our purchases of items of property, plant and equipment of RMB160.7 million, as partially offset by proceeds from disposals of subsidiaries of RMB80.5 million.

Net Cash Flows Generated from/(Used in) Financing Activities

Our cash from financing activities consists primarily of proceeds from bank loans and proceeds from loans from related parties. Our cash used in financing activities consists primarily of repayment of bank loans, repayment of loans from related parties, and interest paid.

In the six months ended June 30, 2022, our net cash flows generated from financing activities were RMB106.5 million, primarily attributable to proceeds from bank loans of RMB215.8 million, as partially offset by dividend paid of RMB50.2 million and repayment of bank loans of RMB45.0 million.

In 2021, our net cash flows used in financing activities were RMB289.6 million, primarily attributable to repayment of bank loans of RMB285.4 million.

In 2020, our net cash flows used in financing activities were RMB239.9 million, primarily attributable to repayment of bank loans of RMB542.6 million, and repayment of loans from related parties of RMB103.8 million, as partially offset by proceeds from bank loans of RMB472.9 million.

In 2019, our net cash flows generated from financing activities were RMB60.1 million, primarily attributable to (i) proceeds from bank loans of RMB657.1 million and (ii) proceeds from loans from related parties of RMB41.8 million, as partially offset by our repayment of bank loans of RMB575.8 million and interest paid of RMB31.1 million.

INDEBTEDNESS

During the Track Record Period, our indebtedness included interest-bearing bank and other borrowings, lease liabilities, and other liabilities.

The following table sets forth the breakdown of our indebtedness as of the dates indicated:

	As of December 31,			As of June 30,	As of October 31,
	2019	2020	2021	2022	2022
	(RMB in millions)				*(Unaudited)*
Interest-bearing bank and other borrowings	507.4	435.5	190.1	360.9	401.5
Lease liabilities	138.9	108.6	95.0	84.8	77.6
Other liabilities	507.5	–	–	–	–
Total	1,153.8	544.1	285.1	445.7	479.1

Our Directors confirmed that there has not been any material adverse change in our indebtedness since October 31, 2022 to the date of this document. As of the Latest Practicable Date, there was no material restrictive covenant in our indebtedness which could significantly limit our ability to obtain future financing, nor was there any material default on our indebtedness or breach of covenant during the Track Record Period and up to the Latest Practicable Date. As of the Latest Practicable Date, except for bank loans, we did not have plans for other material external debt financing.

Interest-bearing bank and other borrowings

As of June 30, 2022, our interest-bearing bank and other borrowings were RMB360.9 million, which comprised of (i) secured bank loans (current) of RMB215.8 million at effective interest rates of 2.63% to 5.39% per annum, (ii) the current portion of secured long-term bank loans of RMB50.0 million at effective interest rates of 5.39% per annum, and (iii) secured bank loans (non-current) of RMB95.1 million at effective interest rates of 4.75% to 5.39% per annum. Our interest-bearing bank and other borrowings increased from RMB190.1 million as of December 31, 2021 to RMB360.9 million as of June 30, 2022 mainly in response to the impacts of the COVID-19 Outbreak. As of the Latest Practicable Date, our interest-bearing bank and other borrowings were RMB430.2 million.

As of October 31, 2022, we had banking credit facilities of approximately RMB570.1 million, among which approximately RMB159.9 million was unutilized. Our banking facilities are typically valid for one year and would be renewed from the start of a year. During the Track Record Period, we have not experienced any difficulties in renewing any of our banking facilities. We have plans to refinance our existing bank borrowings, and we may increase our banking credit facilities in the future. Given our good credit history and stable relationship with commercial banks, we do not expect that we will encounter any major difficulties in renewing existing facilities or obtain further credit lines from commercial banks in the future.

As of October 31, 2022, we had interest-bearing bank and other borrowings of RMB306.4 million and RMB95.1 million shown under current liabilities and non-current liabilities, respectively.

Lease Liabilities

Our lease liabilities primarily comprised of lease contracts for items such as office premises, plant and other equipment.

Our lease liabilities decreased by 21.8% from RMB138.9 million as of December 31, 2019 to RMB108.6 million as of December 31, 2020, decreased by 12.5% to RMB95.0 million as of December 31, 2021, and further decreased by 10.8% to RMB84.8 million as of June 30, 2022, primary due to payment of lease liabilities. As of June 30, 2022, we had lease liabilities of RMB24.4 million and RMB60.4 million shown under current liabilities and non-current liabilities, respectively.

Other Liabilities

We had certain other liabilities as of December 31, 2019 in relation to our obligation to repurchase equity held by Series A Investors in our Company, which was terminated in 2020. Please refer to Note 29 in Appendix I for details.

CONTINGENT LIABILITIES

We did not have any material contingent liabilities as of December 31, 2019, 2020 and 2021 and June 30, 2022.

KEY FINANCIAL RATIOS

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

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

Notes:

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

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

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

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

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

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

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

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

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

Gross profit margin

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

Net profit margin

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

Return on total assets

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

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

Return on equity

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

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

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

Gearing ratio

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

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

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

Current ratio

Our current ratio decreased from 1.2x as of December 31, 2021 to 1.1x as of June 30, 2022, primarily due to the decrease in our current assets mainly in relation to the decrease in trade and bills receivables.

Our current ratio increased from 0.9x as of December 31, 2020 to 1.2x as of December 31, 2021, primarily due to the decrease in current liabilities, particularly from interest-bearing bank and other borrowings and other payables and accruals.

Our current ratio increased from 0.6x as of December 31, 2019 to 0.9x as of December 31, 2020, primarily due to the decrease in current liabilities, particularly from other liabilities, trade and bills payables, other payables and accruals, interest-bearing bank and other borrowings.

Quick ratio

Our quick ratio remained stable at 0.6x as of December 31, 2021 and June 30, 2022.

Our quick ratio increased from 0.5x as of December 31, 2020 to 0.6x as of December 31, 2021, primarily due to the decrease in current liabilities, particularly from other payables and accruals and interest-bearing bank and other borrowings.

Our quick ratio increased from 0.4x as of December 31, 2019 to 0.5x as of December 31,2020, primarily due to the decrease in current liabilities, particularly from other liabilities, trade and bills payables, other payables and accruals, interest-bearing bank and other borrowings.

CAPITAL EXPENDITURES

Our capital expenditures primarily comprise of expenditures for the purchase of property, plant and equipment.

The following table sets forth our capital expenditures for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2019	**2020**	**2021**	**2022**
	(RMB in millions)			
Purchase of items of property, plant and equipment	160.7	139.8	63.1	31.6
Purchase of other intangible assets	4.3	1.6	2.6	2.3
Total	165.0	141.4	65.7	33.9

In 2019, 2020, 2021 and the six months ended June 30, 2022, our capital expenditures related primarily to the purchase of items of property, plant and equipment. We funded these expenditures mainly with cash generated from our operations and bank borrowings.

Following the [**REDACTED**], we will continue to incur capital expenditures to grow our business. We plan to fund our planned capital expenditures primarily with cash flows generated from our operations, bank borrowings, and the net [**REDACTED**] received from the [**REDACTED**]. See "Future Plans and Use of [**REDACTED**]."

CAPITAL COMMITMENTS

During the Track Record Period, our capital commitments were mainly property, plant and equipment and intangible assets. See Note 36 of the Appendix I to this Document. The following table sets out our capital commitments as of the dates indicated:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	(RMB in millions)			
Contracted, but not provided for				
Property, plant and equipment	206.5	81.1	27.5	16.6
Intangible assets	5.7	0.1	–	–
Total	212.2	81.2	27.5	16.6

RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. Our Company, our Company's certain directors, our Group and related parties have guaranteed certain bank loans made to our Group, as detailed in Note 28 to the Accountant's Report in Appendix I to this Document. All the aforesaid guarantees provided to our Group by our Company's certain directors and related parties have been released at December 31, 2021. Our Directors are of the view that each of the related party transactions set out in Note 37 to the Accountant's Report in Appendix I to this Document was conducted in the ordinary course of business on an arm's-length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we did not have any material off-balance sheet commitments or arrangements.

FINANCIAL RISKS DISCLOSURE

We have adopted a risk management program focused on minimizing potential adverse effects of the unpredictability of financial markets as we are exposed to a variety of financial risks, including foreign currency risk, credit risk and liquidity risk.

Foreign Currency Risk

Our major businesses are in mainland China and the majority of our transactions are conducted in RMB. Most of our assets and liabilities are denominated in RMB. We did not have material foreign currency risk during the Track Record Period.

Credit Risk

We are exposed to credit risk in relation to our trade receivables, cash deposits at banks, financial assets included in prepayments, other receivables and other assets, bills receivables, and pledged deposits. The carrying amounts of our trade receivables, cash deposits at banks, financial assets included in prepayments, other receivables and other assets, bills receivables, and pledged deposits represent our maximum exposure to credit risk in relation to financial assets.

We trade only with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant.

As of December 31, 2019 and 2020 and 2021 and June 30, 2022, approximately 31.0%, 39.6%, 31.3% and 27.4% of our trade receivables were due from our largest customer. In view of the aforementioned and the fact that our trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

Liquidity Risk

We monitor our liquidity risks with a recurring liquidity planning tool. For an analysis of our financial liabilities into relevant maturity grouping based on the remaining period at the end of each reporting period to the contractual maturity date, see Note 40 to the Accountant's Report in Appendix I to this Document.

We had net current liabilities of RMB869.0 million and RMB175.2 million as of December 31, 2019 and 2020, respectively, and net current assets of RMB223.0 million and RMB77.6 million as of December 31, 2021 and June 30, 2022, respectively. With the consideration of anticipated operation cash inflows and the subsequent financing, our Directors are of the opinion that we have sufficient cash flows to manage the liquidity risks resulting from net current liability situations.

DIVIDENDS

At our shareholder's general meeting held in April 2, 2022, we declared dividend of RMB200 million cash dividends to all shareholders.

At our shareholder's general meeting held on April 2, 2022, we declared dividend of RMB200 million cash dividends to all existing shareholders. As of November 30, 2022, we had paid all of the cash dividends. Other than the dividend, our accrued consolidated retained earnings before the [**REDACTED**] will be shared among our existing shareholders and new shareholders.

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

DISTRIBUTABLE RESERVES

As of June 30, 2022, the Company had distributable reserves of RMB181.7 million, which were available for distribution to our equity shareholders.

[REDACTED]

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

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

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

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

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

See "Appendix II – Unaudited Pro Forma Financial Information."

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that, up to the date of this Document, save for the impacts brought by COVID-19 outbreak on our business operation and financial results in 2022, see "– Impact of Covid-19 Outbreak", there has been no material adverse change in our financial or trading position since June 30, 2022, and there has been no event since June 30, 2022 that would materially affect the information shown in the Accountant's Report set out in Appendix I to this Document.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there are no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.